

Integrated Annual Report 2016/17

Broadband **Infraco**



Connect. Growth, UNLOCKED.

**Innovation in the face of adversity,
*rising above challenges***

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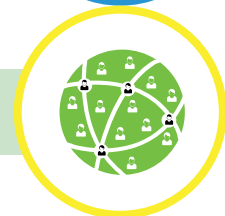
INTELLECTUAL
CAPITAL



MANUFACTURED
CAPITAL



SOCIAL AND RELATIONSHIP
CAPITAL



HUMAN
CAPITAL



NATURAL
CAPITAL

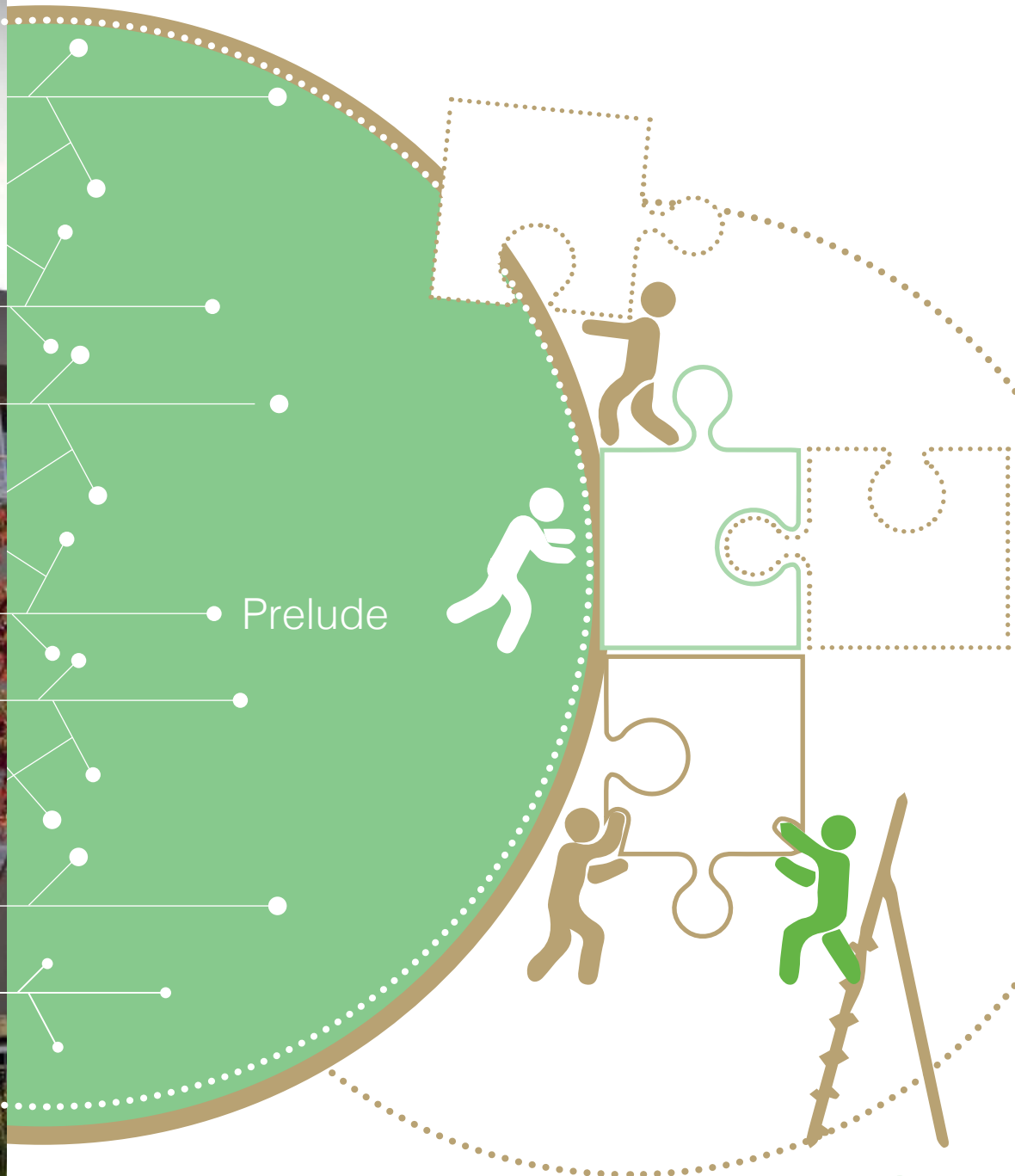


FINANCIAL
CAPITAL



NAVIGATION OF THE REPORT



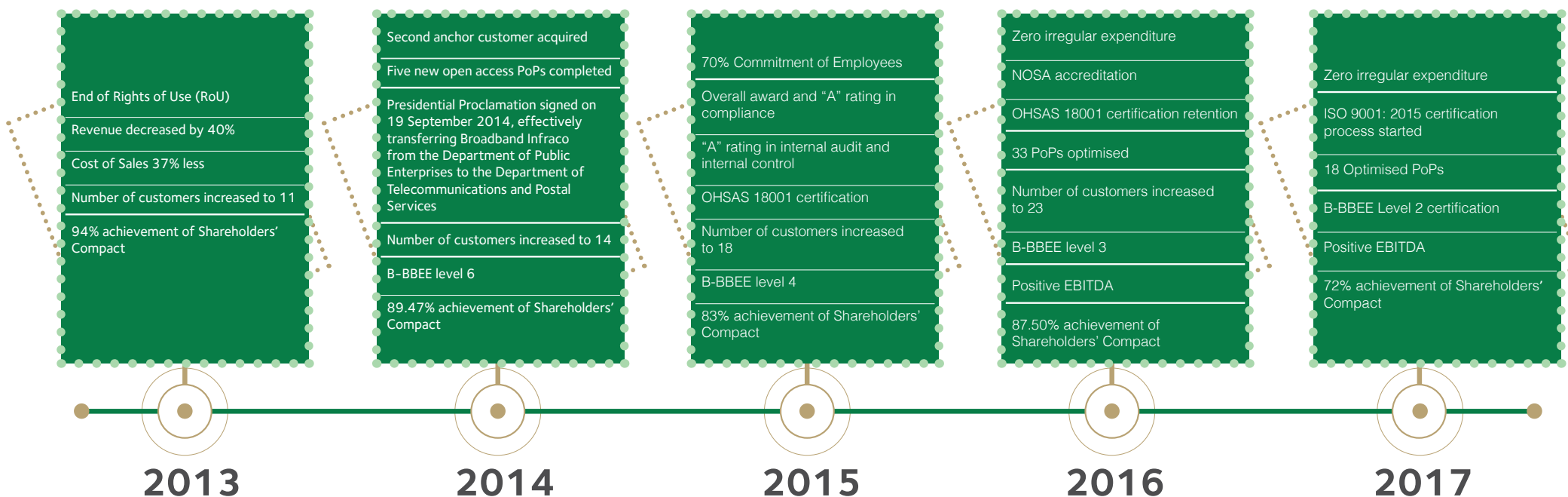




Our Journey

Broadband Infraco was established as a State Owned Company (SOC) in 2007 to provide Information Communication Technology (ICT) infrastructure and broadband capacity in South Africa. Its establishment would provide first and second tier networks with an alternative long-distance carrier leading to reduced prices and affordable connectivity for business and South Africans in general. Broadband Infraco owns and/or leases fibre from Eskom Enterprises and Transnet. The Company continues to synergise and enhance these

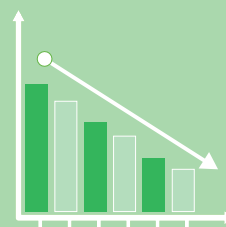
relationships, including joint infrastructure planning and optimisation, to avoid duplicate roll-outs. Broadband Infraco has initiated site builds where there was previously no infrastructure, thus filling unique unaddressed gaps. In October 2009, the Company obtained an Individual Electronic Communications Network Services (I-ECNS) license, and launched commercially on 18 November 2010 in order to broaden its customer base to other licensed operators. The Company's achievements in the past five years are highlighted in the diagram below:





Shareholders' Compact

72% achieved



Revenue

R397 million



Corporate Social Investment

Installation of e-curriculum on 60 tablets and the server in Seshigo High School



Year-On-Year Customers

Growth from 23 to 30



Capital Expenditure

R70 million



Network Improvement

18 open-access PoPs optimised



Safety and Health

No fatalities reported



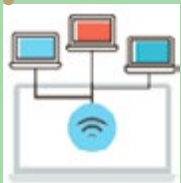
Water

Reduction in water consumption in project implementation programmes



Environment

No environmental incidents reported and/or recorded



Network Availability

Exceeded industry norm by 99.95%



Network Utilisation

643.55 STM1 year-on-year growth achieved



Product Development

Successfully launched the Customer Tie Cable product



About this Report



ABOUT THIS REPORT

BASIS OF APPROACH

Broadband Infraco SOC Ltd (Broadband Infraco) has adopted the International Integrated Reporting Framework (IIRF) since its inception by the International Integrated Reporting Council (IIRC). Our reporting is dynamic, year-on-year, in an effort to provide concise information on how our strategy, governance, performance and prospects lead to the creation of value over the short, medium and long-term.

This report aims to guide our stakeholders to:

- View our performance within the Company's economic, technological, social, regulatory and political environment
- Gauge the capability of our Board of Directors to lead the Company's value creation
- Comprehend how our governance structures enable our strategic objectives and operational performance
- Understand the Company's challenges and risks that affect our decisions and performance
- Understand certain shifts made in the use of our resources
- Assess our ability to mitigate the unintended adverse impact on our environment and stakeholders

Our stakeholder engagement model and processes are outlined on page 20.

FRAMEWORKS AND GUIDELINES

The content of this report is guided by the following frameworks and legal requirements:

- National Treasury Regulations
- Public Finance Management Act 1999, as amended
- Companies Act No-71, 2008
- The King Code on Corporate Governance in South Africa (King III) and
- The International Integrated Reporting Framework.

OUTCOMES-BASED APPROACH TO REPORTING

The Company approved the Performance Information Monitoring and Evaluation Policy in 2015 that is cognisant of an outcomes-based approach in planning and reporting, based on the guidelines and frameworks issued by National Treasury and the Department of Telecommunications and Postal Services (DTPS).

REPORTING LIMITATIONS

This integrated report reviews our economic, technological, operational, social and environmental performance for the year, from 1 April 2016 to 31 March 2017, with one year's comparative information. It follows from our 2016 integrated report and includes material events up to the date of approval.

Our Integrated Annual Report should be read in conjunction with the annual financial statements for a comprehensive view of our financial performance. The limitations of this report encompass the factors that impact on the Company's ability to create value. We believe that the information presented is comparable to prior years, unless otherwise indicated.

INTEGRATED ASSURANCE APPROACH

The Board of Directors and management recognise the importance of a strong control environment in managing risks, improving performance, enhancing governance, instilling stakeholder confidence and strengthening the Company's reputation. We have applied, where appropriate, our Integrated Assurance Plan to the integrated reporting process to enhance the value creation narrative and to provide an independent perspective on the transparency and accountability of the Company's disclosures.

Broadband Infraco's Integrated Assurance Plan encompasses the assurance provided by management, executive sub-committees, specialists, internal and external audit, external advisers and service providers, with the Board of Directors serving as the last line of defence. The plan further enables the Board of Directors and its committees, including the Audit and Risk Committee, to remain apprised of management's efforts to mitigate risks to an acceptable level, and to improve the control environment.

Collectively, assurance-related activities performed by the various role players constitute the Integrated Assurance Plan.

ABOUT THIS REPORT

Table 1 below illustrates the integrated assurance activities that inform the 2017 Integrated Annual Report:

Broadband Infraco's Integrated Assurance Plan – role players and assurance-related activities			
Activities	Assurance providers	Outcome	Framework/Standard
Annual financial statements and performance information	<ul style="list-style-type: none"> SizweNtsalubaGobodo Inc. (SNG) 	<ul style="list-style-type: none"> Unqualified audit opinion 	<ul style="list-style-type: none"> IFRS PFMA Companies Act
Review of internal controls and risk management	<ul style="list-style-type: none"> Broadband Infraco Internal Audit South African Bureau of Standards (SABS) International Standards Organisation (ISO) accreditation bodies Legal firms 	<ul style="list-style-type: none"> Financial controls: Satisfactory Operational controls: Require improvement 	<ul style="list-style-type: none"> PFMA Institute of Internal Auditors ISO standards relating to safety and environment, including ISO 9001 Enterprise risk management
B-BBEE contributor level	<ul style="list-style-type: none"> Broadband Infraco Internal Audit Empower Logic Agency CC 	<ul style="list-style-type: none"> Confirmed as 'Level 2' 	<ul style="list-style-type: none"> Broad-Based Black Economic Empowerment (B-BBEE) Act and Charters
Corporate governance	<ul style="list-style-type: none"> Broadband Infraco Internal Audit and Compliance Business units 	<ul style="list-style-type: none"> Assessment of controls Financial controls: Satisfactory Operational controls: Require improvement 	<ul style="list-style-type: none"> King III PFMA Companies Act

Table 1: Integrated Assurance Plan

FUTURE OUTLOOK STATEMENTS

Certain statements in this report regarding Broadband Infraco's operations may constitute future outlook statements. These include all statements other than statements of historical fact, including those regarding the financial position, corporate strategy, management plans and objectives for future operations.

Future outlook statements constitute our present expectations that hinge on reasonable assumptions based on market analysis and calculated risk. These statements inform the readers that our assumptions have been validated. Actual results may differ materially from the projected future outlook statements due to a vast number of events, risks, uncertainties and other factors. Broadband Infraco neither intends to nor assumes any obligation to update or revise any future outlook statements, whether as a result of new information or future events.

STATEMENT OF RESPONSIBILITY

The Board of Directors, assisted by the Audit and Risk Committee (ARC), acknowledges its responsibility to ensure the integrity and completeness of the 2017 integrated report. The Board affirms that it has applied its collective mind to the preparation and presentation of the integrated report and has concluded that it is presented in accordance with the International integrated report Framework.

The Board, considering the completeness of the material matters dealt with and the reality of information presented based on the combined assurance process followed, approved the 2017 integrated report, annual financial statements and supplementary information on 26 July 2017.



Ms Meta Maponya

Chairperson: ARC



Mr Mandla Ngcobo

Chairperson: Board





BMC Ngcobo
Chairperson of the Board



P Kwele
Chief Executive Officer



I I van Niekerk
Chief Financial Officer

The Chairman, Chief Executive Officer and Chief Financial Officer, on behalf of the Board of Directors, present Broadband Infraco's Integrated Annual Report for the year ended 31 March 2017. This report covers the total performance of the Company, its financial and other resources over the financial year. This section provides an overview of the five-year journey.

The year under review, was particularly challenging and as a result sharpened our resilience and responsiveness as we grappled with precarious financial constraints that saw us implementing various initiatives, including stringent management of costs and innovative human capital development practices to preserve the value of the Company.

PAST FIVE YEARS: DEVELOPMENT AND IMPLEMENTATION OF BUILD, GROW AND EXPAND STRATEGY

Five years ago, the Company found itself in a very challenging position as it was plagued by irregular expenditure and weak internal controls that impacted on its brand equity and reputation. Focus had to be placed on strategy development and implementation to restore sound financial discipline and a drive for sustainability.

The Build, Grow and Expand (BGE) strategy was developed and execution was initiated immediately thereafter. The strategy identified and focused on 23 initiatives that have been levers in turning the Company around. Further details on the key elements of our

strategy, which have set the norm for our operations, are provided on page 23–24.

The BGE strategy enabled the Company to navigate through difficult terrain and encouraged us to be more innovative and elucidate priority initiatives for its sustainability. Some of these initiatives are listed below:

- Identification and utilisation of open access third party colocations of facilities and where unavailable, build them
- Secure Government as an anchor customer and partner
- Improved collaboration with other state owned companies and the private sector
- Improved operational excellence and efficiency and
- Focus on customer growth and diversification.

The effectiveness of the initiatives had to be monitored and tracked. The key indicators that were tracked are:

Strategic thrust	Five-year strategy evolution
Revenue	Diversification of customer base, growth of customer numbers and normalisation of all contracts.
Pricing	Development of a sound pricing strategy, coupled with a new sales strategy to drive profitability and remain relevant.

Strategic thrust	Five-year strategy evolution
Cost of sales	From accepting fixed expenses as immutable; to robustly re-engaging with leasing partners to extract real value for money and massive cost reductions. This includes constantly assessing the most feasible plan of action that will ensure profitable execution.
Infrastructure management and maintenance	Optimising our technical designs and execution of sound engineering principles, complemented by re-engaging strategic partners resulted in a reduction of cost of sales. Optimisation of points of presence and utilisation of available third party open-access infrastructure resulted in network autonomy and appropriate location for connecting customers.
Human capital	Formulating integrated strategies to enhance the critical skills base, constant analysis of functional productivity, entrenching a culture of employee performance management and individual accountability and optimum utilisation of human resources capacity. Innovative organisational development strategies of job rotations and secondments enabled an expansion of the existing skills base.

ANNUAL PERFORMANCE PLAN

The Company has achieved 72% of its Annual Performance Plan (APP) targets. Of the 18 targets that were set, 13 were achieved and five were not achieved; of these, two were financial sustainability targets and three were economic transformation targets. Sixty percent of the Company's APP is focused on financial sustainability with the other forty percent being non-financial indicators. The non-financial indicators constitute the manufactured, social and relationship, human and natural capitals that are foundational to the achievement of the financial capital targets in the medium to long-term.

MANUFACTURED CAPITAL

During the year under review, the Company focused on improving operational efficiency and the execution of key customer projects. These included the reduction of power consumption at chosen sites and in transmission equipment footprint in third party collocated sites. There was also an increase in the general spare pool of deployed equipment and discontinuation of existing parallel links.

As part of running the network and execution of projects, half of the six major routes that were optimised were completed at 100%, with an overall project status of 83%. The

year also saw successful negotiation and a settlement agreement with a key customer which led to cost savings and identification of more opportunities. Completion of the relocation of key equipment into the Company's own Points of Presence (PoPs) improved accessibility during fault conditions and reduced operational costs. Network performance across the border (route availability) increased from the previous financial year's 99.79% to 99.82% with stable performance. This provides assurance of reliable service provision and enhances better business opportunities with our Southern African Development Community (SADC) counterparts.

FINANCIAL CAPITAL

The current economic downturn necessitated the consolidation of both revenue and cost contracts and further optimisation of operational costs to normalise the Company's operations. This process brought forth remarkable results, including the renegotiation of a Master Service Agreement (MSA) with a major customer, resulting in the signing of a further three-year contract with a 14% reduction in service costs.

Although the number of customers increased from 23 to 30, revenue decreased by 12% due to the consolidation process discussed above. The upgrades expected from a major customer did not materialise and continued delays were experienced between sales to billing cycle. Cost of sales (excluding depreciation) was lower as a result of the consolidation process and continued efforts to reduce contracted maintenance and colocation costs. Operational expenses (excluding depreciation) are 14% lower than at the end of the previous financial year, resulting from the settlement of an arbitration matter and natural employee attrition.

The Company continued to remain cash positive, albeit off the back of depleting cash resources. Although there is a net outflow of cash resources from operations realised this financial year, the Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) remained positive for a second consecutive year.

While the revenue target for the year was not achieved, we are proud to have achieved an increase in the sale of STM-1 Equivalent to 644 and are confident of driving revenue going forward.

SOCIAL AND RELATIONSHIP CAPITAL

The reputation of the Company has improved as a result of innovative mechanisms implemented to survive the current harsh economic environment and internal financial

constraints. The Company has established open communication channels with reputable media. The limited procurement budget impacted on securing goods and services from black, youth and people with disability owned entities as stipulated in the APP. This, however, did not stop the Company from obtaining Level 2 B-BBEE certification due to the implementation of the Enterprise Development Strategy over the past three years. The B-BBEE multiplier achieved was 109%, while the percentage of the procurement spent from black women owned entities was 41%.

On the Corporate Social Investment (CSI) front, following on the donation of 60 tablets made previously to Seshigo High School in Limpopo, the Company successfully installed e-curriculum on digital learning platforms, further contributing to maths and science skills capacitation in the nation. Broadband Infraco prides itself in the remarkable manner in which it has sustained its mutually beneficial relationship with Seshigo High School, with the continued intention to positively support and leverage the use of ICT in teaching, learning and development.

HUMAN CAPITAL MANAGEMENT

Continuous enhancement of the human resources capacity and effective human capital management strategies have been the main focus for Human Resource (HR) Division. The division contributed immensely to addressing the challenges of building and maintaining the required HR capacity and capability for implementation of the Company's strategic requirements and those of key stakeholders. Critical deliverables included intensified efforts to prevent negative effects from loss of senior management staff and engineers and to minimise staff turnover overall. Focus was also placed on optimising available resources to rebuild the skills base from within and at entry level. This involved internal appointments at the developmental phase where potential was identified and filling gaps with an increased intake of interns in the technical areas.

NATURAL CAPITAL

No environmental incidents have been reported and/or recorded.

FUTURE OUTLOOK

In the 2013 financial year, Broadband Infraco indicated its interest in partnering with Government and various ICT State Owned Companies (SOCs) to further explore alternative methods of using and consuming the valuable infrastructure can further be

explored. To this end, Broadband Infraco has pursued partnerships with a number of provinces and other major ICT SOC's to carry their backhaul long-distance requirements on its core transmission network, resulting in various provincial broadband initiatives increasingly becoming aligned to the national agenda and Broadband Infraco's mandate.

We are elated that the Honourable Minister of the Department of Telecommunications and Postal Services, Dr Siyabonga Cwele, announced in his budget speech in May 2017 that Broadband Infraco will be appointed as the infrastructure aggregator in the roll-out of the crucial SA Connect project. We are geared up to provide national broadband connectivity to rural and underserved areas, thus contributing to their socio-economic development status. SA Connect will roll-out broadband infrastructure first in eight districts prioritised for the national health insurance that span across seven provinces.

We believe that this is the beginning of Government's realisation of the mandate to provide universal access and services for information and telecommunications technology with the belief that access to broadband in rural and underserved areas will stimulate economic growth in those areas and further make telecommunications costs affordable.



APPRECIATION

A special thanks and appreciation to our Shareholders, the Minister of Telecommunications and Postal Services, Dr Siyabonga Cwele and his department, as well as the Chairperson of the Industrial Development Corporation (IDC) of South Africa, Ms Busi Mabuza, the IDC Shareholder representative, Ms. Lizeka Matshekga, and her executive team for their ongoing support.

We wish to thank our colleagues on the Board and the executive team who have provided valuable and tireless guidance. We thank them for their commitment in assisting to re-position and turn around the Company and to prepare it for the future. Gratitude is expressed also to the many staff members who continue to demonstrate stoicism and dedication to adding value to the Company's bottom line.

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



M Ngcobo

Chairman of the Board



P Kwele

Chief Executive Officer



Ian van Niekerk

Chief Financial Officer



Strategy and Resource Allocation

WHO WE ARE

Broadband Infraco is a national asset that is leveraged by Government to drive national growth and industrialisation. Its extensive fixed national and international infrastructure is open to all private and public Information Communication Technology (ICT) operators. Broadband Infraco's legislative mandate is set out in the Broadband Infraco Act No. 33 of 2007 (the Act). The main objects in terms of the Act are to expand the availability and affordability of access to electronic communications, including, but not limited to, underdeveloped and underserved areas.

These are in accordance with the Electronic Communications Act No. 36 of 2005 and commensurate with international best practice and pricing, through the provision of electronic communications network services and electronic communications services. The Company is a Schedule 2 public entity in terms of the Public Finance Management Act No. 1 of 1999 (PFMA) and has the DTPS and the IDC as its Shareholders. The Minister is the Executive Authority in terms of the PFMA.

Our Vision Statement

Broadband Infraco's vision is to be the:

"Provider of choice for end to end communication services"

Our Mission Statement

Broadband Infraco's Mission is to:

- Expand the availability and affordability of access to electronic communications networks and services, including but not limited to, underdeveloped and underserved areas.
- Ensure that the high capacity connectivity and bandwidth requirements for specific projects of national interests are met.
- Enable national and regional private and public collaboration on infrastructure development.
- Remain relevant to customers and stakeholders by offering products and services that fulfil their needs.
- Deliver on Shareholders' mandate.

Our Values

Active Engagement of Stakeholders

Broadband Infraco will proactively engage its stakeholders to understand their requirements.

Broadband Infraco prides itself for excellence in service delivery.

Broadband Infraco is dedicated to satisfying its customers' needs. The Company respects its customers and understands their requirements by providing them with quality services, within the agreed timeframes and at affordable prices.

Broadband Infraco executes in a Simple, Flexible and Timeous manner

Broadband Infraco's design philosophy is to be flexible in order to accommodate customisation of solutions for its customers timeously.

Broadband Infraco acts with Integrity in all we do

Broadband Infraco employees and directors are personally accountable for the highest standards of behaviour, including honesty and fairness in all aspects of their work. Broadband Infraco's employees will fulfil their commitments as responsible citizens. Broadband Infraco will consistently treat customers with the respect they deserve.

Open and transparent communication

Broadband Infraco builds and maintains mutually beneficial relationships with its stakeholder through open and transparent communication.

OUR STRATEGY

Broadband Infraco's strategic intent is to provide broadband connectivity products and related value added services to public and private, licensed or license-exempt customers, across all industries in South Africa, other selected African and international markets, whilst at the same time continuing to support projects of national importance. The Company's strategic profile is based on the following principles:

- Understand market demand for broadband connectivity and related value added services in order to segment markets and respond to customers with the right value and cost effective services and timeous delivery to drive volume growth
- Ensure that products are fit for purpose, flexible, reliable and competitively priced so that the Company is seen as the provider of choice for broadband connectivity

STRATEGY AND RESOURCE ALLOCATION

- Develop appropriate, effective marketing and sales strategies that will ensure a push and pull strategy for Broadband Infraco products into customer and industry segments to build long-term relationships
- Develop, maintain and operate cost effective national network infrastructure and capacity (including points of presence), leveraging its preferential access to Eskom and Transnet servitudes, through appropriate partnerships where required
- Ensure that the Company has the right capabilities, operational infrastructure, sound governance, internal controls and risk management in order to facilitate business continuity and compliance
- Attract, retain, develop, deploy and appropriately reward people with the right skills, experience, commitment and energy who will proactively implement this strategy and continuously manage performance through the Company's defined performance management system

To realise the intent and profile, the strategic theme in support of the vision is to:

- Increase access to electronic communication services through connection to the Broadband Infraco network and partner broadband connectivity solutions.

The strategy of the Company is summarised with an acronym BGE which stands for Build, Grow and Expand and is explained below:

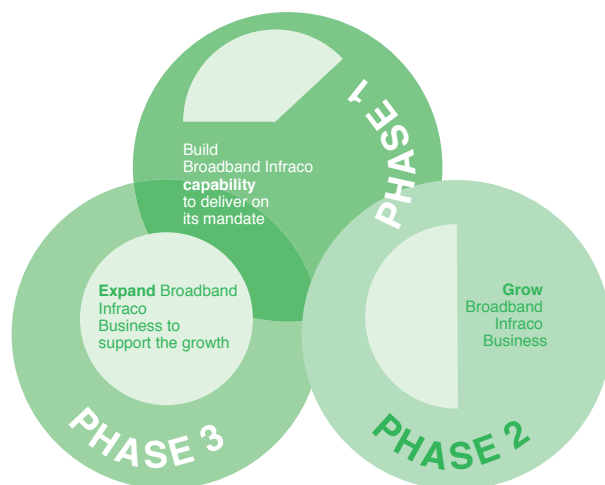


Figure 1: The Strategy of the Company

WHAT WE DO

Broadband Infraco is a licensed telecommunications service provider that offers connectivity and various broadband communication services. The Company's purpose is in line with the National Development Plan (NDP) of establishing national, regional and municipal fibre-optic networks to provide the backbone for broadband access. The services are based on the provision of high-capacity bandwidth from point to point on the national network.

Broadband Infraco key business elements:

National Connectivity

The Broadband Infraco national long distance fibre optic network comprises of 14 923 km fibre utilising Dense Wavelength Division Multiplexing (DWDM) equipment, to provide combinations of base capacities ranging from 2.5 Gigabits (Gbps per Second) to 100 Gbps lambdas along major network routes. The Company supports small internet service providers (ISPs) by offering sub-gigabit capacity connections on an Internet Protocol (IP) platform that allows smaller businesses to provide services to their clients.

Regional Connectivity

Broadband Infraco's network covers all nine provinces, major cities and towns of South Africa and also extends to the borders of our neighbouring countries of Botswana, Lesotho, Mozambique, Namibia, Swaziland and Zimbabwe to provide required interconnectivity.

In line with the Southern African Development Community (SADC) Protocol, the Company has connected all the SADC points of presence.

The following are the border connectivity points:

- Ramatlabama PoP at the border with Botswana
- Maseru PoP at the border with Lesotho
- Onseepkans PoP at the border with Namibia
- Mahamba PoP at the border with Swaziland
- Beitbridge PoP at the border with Zimbabwe
- Komatipoort PoP at the border with Mozambique.

STRATEGY AND RESOURCE ALLOCATION

PRODUCTS AND SERVICES

Broadband Infraco's portfolio of products and services is based on the provision of high capacity managed bandwidth from PoP to PoP, delivered on its resilient national long distance network. The evolution of technology, coupled with the high consumption of IP based services, has resulted in customers requesting high bandwidth services.

Broadband Infraco has responded by implementing next generation dense wavelength division multiplex (DWDM) technology that is capable of carrying 100 Gbps within its core network. Broadband Infraco has adopted the Open System Interconnection (OSI) model to define and name its products, rather than use definitions based on the technology. The Company services are in the first three layers, which are: the physical layer (Layer 1), the data link layer (Layer 2) and the network layer (Layer 3). The bandwidth services that use Synchronous Digital Hierarchy (SDH) as well as DWDM are in Layer 1 and Layer 2. The Company also offers IP connectivity services including IP transit, which is a Layer 3 service.

KEY CUSTOMER BASE

The Company has 30 customers spanning across various segments as listed below:

- Mobile network operators
- Content providers
- High data SOCs
- International players
- Infrastructure players, i.e. National and FTTX
- Regional players
- Internet service providers (ISP) i.e. Tier 1: Tier 2
- Metros and major local municipalities.



STRATEGY AND RESOURCE ALLOCATION

The Stakeholder Engagement Model

To effectively deliver on its mandate and corporate strategy, the Company needs to ensure active stakeholder engagement. Its stakeholders are defined as those groups that affect, and/or are affected by the Company's activities, products/services and related performance. These stakeholders are depicted in the following diagram:



Figure 3: The Stakeholder Engagement Model



ORGANISATIONAL OVERVIEW

THE OPERATING ENVIRONMENT

Demand for Broadband Infraco's products and services remains at an all-time high nationally as well as regionally and internationally. If Government is to meet its National Broadband Policy targets of connecting 90% of the population at 5 Mbps and 50% of the population at 100 Mbps by 2020, an enormous investment in infrastructure will be required. In the private sector, local mobile operators have reported healthy data growth rates beyond 30% year-on-year. These are as a result of accelerating their investments in 3G and LTE (high-speed) technologies, in an effort to meet market appetite for high-speed broadband access.

Broadband Infraco's Business Development Strategy for capturing such markets is centred on strengthening the Company within an intensely competitive segment of the telecommunications market through robust positioning of its value proposition:

- An open-access carrier class communications enabler
- Unique, preferential access to rail and electricity servitudes (a diversified risk profile ideal for redundancy/diversity)
- A resilient, comprehensive national terrestrial backhaul network connecting all SADC nodes
- Competitive international connectivity

Thus far, this strategic thrust has resulted in the diversification of revenue from over-reliance on a single anchor customer to three anchor customers and exponential customer growth to a total of 30 customers to date, which has taken place within recent years.

External Factors

The Company is impacted by various external factors that form an integral part of the environment in which it operates. These are the Shareholders' mandate and applicable legislation and regulations in the telecommunications industry.

Shareholders' Mandate

Broadband Infraco's mandate is to expand the availability and affordability of access to electronic communications, including but not limited to underdeveloped and underserved areas through the provision of electronic communications network services and electronic communications services.

The Government of the Republic of South Africa (through the Minister of the Department of Telecommunications and Postal Services as representative of Government) as well

as the Industrial Development Corporation of South Africa are the Shareholders in Broadband Infraco, which is a State Owned Company (SOC). The Company pursues commercial imperatives as well as public mandate and policy objectives.

The five-year Corporate Plan illustrates the Company's strategic and operational direction, including the strategic objectives and resources, both financial and human required to realise this direction. The Shareholders' Compact defines clear objectives for performance measures and targets between the Board of Directors and the Shareholders. It is a governance tool to ensure clarity of roles, alignment of strategy and delivery on the Government outcomes. The Corporate Plan, Shareholders' Compact and Annual Performance Plan (APP) are submitted to the Shareholders for approval before the commencement of each financial year. The Company also submits effective performance monitoring tools in the form of quarterly reports to the Shareholder.

The Corporate Plan encapsulates all the six capitals, whilst the APP records the four capitals as the critical focus areas for the Board as in figure 4: Performance against the Annual Performance Plan is found on pages 32 to 33.



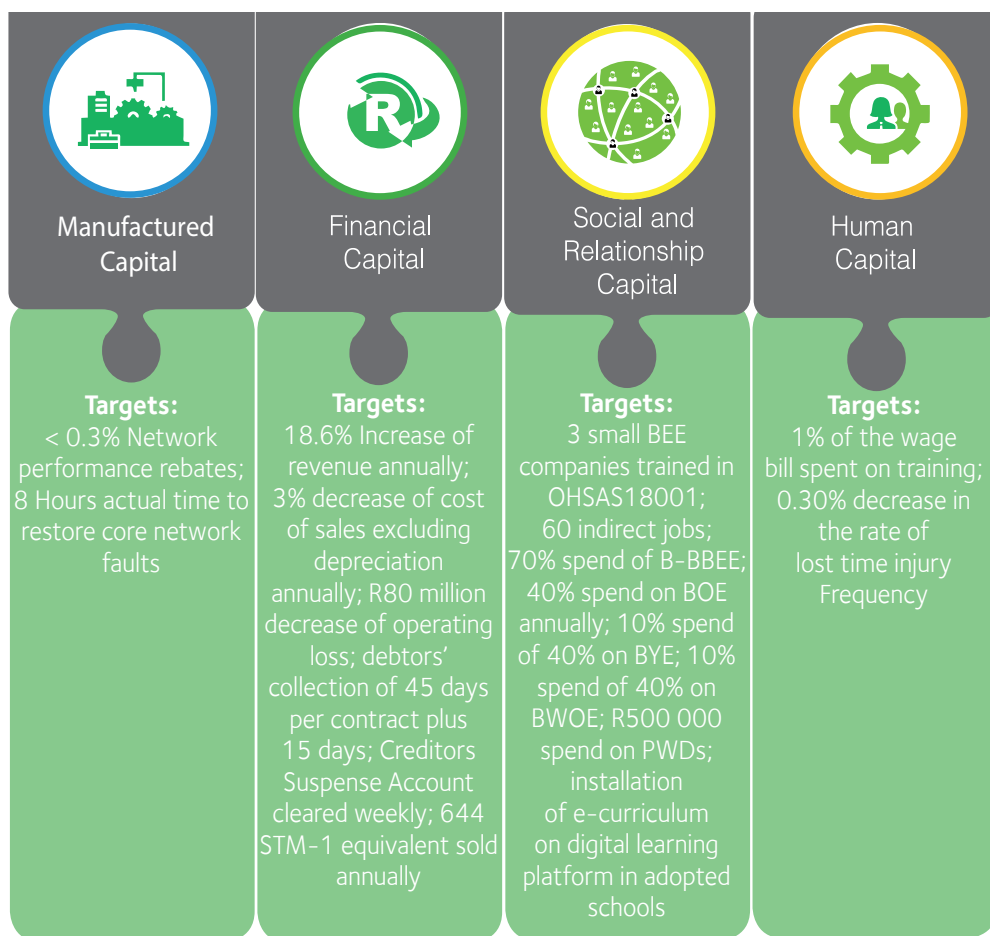


Figure 4: Performance against the Annual Performance Plan

Compliance with Laws, Rules, Codes and Standards

The Company is cognisant of the fact that it is accountable to all its stakeholders, both internal and external, and recognises all regulatory requirements applicable to its business. Great emphasis is placed on ethical values and integrity of the Company as a whole in order to comply with the legislative framework within which it operates and the

supervision thereof. The Company recognises that the greatest risk of non-compliance stems from ignorance of the law and could result in hefty fines or penalties, as well as in reputational risk. The Board of Directors, Executive Management and employees are therefore regularly appraised of compliance requirements.

THE INTERNAL ENVIRONMENT

Leadership and Governance

The leadership of Broadband Infraco is guided by its values and code of conduct. The Board is accountable for the sustainability of the Company and provides strategic direction, while the Executive Management Committee (Exco) is responsible for the implementation of the strategy. There is clear distinction of roles and responsibilities between the Board and Exco.

Strategic Planning and Execution

The strategic intent of the Company is to efficiently provide broadband connectivity products and related value added services to public and private, licensed or license-exempt customers across all industries in South Africa, other selected African and international markets whilst at the same time continuing to support projects of national importance.

Broadband Infraco has over the past four years executed its Build, Grow and Expand Strategy (see page 17), which has ensured that a solid platform is in place to create momentum towards lasting sustainability, innovation and preserving the value of the Company.

Twenty-three initiatives were identified to turn the Company around of which 17 were achieved, three are work-in-progress and the other three are a challenge as illustrated in Table 3 on page 24:

Legends			
Completed	●	Work in progress	●
Norm	●	Challenge	●

ORGANISATIONAL OVERVIEW

Initiative	Status		Initiative	Status	
	Achieved	Embedded		Achieved	Embedded
1. New Integrated Sales Plan			13. Shareholder/ stakeholder plan		
2. New Costing and Pricing model			14. International funding		
3. SITA Collaboration			15. Institutionalise policies and processes		
4. Neotel Scenario Planning			16. B-BBEE initiative		
5. Detailed Network Plan			17. Reward and recognition programme		
6. New Products and Services			18. Strategy communication		
7. Commercial Partnerships			19. Implement performance model		
8. New Commercial Model and incentives			20. Clarify roles and responsibilities		
9. Development of area 2 and 3			21. Development plan		
10. Network Upgrade			22. Organisational design		
11. Optimising the value chain			23. Recruitment and retention		
12. Project Funding Partnerships					

Table 3: Strategic Initiatives

Twelve of the achieved initiatives have been embedded and are the norm of conducting business in the Company. Four are continuously being improved to factor in changes. One initiative was a once-off occurrence and will therefore not be dealt with again. The new integrated sales plan was implemented at the end of quarter two and the sales environment will be fully capacitated in the new financial year. The value chain is continuously optimised to improve processes.

These three challenges as outlined below will be addressed by Broadband Infraco's role in the SA connect project:

- Development of area 2 and 3; (rural and underserved areas)
- Project funding partnerships; and
- International funding.

The Company continues to drive revenue and optimise costs to improve its financial results. Work is being conducted with DTSP on initiatives to strengthen the balance sheet.

Systems, Policies and Procedures

Broadband Infraco has systems, policies and procedures that cover all aspects of the business to ensure that internal controls are efficient and adequate. There is an enterprise-wide policy register that is updated on a quarterly basis that assists in tracking policies that are due for review.

Standards

Broadband Infraco has implemented ISO 14001, OHSAS 18001 to ensure the safety of its employees and contractors. The South African Bureau of Standards (SABS) has certified compliance with the Occupation Health and Safety Act. The Company is in the process of applying for ISO 9001 certification. As a good corporate citizen, the Company has trained three small enterprises in Occupational Health and Safety Assessment Series (OHSAS).

Core Operations

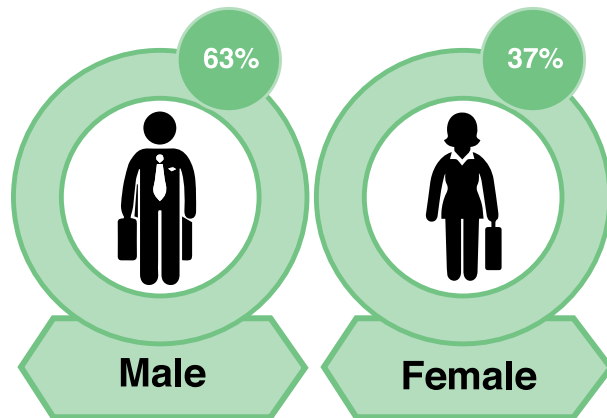
The Network Engineering department is responsible for designing the network and customer solutions while the Network Operating Centre (NOC) monitors the performance of the network. Different regional offices maintain and restore the network when faults occur. The Company operates and maintains 156 PoPs and 14 923 km of

fibre throughout the nine provinces.

Employment

As at the end of March 2017, the Company had a total of 152 employees, including 17 interns. The demographics of the organisation are presented in figure 5 below with an equity representation of Africans at 87%, Whites 9%, Indians 3% and Coloureds 1%. The gender profile of the Company is predominantly male. The male gender group makes up 63% of the employee base and females make up 37%.

Gender Profile



Equity Profile

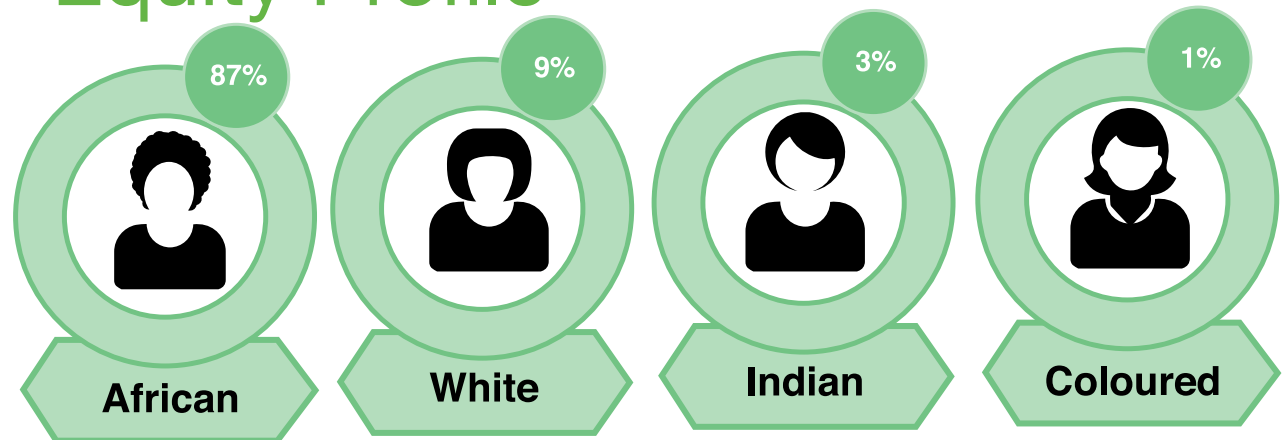


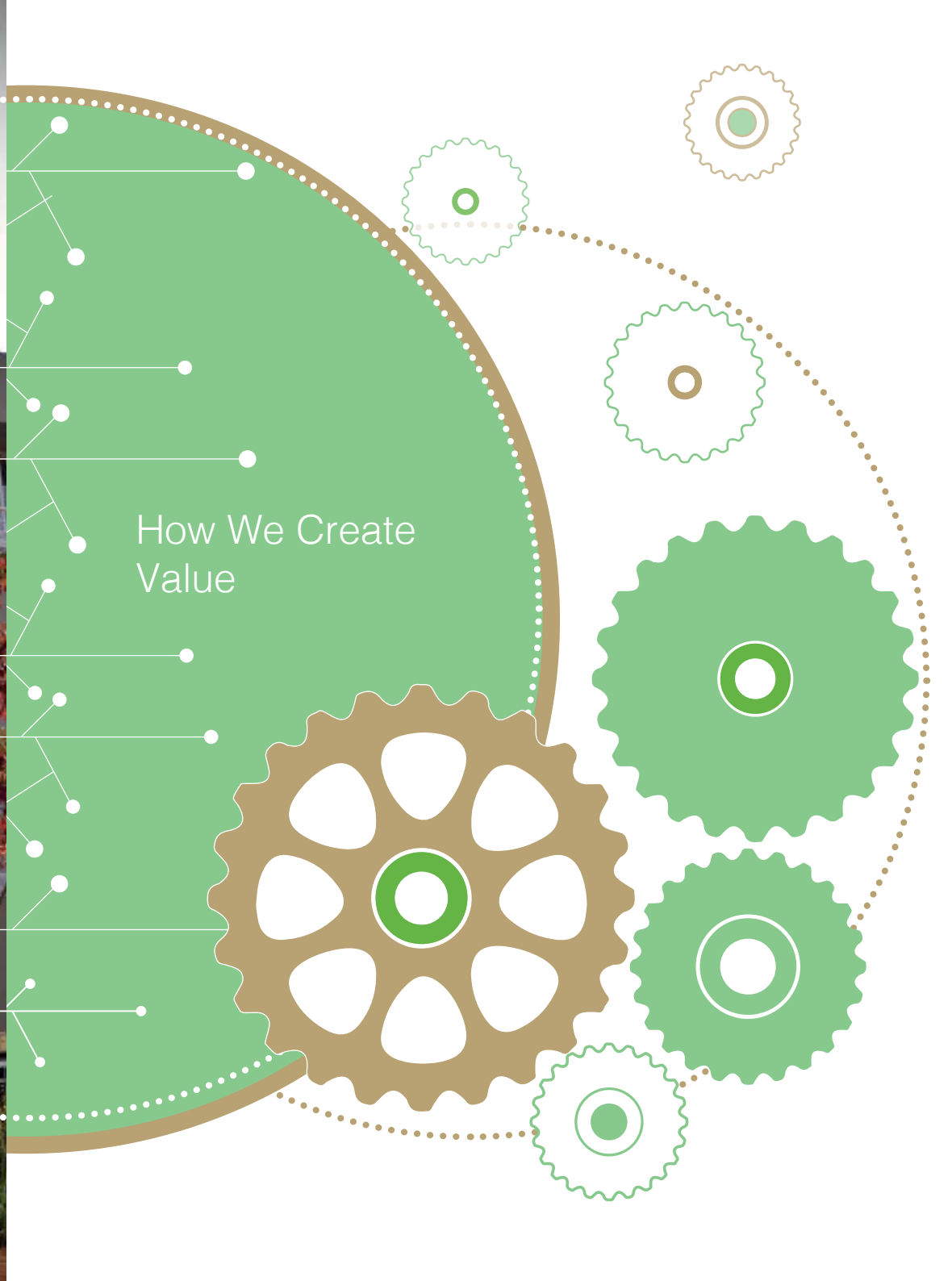
Figure 5: Employee Profile

Economic Transformation

The Supply Chain Management (SCM) department has succeeded in deploying systems, policies and procedures to comply with all current statutory supply chain management requirements and procedures which include, but are not limited to, National Treasury prescripts, Preferential Procurement Policy Framework (PPPFA) as well as Broad-Based Black Economic Empowerment (B-BBEE) requirements.

The SCM strategy is specifically designed to attract meaningful contributions from previously disadvantaged groups and create an environment within the Company where these individuals enjoy preference in terms of the supply of goods and services in all spheres of the supply chain. As a strategic business partner, SCM continues to have great impact on the delivery of the Company's objectives and mandate. It also played a major role in transformation by contributing to B-BBEE through a supply chain management system that enabled all stakeholders to participate in a fair, equitable, transparent, competitive and cost-effective manner.

The Company created 61 indirect jobs within the communities where capital projects were executed. It has also spent 109% in promoting B-BBEE and 41% of the budget was spent procuring services and goods from Black Women Owned Enterprises.



HOW WE CREATE VALUE

THE VALUE CHAIN

The Company's value chain is illustrated in the Revised Enterprise Process Operating Model below:

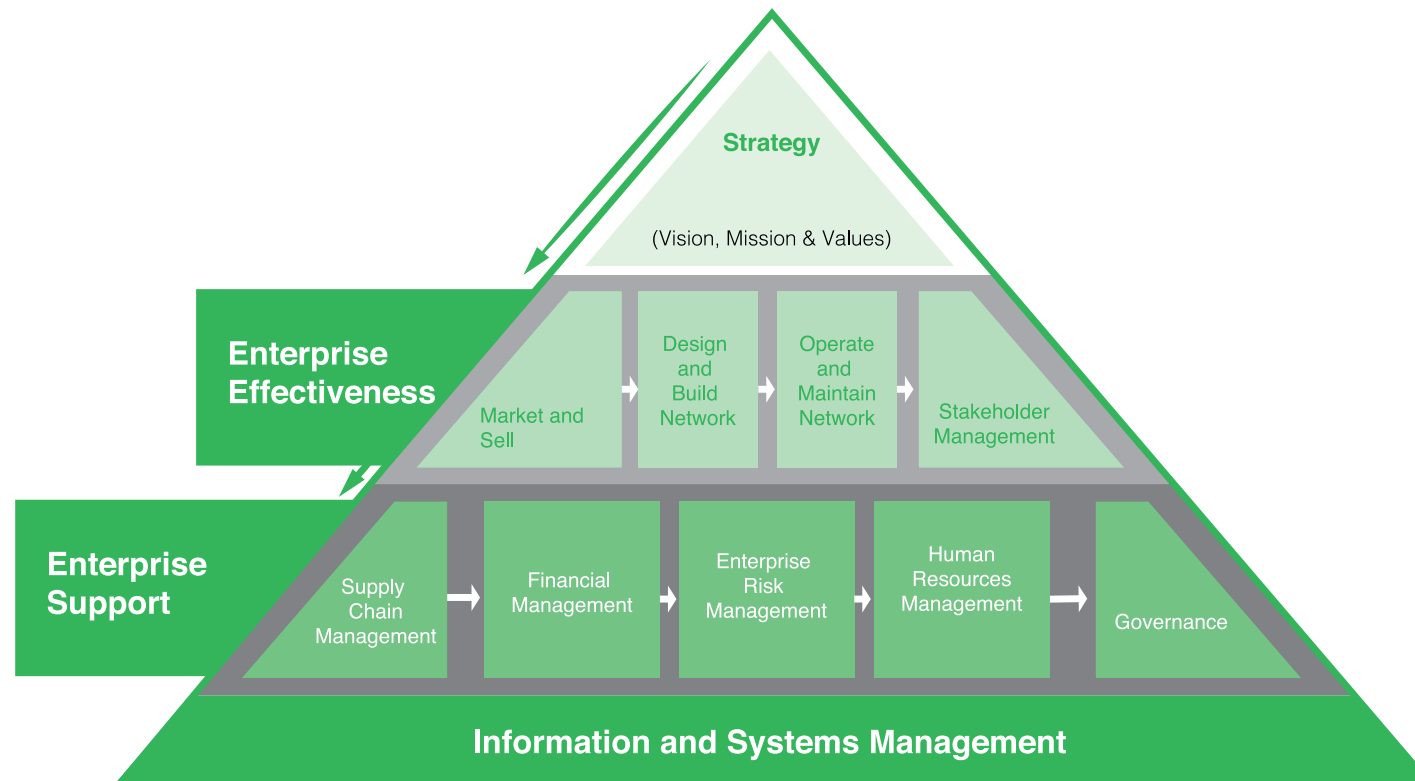


Figure 6: Revised Enterprise Process Operating Model

This Enterprise Process Operating Model outlines the processes, information, systems and resources required to execute strategy, thus depicting how Broadband Infraco creates value. This model is a compass that ensures that the true north of the organisation is based on sound and innovative strategic planning that drives the allocation of resources to enable effective operations. It is stratified into four distinct areas reflecting the Company ethos, core operations, enterprise management and support, as well as information systems. The value creation flows from the Company ethos which is expressed in the vision and the mission as encapsulated in the strategy. Holding the Company ethos and core operations is the business process and enterprise performance management. The Intellectual Capital of the Organisation resides in this strata, which includes the policies, processes, standards frameworks and performance management and systems. The second strata is the pillar of the core operations inclusive of Design and Build Network, Operate and Maintain Network and Technology and Customer Relationship Management. This strata is the anchor of the Company's value creation which consists of core operations (Manufactured) and the Social and Relationship capitals.

HOW WE CREATE VALUE

The third and fourth strata are Enterprise Support Management and Information Systems which underpins the operating model. These strata reflect the interdependencies of the Financial, Human, Intellect, and Social and Relationship capitals.

The model is continuously assessed to drive improvement and relevance to Company operations.

STRATEGIC OUTCOMES-BASED GOALS AND OBJECTIVES

The mission statement of the Company referred to in page 16 is translated into strategic outcomes, orientated goals and objectives to identify the areas of organisational performance that are critical to the achievement of its mandate and obtaining a competitive edge in the telecommunications industry. These have been set to stretch and challenge the Company and its employees, but are considered realistic and achievable during the long-term planning period.

The goal statements are written as statements of intent that focus on the value the Company intends to create through deployment of its network to deliver products and services to enable the citizens of South Africa to access the knowledge economy. The Company intends to achieve this through the efficient and effective use of human and financial capitals whilst impacting the environment and communities within which it operates in a positive way. The methods used in the delivery of services are continuously enhanced to ensure that value is created for all stakeholders. The associated strategic objectives have been translated into key performance areas (outputs) that are measured through annual targets and quarterly deliverables. The strategic objectives are linked to the National Treasury guidelines on outcome-based approach and best practice. The objectives also address some aspects of the Presidential Nine Point Plan.

The Company's strategic goals are to:

- Continue to develop and maintain quality connectivity infrastructure in South Africa and neighbouring countries;
- Endeavour to be financially sustainable;
- Create opportunity for participation of PDIs in the economy;
- Become a high-performance organisation that maximises opportunities and strengths, and increases benefit to stakeholders, employees and management due to its effective systems, processes, as well as its resources and organisational culture;
- Promote good governance through ensuring compliance to all legislative requirements and effective internal control systems and risk management.

The strategic objectives as focus areas to address the opportunities and risks are listed in the tables below:

Strategic objectives	Opportunities
<ul style="list-style-type: none"> • To expand broadband infrastructure • To ensure financial sustainability • To drive economic transformation through procurement processes • To improve operational efficiency • To drive effective human resource practices • To promote effective corporate governance 	<ul style="list-style-type: none"> • Operator infrastructure investments • Increased end-user data demand • Collaborate with relevant stakeholders in the ICT fraternity • The emergence of FTTX which requires continuous connectivity • Intensify commercial funding efforts on the strength of project availability and viability • New models for building infrastructure - infrastructure sharing, co-build, fibre swops, alliances • Diversification of product portfolio • SOC to SOC collaboration • Acquisition of I-ECS License

Table 4: Strategic Objectives and Opportunities

The details on the strategic risks and mitigation are on page 59

Top Ten Risks
<ol style="list-style-type: none"> 1. Likelihood not to continue as a going concern 2. Limitations in resolving fulfilment value chain 3. Margin pressure 4. The impact of Non-ICT SOC's on the cost to communicate 5. Lack of awareness of new imperatives in privacy and security of information 6. Difficulty to raise funds 7. Damage to the reputation of Broadband Infraco 8. Lack of regulatory certainty on new market services 9. Slow evolution towards IP technology 10. Difficulty to retain and attract the required skills.

Table 5: Strategic Risks

HOW WE CREATE VALUE

THE SIX CAPITALS

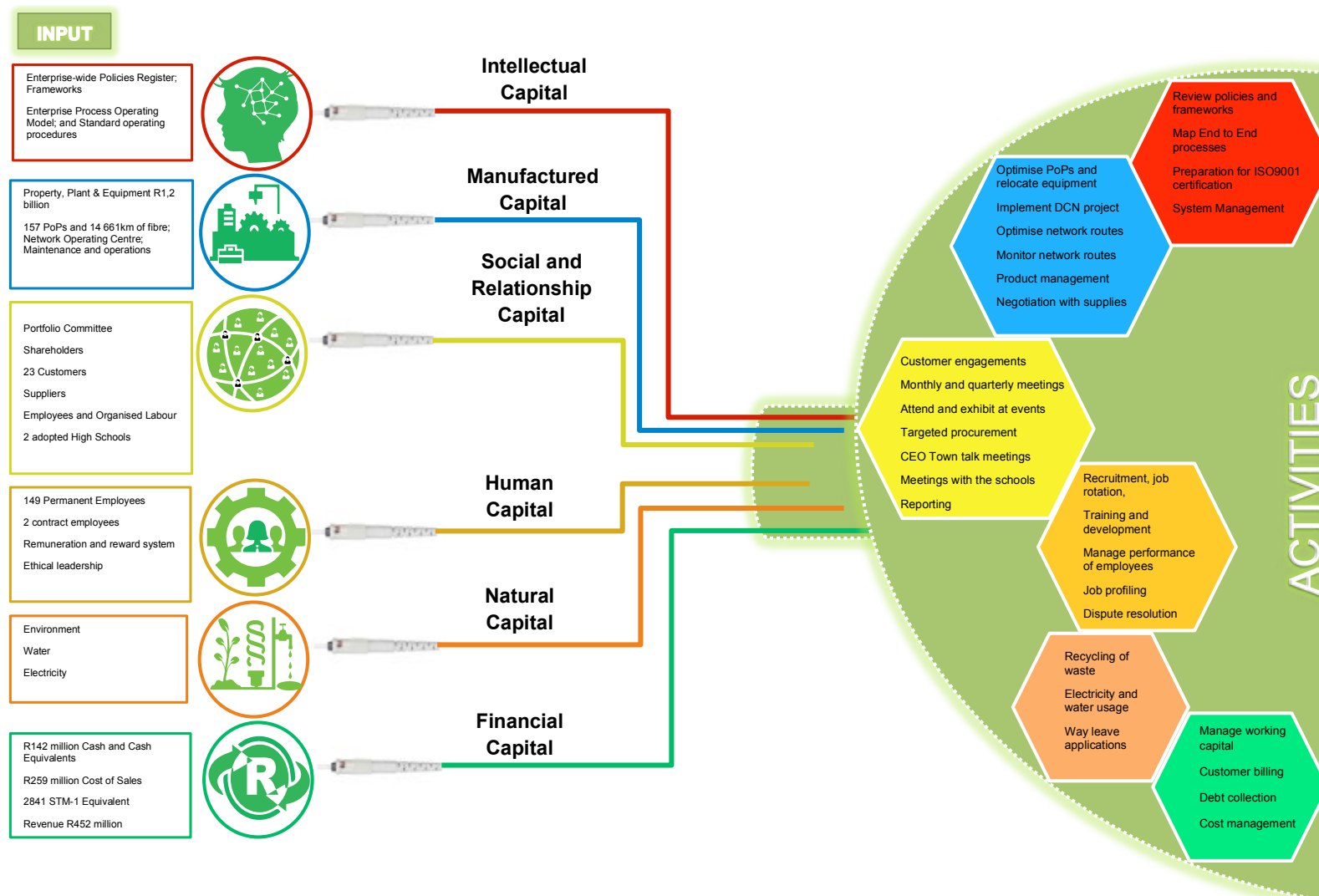


Figure 7: The Six Capitals (Input)

HOW WE CREATE VALUE

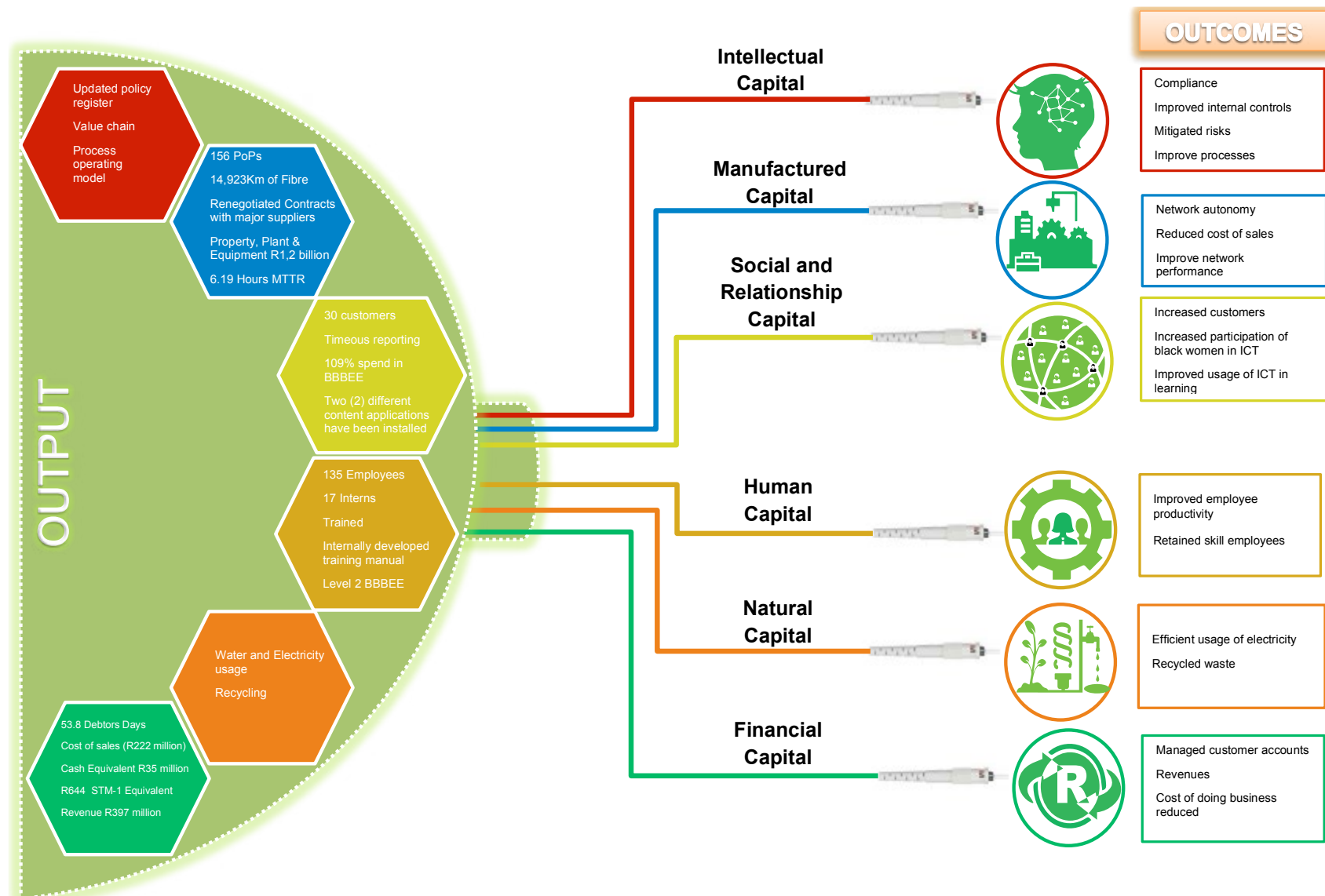


Figure 8: The Six Capitals (Output)



ANNUAL PERFORMANCE RESULTS

Strategic objective	KPI	Baseline	2016/17	Q1	Q2	Q3	Q4	Full year audited	Status	Comments
			Target	Audited results	Audited results	Audited results	Audited results			
Maintain a reliable network	Network performance rebates paid as a percentage of gross revenue annually	≤0.3% of customer revenue	≤0.3% of customer revenue	0.15%	0.06%	0.05%	0.11%	0.09%	Achieved	
	Actual time to restore core network faults	8 hours	8 hours	7:22 hours	5:53 hours	5:38 hours	6:40 hours	6:13 hours	Achieved	
	Decrease the rate of lost time injury frequency	0.4 rate	0.3 rate	0.3 rate	0.3 rate	0.3 rate	0.3 rate	0.3 rate	Achieved	
Ensure financial sustainability	Percentage increase of actual revenue annually	R452 million	18.6% (R536 million)	-8.00%	-9.70%	-13.90%	-16.40%	-12.10%	Not achieved	Sales strategy has been reviewed
	Percentage decrease of cost of sales excluding depreciation annually	R383 million	-3%	-32.00%	-20.80%	-18.40%	53.10%	-14.40%	Achieved	
	Decreased amount of operating loss annually	(R91 million)	(R80 million) operating loss	(R30.1 million)	(R40.6 million)	(R12.2 million)	(R43.8 million)	(R127.5 million)	Not achieved	Direct result of revenue target not being achieved
	Number of days per outstanding customer invoice	26 debtors' days per contract	Debtors' collection of 45 days per contract plus 15 days	44.3 days	24.4 days	60.6 days	53.8 days	53.8 days	Achieved	
	Reduced period for unallocated creditors	Creditors suspense account cleared weekly	Creditors suspense account cleared weekly	Creditors allocated within one week	Creditors allocated within one week	Creditors allocated within one week	Creditors allocated within one week	Creditors allocated within one week	Achieved	
	Number of STM-1 equivalent sold annually	497 STM-1 equivalent	600 STM-1 equivalent	387 STM-1 equivalent	0.329 STM-1 equivalent	210.66 STM-1 equivalent	45.57 STM-1 equivalent	643.57 STM-1 equivalent	Achieved	
Sound HR practices	Training spend as a percentage of payroll annually	1% of the wage bill spend on training	1% of the wage bill spend on training by end of year	0.12%	1.19%	0.24%	1.12%	1.00%	Achieved	

Strategic objective	KPI	Baseline	2016/17	Q1	Q2	Q3	Q4	Full year audited	Status	Comments
			Target	Audited results	Audited results	Audited results	Audited results			
Economic Transformation	Number of small BEE companies trained on OHSAS	None	3 small BEE companies trained in OHSAS 18001	Plan developed and one small BEE trained	One BEE Company trained on OHSAS 18001	One BEE Company trained on OHSAS 18001	0	Three BEE companies trained on OHSAS 18001	Achieved	
	Number of indirect jobs created annually	60 indirect jobs	60 indirect jobs	32 indirect jobs	0 indirect jobs	23 indirect jobs	6 indirect jobs	61 indirect jobs	Achieved	
	Percentage allocation of B-BBEE budget discretionary spend annually	114% spend of B-BBEE	70% spend of B-BBEE	125.00%	112.00%	104.00%	110.00%	109.00%	Achieved	
	Percentage spend on Black owned Entities spend annually	40% spend of B-BBEE	40% spend of B-BBEE	55.70%	48.29%	29.66%	28.21%	34.95%	Not achieved	Not achieved due to limited procurement budget
	Percentage spend on Black Youth owned entities annually	10% spend of 40% on BOE	10% spend of 40% on BOE	0.57%	0.00%	0.93%	0.72%	0.61%	Not achieved	Not achieved due to limited procurement budget
	Percentage spend on Black Women owned entities	10% spend of 40% on BOE	10% spend of 40% on BOE	49.91%	35.37%	38.78%	44.35%	40.76%	Achieved	
	Percentage spend on People with Disabilities owned entities annually	R148 000 spend on PWDs	R500 000 spend on PWDs	R266 095	R 0	R 0	R 0	R266 095	Not achieved	Not achieved due to limited procurement budget
	Number of digital learning tools	60 tablets for Grade 12 pupils in adopted schools	Installation of e-curriculum on digital learning platform in adopted school(s)	Discussions with University of Limpopo	2 different content applications have been installed on the tablets and the school server	CSIR engaged to assess the impact of ICT at Seshigo High School	Site visit to Seshigo High was undertaken with CSIR Meraka Institute	2 different content applications have been installed on the tablets and the school server	Achieved	

Table 6: Annual Performance Results

The Company only achieved 72% of its APP due to normalisation of customer contracts and financial constraints that required focus on reduction of costs.

Performance through the six Capitals is presented in the following sections.

INTELLECTUAL CAPITAL

“Broadband Infracore will be a high-performance organisation that maximises opportunities and strengths and increases benefit to stakeholders, employees and management due to its effective systems, processes, as well as its resources and organisational culture through driving operational efficiency.”

Business Process Management

The Company prioritised the importance of business processes and recognised them to be the main driver to achieve operational excellence and an enabler in assisting the Company to achieve the ISO 9001 accreditation.

The Business Process Management (BPM) unit facilitated the development and review of business processes as a result of the Company having taken a decision to initiate a holistic approach called End to End Business Processes. The aim of this project is to break silos and encourage accountability and efficiency.

The unit also manages the enterprise-wide policy register, which is used as a tool by management to monitor and track the progress status of all Company policies. These are then socialised post approval by the delegated committee. The unit further conducts quarterly reviews of the register which guides the Executive Committee on priority areas.

Quality Assurance System

The BPM unit complements the Quality Management department which has ensured that the organisation maintains a rigorous quality management system. The accreditation of its quality management system (ISO 9001) has been initiated and will be completed over the next couple of years. All roles and responsibilities, as well as processes and procedures, have been identified for action.

Information Technology

Information Technology (IT) is a critical enabler of the business and is governed through the IT Governance Framework adopted by the Company. An IT Oversight Committee has

been established to take overall responsibility for technology, information and security thereof. The Committee has completed and signed off processes to secure confidential information and IT systems in a manner which complies with legislation and meets accepted best practice. By implementing appropriate controls, the Company is ensuring the continuity of business operations and mitigation against potential catastrophic business damage.

It is the policy of Broadband Infracore to ensure that:

- Information is protected against unauthorised access.
- Confidentiality of information is assured.
- Integrity of information is maintained.
- Regulation and legislative requirements are met.
- Business Continuity and Disaster Recovery Plans are maintained and tested.
- Dissemination of private and confidential information is appropriately controlled in compliance with the applicable legislations.

During the year under review, the IT unit achieved the following:

- Established a disaster recovery site.
- A test server was successfully installed offsite to facilitate a disaster recovery site. All the necessary tests (latency, redundancy, reliability) were conducted successfully.
- Revised the Microsoft Licensing Strategy that reduced costs by 23%.

In the near future, IT plans will focus on the following:

- Implementation of Office 365.
- SharePoint being used as an official repository for information in the organisation.

Business Development

Broadband Infracore's business development successes for the year under review are the following:

- Continued diversification of its customer base (increase from 23 in the prior year to 30)
- 644 STM-1 Equivalent were sold.
- Retention of existing customers.

- Extension of contracts as well as up-selling to the existing base.
- Continuously attracting emerging Internet service providers utilising efficient IP-based services.
- Acquisition of a second Government entity as a customer.
- Signing up an additional SADC customer for connectivity.
- Signed a Tier2 ISP for a 10-year contract with a total number of 33 sites nationally.
- Broadband Infraco has experienced a significant growth from small to medium ISPs. The Company has managed to conclude contracts with three new ISPs. The bandwidth and revenues initiated start steady and become significant over time.

These successes are premised on the following embedded service delivery principles:

- Provision of carrier-grade service availability to all its customers.
- Each customer is allocated a full-time, dedicated Key Account Manager (KAM) as a first and comprehensive point of entry to their specific needs.
- Agile decision-making and flat structures, which allow for expedited conclusion of governance processes to enable the highest levels of service to customers.
- Customers treated as long-term partners in contributing towards making connectivity in South Africa a ubiquitous, affordable necessity. This has allowed the Company to cross-sell and up-sell significant services to its existing base.
- Deployment of highly trained staff on the ground in all provinces to conduct both restorative and preventative maintenance to its national long distance network.
- Products and services that are competitively priced and reflect objective value for money.
- The Company is led by experienced industry veterans whose main drive is to deliver a world-class customer experience to the market.

ECS License

Broadband Infraco has initiated processes for the acquisition of an Individual Electronic Communications Service (I-ECS) license. The Company's rationale to acquire an I-ECS license is premised on its socio-economic mandate.

With the acquisition of an I-ECS license, the Company would be able to enter into public-private partnerships (PPP) with unlicensed SMMes/ISPs located in underserved areas. This means that the Company would sell its capacity to the SMMes/ISPs who would then package and re-sell it to end-users. Therefore, the acquisition of an I-ECS license,

would give tangible effect to the objectives of the National Broadband Policy by, not only extending Internet connectivity to underserved communities, but also by stimulating the growth of (unlicensed) SMMes located in these areas.

The Company's efforts at acquiring an I-ECS license continue.

MANUFACTURED CAPITAL (Core Operations)

"Broadband Infraco will continue to develop and maintain quality connectivity infrastructure in South Africa and neighbouring countries. This entails expanding broadband infrastructure and maintaining a reliable network."

Emphasis has always been placed on proactive maintenance of the network and on implementing permanent repairs on the various temporary repairs, so as to improve the network availability of the network. In addition, there was a keen focus on the general management of the network to minimise downtime and hence improve the overall network availability. During the entire period of reporting, the network service level availability performed above the contracted requirement. This is attributed to extra focus and pre-emptive monitoring of the network by employees, as well as the rigorous regime of preventive maintenance being required.

Broadband Infraco focused on improving operational efficiency as well as the execution of key customer projects. Operational efficiency includes the improvement of the following key metrics:

- reduction of the power consumed at each site;
- reduction in the transmission equipment footprint in third party co-located sites; and
- an increase in the general spare pool of the equipment that is still deployed and doing away with parallel links where they exist.

Specific routes were a major focus for the network optimisation projects.

Products and Services

The new Customer Tie Cable Maintenance Service was developed during the financial year with the aim of providing a one-stop solution for customers. This service will enable customers to connect directly to Broadband Infraco sites via fibre optic tie cables and create a new source of revenue with limited capital layout.

The table below illustrates product performance for three (3) financial years:

Service/bandwidth	STM-1 Equivalent					
	2014/15		2015/16		2016/17	
STM-1	144	10%	148	8%	100	3%
STM-4	132	9%	144	8%	204	7%
STM-16/ 2.5 Gbps	368	24%	368	20%	448	16%
STM-64/ 10 Gbps	769	51%	1 089	59%	1 606	56%
40 Gig	0	0%	0	0%	258	9%
1 Gig/ 1 Gbps	26	2%	20	1%	26	1%
20-100 Mbps	3	0.20%	19	1%	26	1%
200 Mbps		0%	6	0.30%	9	0.30%
300 Mbps		0%	3	0.20%	5	0.20%
International bandwidth	64	4%	64	3%	194	7%
Total	1 506	100%	1 860	100%	2 876	100%

Table 7: Product Performance

Broadband Infraco reviewed its product costing and pricing model in order to align with the market and maintain a profitable and competitive unit price. Table 7 above indicates that there has been an increase in the uptake of high-bandwidth services, especially in the fiercely competitive market routes like the Golden Triangle that spans between Johannesburg, Cape Town and Durban. The margins are squeezed on these routes, with the market prescribing the price.

Network Improvements

The following lists of projects were successfully executed, which resulted in Broadband Infraco having 14 923 km of fibre nationwide, as well as 18 additional refurbished PoPs allowing open access customer connections:

- **Route Optimisation:** There was good progress made on the Route Optimisation project of routes 7, 9, 10 and 11 to ensure that the overall progress status is more than 80%; some of the routes were 100% completed. This project involved the relocation of Broadband Infraco's active equipment from third party housing into Broadband Infraco owned premises.
- **Transmission Equipment Optimisation:** This project involved reducing the footprint of equipment, reducing the power consumption (opex) in selected Broadband Infraco

PoPs and eliminating non-essential parallel links. Eighty-nine percent (89%) of the work was completed in the year under review.

- **Project completion for a high-data SOC:** All fibre construction and transmission equipment installations were completed for this customer and services are running at a Service Level Availability (SLA), higher than the contracted 99.5% for all routes. The project has entered into maintenance mode.
- **Redundant Links project for an infrastructure player:** This project was completed and final connections are dependent on the customer. The scope of the project was to build various outstanding parallel links to protect the existing links for the purpose of increasing service reliability.
- **Kimberley PoP Migration:** The project entailed the recovery of transmission equipment from Bloemfontein to be installed in Kimberley. The recovered and new equipment was installed in the new PoP and has been commissioned. Migration of services from the old PoP to the new PoP has started and is in progress.

Network Assets

The number of sites were reduced to 156 during the 2016/17 financial year due to 18 third party sites that were optimised to reduce operational costs and improve network autonomy.

The table below depicts the number of operational sites:

Site description	Year 2015/16			Year 2016/17		
	Number	Third Party Access		Number	Third Party Access	
		Yes	No		Yes	No
Own LD Sites	57	57	0	56	56	0
SOC co-location sites	14	8	6	16	10	6
SOC site sharing sites	43	43	0	48	43	5
SOC Microwave Sites	11	0	11	10	0	10
Neotel POPs	12	0	12	6	0	6
Open-access POPs	10	10	0	10	10	0
Private lease	8	8	0	8	8	0
Private co-location	2	0	2	2	0	2
Total Sites	157	126	31	156	127	29

Table 8: Points of Presence

Broadband Infraco now has 14 923 km of optical fibre network. The network growth resulted in additional requirements from both new and existing customers. From the table below, it can be seen that Adlash still forms 21.2% of the operational network. This is a focus for future refurbishment plans.

Servitude owner	Infraco status	OPGW	ADSS	ADLASH	U/G	Total	100%
Broadband Infraco	Owned	0	2 346	3 106	1 011	6 465	42%
Various	Leased	488	5 975	65	1 244	7 772	54%
Various	ROU	686	0	0	0	686	4%
Total fibre	Total	1 174	8 321	3 171	2 255	14 923	100%
% per technology		8%	56%	21%	15%	100.00%	

Table 9: Fibre Kilometres

Network Operations

Broadband Infraco has embarked on various initiatives to improve network reliability and lower its failure rate of the network. A number of the initiatives are based on planned maintenance, i.e. activities planned and/or efforts undertaken to improve network reliability where identified network defects are corrected and temporary repairs converted to permanent repairs.

Most of the network faults are caused by the following events:

- Vandalism
- Third parties (construction, etc)

Efforts to improve the network performance include the following initiatives:

- Improved and regular planned maintenance to effect network defect and permanent repairs;
- Scheduling preventative routine maintenance (PRM) activities twice a year;
- Battery testing and replacement project to confirm the standby capacity in case of AC power supply interruptions, especially for remote sites; and
- Eliminating all temporary work repairs from the network to minimise risk of vandalism as it poses the highest network fault risk.

Mean Time To Restore

The Mean time to restore (MTTR) is the measure of the average total time it takes to restore a network incident, which includes administrative delay (fault logging), logistic delay and actual fault repair time.

The MTTR for 2016/17 remained within the target of eight hours (08:00) at 06:19. The figure below summarises the 2016/17 MTTR compared to the previous financial year. A slight increase reflected in this diagram resulted from increased incidents of vandalism and theft. Damage to network infrastructure by third party contractors is also on the increase; however, restraining measures were put in place to mitigate the impact on network infrastructure and customer delivery.

Both 2015/16 and 2016/17, however, still reflect a great improvement from 2014/15 in which a MTTR of 7.17 hours was recorded. Continued improvement resulted from adjusting the strategy of the Operational and Maintenance departments, along with measures to improve efficiency. A great focus on resource efficiency also proved to be a huge success despite the continued network and customer growth.

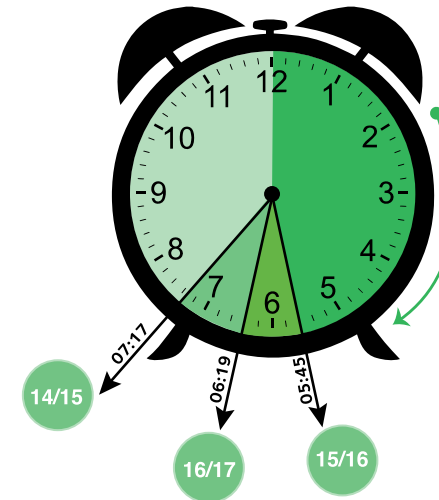


Figure 9: Mean Time To Restore (MTTR)

The cross-border links achieved a combined availability of 99.82% in 2016/17 compared to 99.79% achievement in 2015/16 and therefore exceeding the minimum availability of 99.00%.

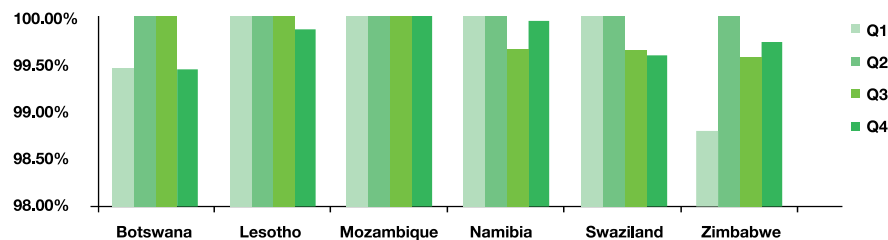


Figure 10: Cross-Border Link Performance

Low lights for the financial year under review:

- The network failure incidences.
- Wooden poles being stolen along certain routes of the network. Plans are already underway to replace the wooden poles with concrete poles for all future routes.

Future plans:

- **Fibre management system extension:** The main objective is to ensure 100% national remote connectivity. Monitoring is possible from the National Operating Centre (NOC) to drastically cut down on MTTR and operational expenses linked to inefficiencies.
- **Reducing the cost of maintenance:** Options to reduce the cost of third party fibre maintenance by cutting over problematic ADLash route sections to Optical Fibre Composite Overhead Ground Wire (OPGW) network infrastructure are being investigated.
- **Product Development:** The Company is exploring the introduction of products that are based on its best of breed NOC as well as operations and maintenance to third party networks.
- **Network Capacity Increase project:** This project will revamp the basic capacity of the network so that there is a strong base for the demand from customers.

SOCIAL AND RELATIONSHIP CAPITAL

Broadband Infraco will leverage relationships with key stakeholders and create opportunity for participation of PDIs in the economy.

Shareholder Relationship

Broadband Infraco strives to provide useful and frequent disclosure to its Shareholders. The Company reports formally to Shareholders on a quarterly basis. Further to this, Shareholders' meetings take place on a monthly basis and key stakeholders such as the officials from National Treasury attend these meetings to discuss the Company's performance and financial wellbeing. Key information is shared and valuable inputs are received from Shareholders at these engagements.

Further to this, the CEO and CFO together with the Executives meet with their counterparts as well as with institutional Shareholders and, in addition, are available for meetings or conferences.

Parliamentary Engagements

Broadband Infraco Board members and executives attended scheduled meetings of the Portfolio Committee on Telecommunications and Postal Services for the period under review. The Company presented quarterly performance reports, provided feedback to the Committee on its Annual Performance Plan and status thereto and also presented its Strategic Plan. The Company also attends meetings when requested to and in support of any submission being made by its Shareholder department to the Portfolio Committee.

Broadband Infraco's Positive Brand-Building Events

In an effort to support Executive Authority engagements with communities around the country, Broadband Infraco participates in ministerial, provincial, municipal and other stakeholder events. These events are often initiated at the level of the President, the Deputy President, the Minister of Telecommunications and Postal Services and his Deputy, and in partnership with key provincial and municipal partners. These events include career exhibitions and Broadband Infraco advocates the participation of learners in the Science, Technology and Mathematics fields.

To support its brand building efforts within the ICT sector, the Company participated in the following events:

- Govtech 2016 is the premium ICT platform for thought leaders and their associated innovations in the ongoing quest to find practical and progressive solutions to a developing nation using ICT tools. The State Information Technology Agency (SITA) afforded the Company an opportunity to erect a full colour 2X2m exhibition stand. The exhibition area was used as a platform to display Company information, host

meetings with existing and potential customers and increase brand awareness levels. The cross-functional teams attending the event ensured that all queries are addressed and information about the Company was shared with interested parties.

- AfriCom 2016 was held at the Cape Town International Convention Centre (CTICC). AfriCom is the largest and most influential Africa-focused technology event in the world and is a meeting place for those driving Africa's digital transformation. The event was a week-long festival of thought-provoking content, immersive satellite events and unique networking experiences. The Company used the platform for engaging its existing internal customers as well as business development efforts. Participation at the event is considered to be part of building the brand equity and creating awareness of the Company to ICT stakeholders that matter. The Company continuously utilised the available meeting facilities at the conference to entrench the professionalism that it espouses.
- iWeek 2016: iWeek is South Africa's leading internet industry conference, held annually since 2001. This conference brings together all of South Africa's major Internet organisations for a series of presentations, panel discussions, workshops, training sessions and social events. Similar to the AfriCom conference, the Company engaged players in the sector and built brand equity through participation in the conference as speakers on various matters pertaining to the IP technology.

Economic Transformation

The Company developed an Enterprise and Supplier Development Strategy with the aim of empowerment and inclusion of the historically disadvantaged groups in the ICT industry. The Company improved the procurement spend from Black Owned Enterprises, especially the deployment of fibre optic cables.

The procurement spend on the following categories; Black Owned, Black Women Owned, Black Youth Owned, and People with Disabilities (PWDs) entities is indicated in figure 11 below. With these efforts, the Company was able to create 61 indirect jobs and achieved its ICT target spend on Black Women Owned entities.

The Company continues to uphold the highest standards to ensure compliance to the legislative requirements.

The focus for the year continued to be on sustaining efficiency in supply chain practices, compliance to legislative requirements and ensuring that targeted savings on all procurement transactions achieved.

These have yielded results that are indicated below:

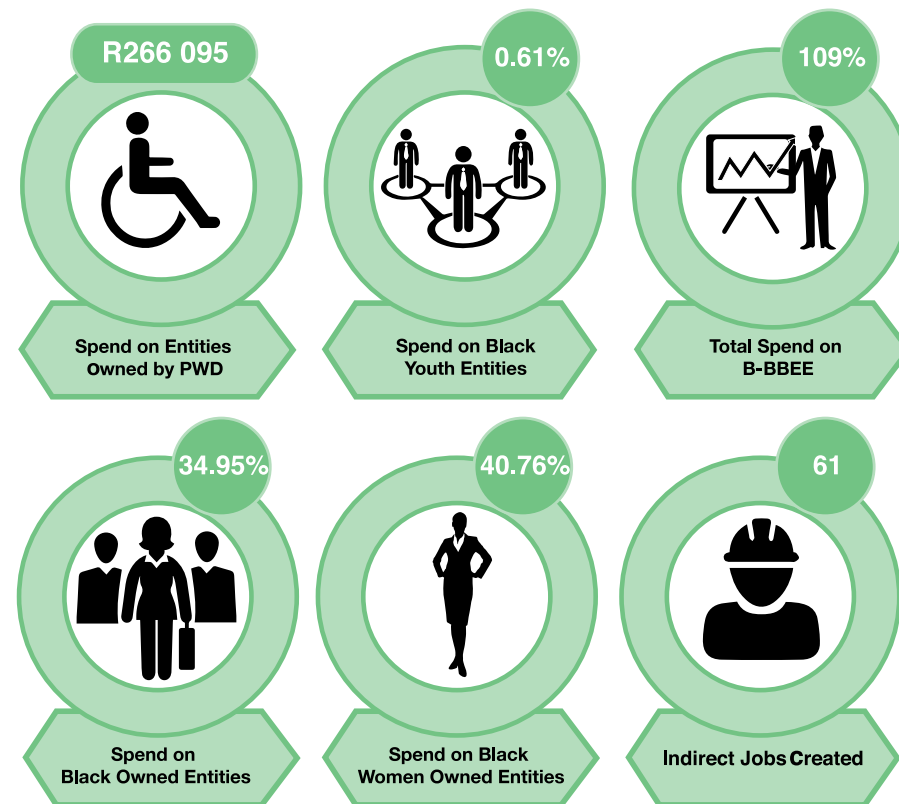


Figure 11: B-BBEE Procurement Results

B-BBEE Level

During the year under review, an independent and impartial accreditation process was completed. The objective of this exercise was to measure the Company against the Codes of Good Practice on Broad-Based Black Economic Empowerment. The outcome of this exercise is that the Company achieved a Level 2 B-BBEE rating, which is an improvement from the previous year's Level 3.

During the financial years 2013/14, 2014/15 and 2015/16 the Company's B-BBEE levels were 6, 4 and 3 respectively. This B-BBEE Level 2 achieved in 2016/17 will have a positive impact on the Company's future business endeavours and will also have

bearing on efforts to align with Government's initiatives on job creation and economic transformation.

The empowerment and B-BBEE growth trends since 2013 are illustrated in figure 12 and 13 below:

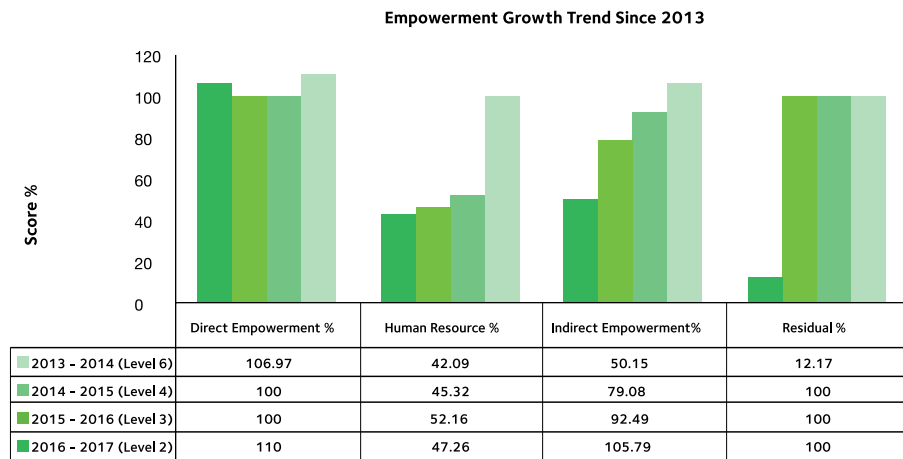


Figure 12: Empowerment Growth Trend

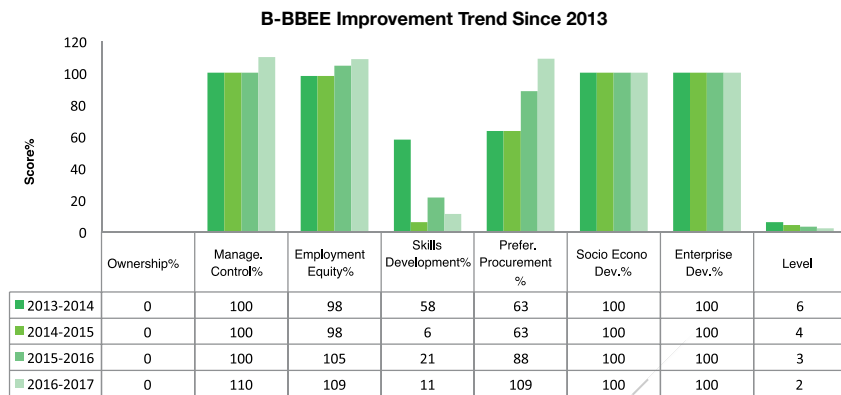


Figure 13: B-BBEE Improvement Trends

The focus going forward is to strive to achieve maximum spend on designated groups and Small Medium and Micro Enterprises (SMMEs) in line with the presidential pronouncement during the state of the nation address (SONA).

Employee Engagement

The importance of internal communications and events could not have been over-emphasised, particularly during the challenging time that the Company was undergoing. Management took the decided to introduce quarterly Town Talk sessions which kept employees up to date with all important information in the sector, the Shareholder arena and the Company itself. Topics of discussion included the possible rationalisation process, day-to-day HR issues and financial and internal operational matters. These sessions proved very informative and provided a two-way communication window that allowed for information sharing between management and employees. Regional employees were also included in these sessions by way of video and teleconferencing facilities.

In the absence of the financial resources to organise big employee events, the internal communication team organised small-scale internal events to enhance and celebrate events such as and Heritage Day in an effort to increase morale. The year also saw an increase in the use of the "suggestion box". Some of the suggestions received were instrumental in assisting the Company in making financial and operational changes that were highly beneficial in turning the Company around.

Corporate Social Investment

Broadband Infraco has previously adopted two schools, Seshigo High School (Limpopo) and Ezakheni Combined School (Mpumalanga) as part of its corporate social investment programme to focus on advocating the benefits of broadband utilisation and encouraging greater use of such capacity in learning and development. Our objective is to ensure that learners from disadvantaged backgrounds have an equal opportunity of being the best students they can be and promote quality leadership and teaching, adequate infrastructure, community involvement and proper academic support.

Broadband Infraco has, in collaboration with the Provincial Education Departments in the respective provinces, adopted and proudly sponsored Seshigo High School and Ezakheni Combined School since 2013/14. The Company has, however, had to terminate its sponsorship of the latter school due to its current financial standing.

Seshigo High School, established in 1961, is a no-fee, public secondary school situated in Moletjie Village (Koloti District) in Polokwane with an average of 1 200 learners from

previously disadvantaged backgrounds and child-headed households. Broadband Infraco has worked towards and sustained a mutually beneficial relationship with Seshigo High School (Limpopo) since September 2013, with the continued intention to positively support and leverage the use of ICT in teaching, learning and development.

Following on the recent donation of 60 tablets, this year brought about installation of e-curriculum on digital learning platforms as stipulated in the Annual Performance Plan. Two different content applications have been installed on the tablets and the school server, being the 2Enable application (app) and the Sangari IBox content for tablet usage.

Both apps boast the following:

- Digital lesson plans
- Videos
- Worksheets
- Reference material
- Informal assessments
- Analytics
- Administration

The Sangari content is an extension of the interactive whiteboards that were previously delivered to the school. Both these applications cover content on all eight subjects offered under the Curriculum and Assessment Policy Statement (CAPS) curriculum. Broadband Infraco furthermore continues to cater for the school's internet connectivity requirements.

Nelson Mandela Day

Employee engagement has taken on greater significance than ever before. Employee volunteerism allows employees to make a noticeable and measurable impact that the Company can then communicate to stakeholders and the communities it serves. It enables employees to feel connected to a Company-wide mission, resulting in a stronger sense of unity and endearing them to the Company and its stated goals and objectives.

Broadband Infraco, like other corporates, recognises and is acting upon the importance of engaging its employees, as this has a profound impact on workplace morale, employee retention and the Company's productivity and profitability. The Company launched its first ever "Employee Volunteerism" project during Nelson Mandela Month.

This is a campaign driven across the country by the Nelson Mandela Foundation in which numerous companies and individuals participate with the idea of volunteers giving 67 minutes of their time to a community or a cause of their own.

As part of this momentous campaign, Broadband Infraco visited the Alex Hospice, situated in Alexandra (Johannesburg) with 40 employees in attendance from Exco level to operational staff. The programme for the day included cleaning of the patients' rooms, bathrooms, kitchen and admin block, preparation of preparing a meal for the patients and staff and taking care of the patients' emotional wellbeing. The team also rallied together to donate non-perishable food, adult nappies, second-hand clothing and a commercial stove, which were delivered on the day of the event. The day was one of great cheer and giving from both employees, patients and staff at the Alex Hospice.

The Employee Volunteerism projects seeks to have employees volunteer in various programmes on a semester basis. This will go a long way in boosting staff morale, while simultaneously helping to contribute towards the Company's B-BBEE status. The Company will continue to explore different ways in which staff members can participate in activities that build morale and contribute towards social development.

Going forward, the Company seeks to introduce the following as a token of giving from its employees:

Donation of Goods

These will be collected and quality checked before distribution to various Broadband Infraco supported initiatives. Items such as new and used clothing, furniture, education material and appliances can be accepted and distributed.

Payroll Giving

Payroll giving offers employees a simple way to make a monthly donation, directly from their salaries to a pre-selected list of charities. The idea is to ensure the following objectives:

- To provide a vehicle for staff members to donate directly from their salaries to one or more identified charitable causes;
- To introduce one more way to encourage staff members to participate in social investment initiatives;
- To raise funds for non-profit organisations associated with the Company; and
- To raise awareness of the plight of these organisations.

Company Reputation

The reputation of a business is essential to its growth, sustainability and survival. The past year has seen an overall positive growth in Broadband Infraco's reputation with its stakeholders primarily in the media, regulatory and public arena. The Company is working continuously to improve its reputation where it is considered an influential and thought leadership contributor in the sector at large. This is evident in the recent spike of requests for opinion from media houses (journalists) and participation of our leadership in discussions in domestic and regional panels in various conferences on current and future industry developments.

This turnaround can partly be attributed to the implementation of the second phase of the Company's Build, Grow and Expand strategy, which has led to increased innovation and a "back to basics" outlook when dealing with its stakeholders.

On the backdrop of the Company having undergone positive transformation from a technical, revenue, governance and employee culture perspective, Broadband Infraco has further undertaken to distinguish itself from other players in the market by providing competitive pricing and good quality service to its customers. In keeping with the Company's line of business, technology was used to create platforms for improved escalation/interaction processes that put its customers first. This has led to numerous compliments from customers and stakeholders alike and improved referrals, creating possibilities for new business and up-selling/cross-selling opportunities.

HUMAN CAPITAL

"Broadband Infraco will be a highly productive organisation that maximises opportunities and strength for employees and management through effective human resource management systems and organisational culture."

Notwithstanding the overall challenges that the organisation had to overcome to achieve its set objectives from one financial year to another, the continuous enhancement of the human resources capacity and effective human capital management strategies have been the main focus for the Human Resources (HR) division. The division consistently enables the organisation to build and maintain the required capacity to implement its mandate and live up to the expectations of the Shareholders and customer base; this amidst the impediments associated with the financial constraints it faces.

Human Resource (HR) Strategic Undertaking

To benchmark processes at a global level, the division's roadmap has been premised on the model with three themes, namely,

- i) Unlocking employee performance;
- ii) Driving leadership effectiveness; and
- iii) Transforming the HR function.

The mid-long term strategic undertaking linked to this model is as follows:

"Broadband Infraco HR will attract, retain, develop, deploy and appropriately reward people with the right skills, experience, commitment and energy who will proactively and enthusiastically implement its strategy. It shall facilitate the achievement of required performance levels through a comprehensive performance management framework and effective talent management strategies."



Employment

Broadband Infracore had a staff complement of 152 (including 17 interns) as at the end of March 2017. The table below shows the demographic profile per job level and in terms of equity and gender. The overall gender split is 37% females and 63% males.

EMPLOYMENT EQUITY DEMOGRAPHICS (inclusive of interns)													
Job levels	Male				Female				Foreign nationals		Sub-totals		Total
	A	C	I	W	A	C	I	W	M	F	M	F	
Executives	1	0	1	1	2	0	0	0	1	0	4	2	6
	17%	0%	17%	17%	33%	0%	0%	0%	17%	0%	67%	33%	100%
Senior Management	5	0	0	2	4	0	1	1	1	0	8	6	14
	36%	0%	0%	14%	29%	0%	7%	7%	7%	0%	57%	43%	100%
Professional Specialist and Middle Management	20	1	2	3	14	0	0	1	0	0	26	15	41
	49%	2%	5%	7%	34%	0%	0%	2%	0%	0%	63%	37%	100%
Supervisory and Junior Management	14	0	0	1	2	0	0	0	0	0	15	2	17
	82%	0%	0%	6%	12%	0%	0%	0%	0%	0%	88%	12%	100%
Operational	24	0	1	2	20	0	0	1	1	0	28	21	49
	49%	0%	2%	4%	41%	0%	0%	2%	2%	0%	57%	43%	100%
Support	2	0	0	0	5	0	0	1	0	0	2	6	8
	25%	0%	0%	0%	63%	0%	0%	13%	0%	0%	25%	75%	100%
Total permanent and fixed term contracts (excl interns)	66	1	4	9	47	0	1	4	3	0	83	52	135
	49%	1%	3%	7%	35%	0%	1%	3%	2%	0%	61%	39%	100%
Interns	12	1	0	0	4	0	0	0	0	0	13	4	17
Total permanent	78	2	4	9	51	0	1	4	3	0	96	56	152
Temporary workers	0	0	0	0	0	0	0	0	0	0	0	0	0
GRAND TOTAL	78	2	4	9	51	0	1	4	3	0	96	56	152

Table 10: Employment Equity Demographics

Talent Sourcing

The Company continued the headcount freeze strategy to contain costs and this led to minimal activity in terms of talent sourcing. Eight crucial positions were filled externally and 11 internally in the Technical, Sales, HR and Finance environments.

Labour Turnover

A total of 23 terminations were processed during the financial year and of those, there were 21 voluntary, one involuntary separation and one expiry of contract.

The reasons provided for the resignations were, amongst others, opportunities for promotion, career change and better salaries and benefits.

- HR sub-committees established to have employee representation in legislated and consultative matters of employer and Employee were re-empowered with skills for increased value-add in managerial decisions.

Employee Remuneration and Benefits Management

The 2016/17 financial year marked the end of the multi-year agreement with organised labour on substantive matters. The new shift pattern and working conditions within the Network Operating Centre environment was implemented in October 2016 as part of the review of conditions in the multi-year agreement. The retention incentive was approved by the Human Resources and Remuneration Committee (HRRC) and paid out in December 2016 and March 2017 (excluding Executives and Senior Managers), as part of the retention strategy for the employees who achieved their set targets.

Human Resource Information System (HRIS)

The Employee Self Service (ESS) through the VIP HR and payroll system for submission of monthly claims was launched during the period under review for a large part of the business. The intervention has improved HR's effectiveness in terms of administration of manual claims with the intention to reduce possible duplication of entries.

Human Resources Development

The Company fully subscribes to the notion that a skilled workforce is a prerequisite for building a sustainable and competitive organisation. As such, during the 2016/17 financial year, Broadband Infracore continued to train and develop its employees despite its financial constraints. The Human Resources division managed to execute part of the training plan with some of the development interventions being partly sponsored. Employees had opportunities for development on the job through job rotation, acting opportunities and secondments.

One of the distinguished opportunities that the Company and its employees appreciated was having the opportunity to send four employees, three of whom were females, to China to attend a 21-day seminar. This was sponsored by China Telecom through the DTPS.

TOTAL SEPARATIONS

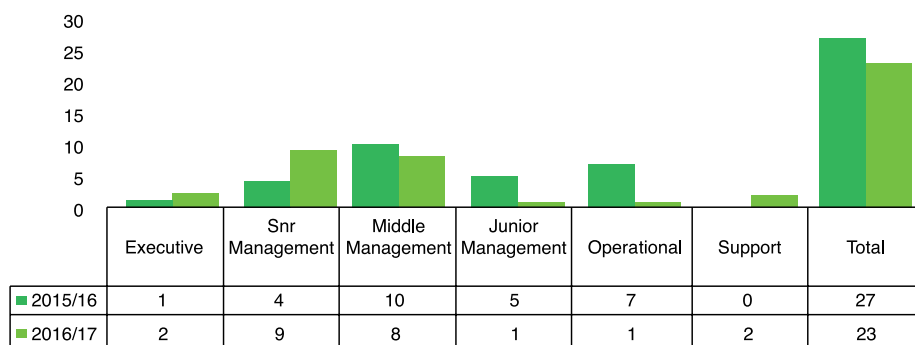


Figure 14: HR Separations

- There was intensified efforts to prevent negative effects from loss of senior management staff and engineers whose separations were through natural attrition.
- The optimisation of available capacity and capability was driven through initiatives to rebuild the skills base from within and at entry level. This involved internal appointments at the developmental phase where potential was identified and filling of gaps with an increased intake of interns in the technical areas.
- To minimise the impact of increased staff turnover, the vacancies that arose were turned into opportunity for organisational renewal to achieve set goals. Unoccupied jobs were redesigned for enrichment to maintain overall performance through increased job satisfaction and employee morale.
- HR embarked on a review of human capital management policies and procedures to align management practices. Priority was on those practices that are informed by the latest labour legislative framework amendments.

Figure 14 below illustrates that 85 employees were trained in the year under review.

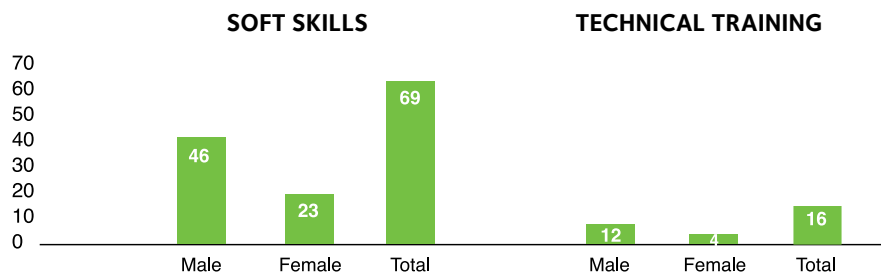


Figure 15: Skills Training

One of the six employees who were awarded financial assistance to further their studies, graduated with an Honours degree.

Performance Management

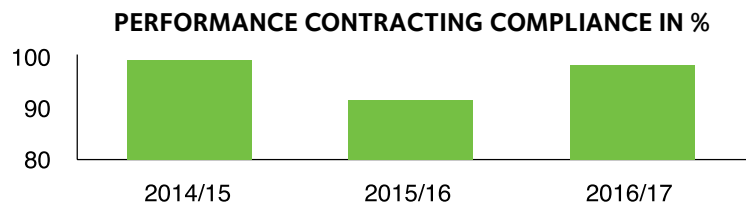


Figure 16: Performance Contracting Management

The above figure 16 is illustrative of the Company's unwavering pursuit to inculcate a performance driven culture. There has been a significant improvement in compliance compared to the previous financial year. During the 2015/16 financial year, the compliance rate was 90% and in 2016/17 it increased to 98%.

Internship Programme

During the year under review, the Company employed 17 learners on an internship and work integrated learning programme which is still in progress. Of these, 15 are funded by the Media, Information and Communication Technologies Sector Education and Training

Authority (MICT SETA) and are mostly placed in the technical environment. This initiative is seen as a possible feeder base, particularly for the technical environment where there has been as a massive exodus of critical skills in the past two financial years.

Organisational Development

The Company has had to employ a number of different initiatives in order to deal with the lack of and/or excess capacity amidst cost containment. These have taken place through organisational development (OD) processes such as job rotation to other departments/divisions, redeployment to suitable positions in areas that were under resourced, acting in higher positions that involved seven employees at various levels and increased intern intake.

Safety and Health

Broadband Infracore is serious about the implementation and maintenance of Safety and Health of employees and contractors. The organisation ensures compliance and conformance to the Occupational Health and Safety Act No. 85 of 1993 and other requirements applicable to the business. This resulted in the lost time injury frequency rate (LTIFR) remaining steady at 0.30, which is within the limit of 0.6 that should be operating under. The lost time injury frequency rate is calculated from the number of lost time injuries within a given accounting period, relative to the total number of hours worked in the same accounting period. This is shown in the graph below.

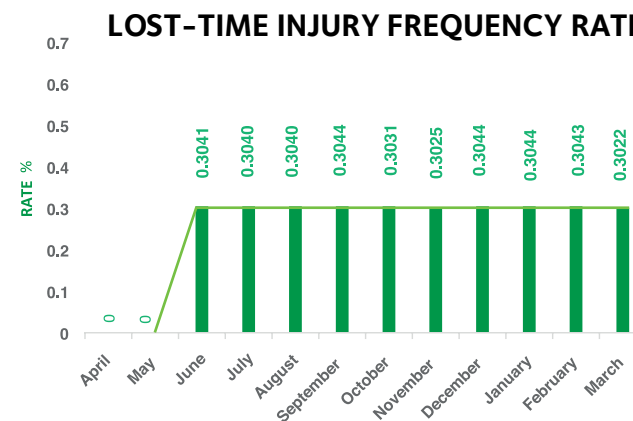


Figure 15: Lost-time injury frequency rate (LTIFR)

NATURAL CAPITAL

Broadband Infraco will minimise the impact on the environment where fibre needs to be rolled out

The Company ensures compliance and conformance to the National Environmental Act No. 47 of 1980, local and provincial regulations and the ISO14001: 2008 standard.

ISO 14001: 2008 is an international standard. It sets the direction for the way the organisation plans to manage its environmental impacts and aspects and is explained as follows.

The following elements of the standards have been incorporated in our Environmental Management System:

- Health and Safety Policy
- Planning
- Implementation and Operation
- Checking
- Management Review

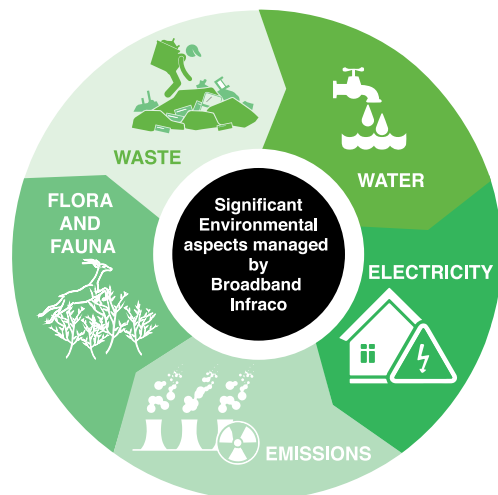


Figure 18: Environmental Management System

FINANCIAL CAPITAL

Broadband Infraco will strive to be financially sustainable through revenue growth and prudent costs management

This has been a year of consolidation of both revenue and cost contracts and further optimisation of operational costs to normalise the operations of the Company.

A direct result of this consolidation process was the re-negotiation of a master service agreement (MSA) with a major customer that was due to terminate at the end of 2016, which resulted in an extension for a further three years. The impact was lower revenues in the first year of the new contract (15%) as a result of fewer services being provisioned in the new contract. This is offset by annuity revenue for an extended period. These negotiations also included a 14% reduction in costs for services procured from this customer.

Financial Results

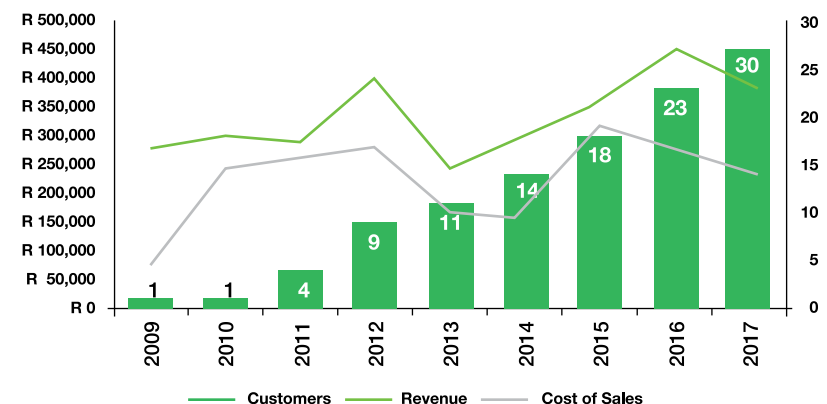


Figure 19: Financial Trend Analysis

Revenue

Although the Company increased its number of customers from 23 to 30 in the current year, revenue decreased by 12% from the previous financial year. This is mainly due to the

consolidation process discussed above, the upgrades expected from a major customer that did not materialise and the continued delays experienced between sales to the billing cycle.

This was also affected by a sales strategy that did not fully support the overall Company strategy during the first half of the year. The sales reporting lines were changed in the second quarter of the financial year. New sales operations processes were implemented in quarter three which resulted in some traction of new sales in quarters three and four.

Management remains positive that more new sales will continue to be achieved in the next financial year.

Cost of Sales

Cost of sales for the year is 14% (R37 million) lower than the previous financial year. This is partly as a result of the consolidation process discussed under the core operations section and the continued efforts by management to reduce the contracted maintenance-fibre lease and co-location costs. The migration of services to the Company's own network further reduced the cost of sales.

Management is optimistic that a further 11% reduction in cost of sales will be realised during the next financial year.

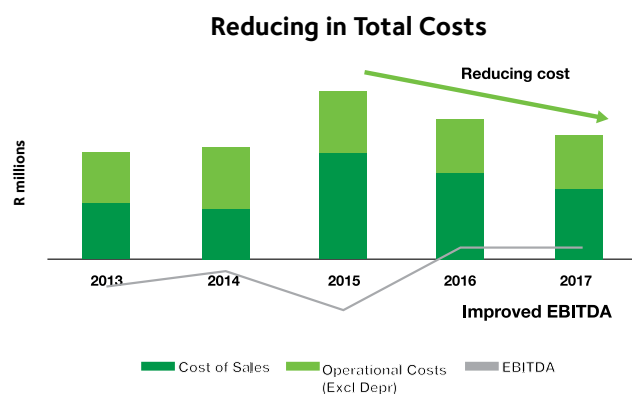


Figure 19: Reduction in Total Costs

Operational Costs

Operational expenses for the year (excluding depreciation) are 14% (R22 million) lower than the operating expenses at the end of the previous financial year.

Management continues to drive the optimisation of various costs within the Company and the cost containment measures assisted in achieving a positive Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) and ensuring the long-term sustainability of the Company.

Capex

During the year under review, the Company finalised the major capital projects initiated in 2015 for the provisioning and implementation of services to strategic customers. The total capital spend for the year under review was R70 million. A total of 420 km new fibre was added and 18 POPs optimised.

Cash Flow

The Company continued to remain cash positive throughout the 2016/17 financial year, albeit off the back of depleting cash resources. Although there is a net outflow of cash resources from operations realised during the financial year, the EBITDA remained positive for a second consecutive year.

The Executives and Senior Management are working relentlessly to drive sales growth. There is a clear shift in momentum based on the new business sold during the last two quarters of 2016/17. This drive will ensure the sustainability of the Company and is depicted in its cash flow forecast.

Future Outlook and Sustainability

Rating agencies' down grade of South Africa's rating will have a negative impact on perceptions that the standards of governance and public finances would weaken and is likely to result in a change of economic policy direction. An immediate direct consequence of this is that the ability of the Company to raise capital to fund capital expansion, has been impeded. There is, however, a positive indication that this too will be overcome and the Company will secure sufficient funding to support the planned future capital rollout.

Key to the successful delivery of Broadband Infraco's Corporate Plan is the delivery on the revenue targets. The renewed focus on driving sales and the change in sales strategy is evident in the increased sales during the last six months of the financial year. This will

remain the key differentiator in ensuring the sustainability of the Company.

The healthy cost containment measures and culture that have now been embedded in the organisation will contribute further to ensure the sustainability and liquidity of the Company.

Given this perspective, it is expected that the financial position of Broadband Infraco will continue to improve in the short-term as the Company moves closer to becoming profitable. The five-year plan will create a foundation from where Broadband Infraco will create sustainability and profitability to ensure the Company continues to deliver on its mandate by expanding the availability and affordability of access to electronic communications to underdeveloped and underserved areas.

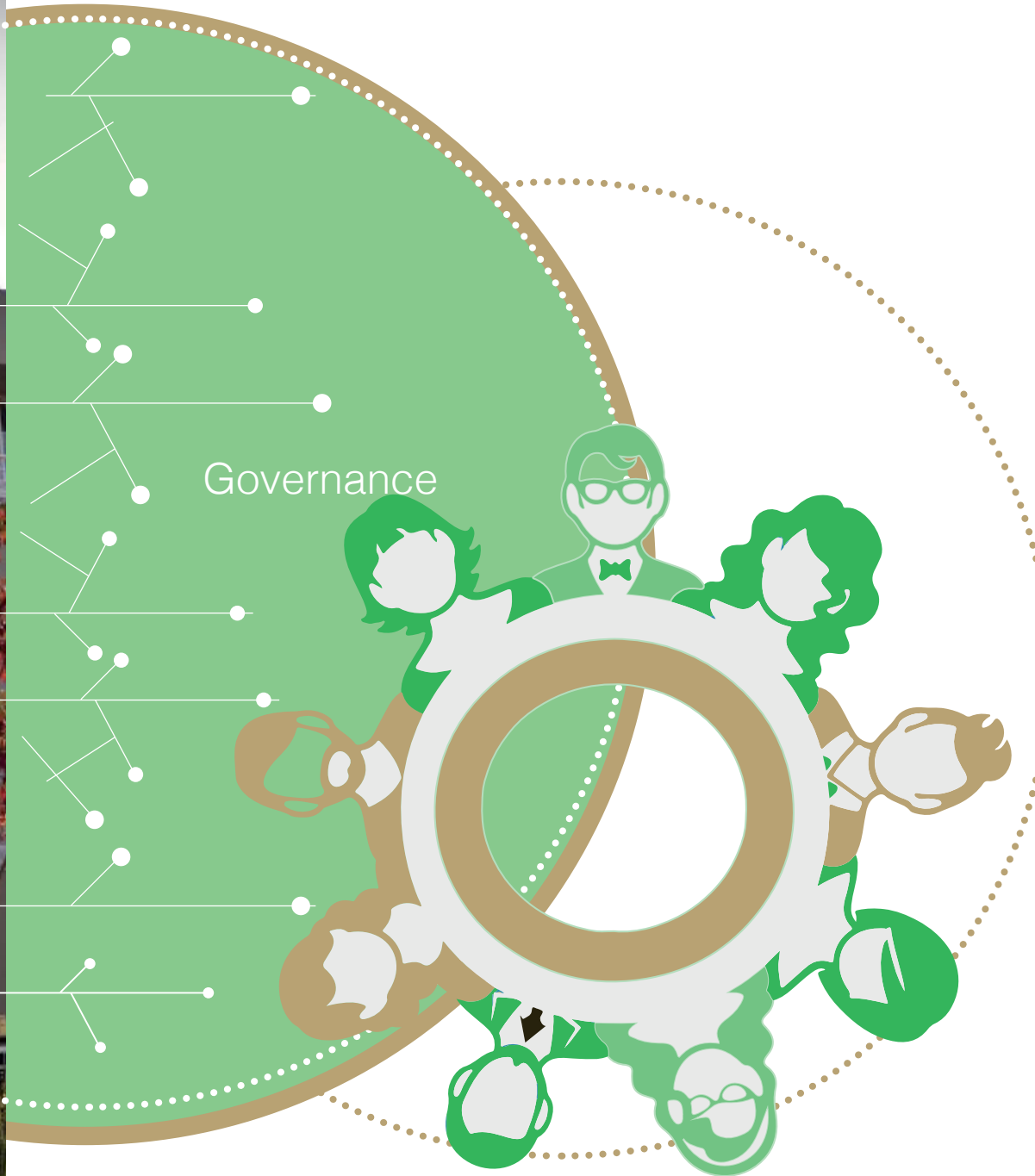
Funding

Broadband Infraco continues to follow a funding strategy that is designed to cater for a transitioning business model that will enable sustainability. The Company's business model has transitioned from a single customer to one based on multiple customers, ranging from the private to the public sector. The Company's planned capital investment programme is supportive of long-term financial sustainability, with four key priorities:

- Revenue protection projects
- Revenue generating projects
- Mandate and license obligations projects
- Essential asset upgrades and refurbishment projects

The funding strategy is to source funds from various financial institutions, selective vendor financing alternatives and other providers of medium-term debt financing. The financial institutions are targeted as a source of short-term cash and liquidity provisioning facilities and to support the Company with long-term debt capital. The medium-term funders will also be expected to support the Company with long-term debt capital whereas vendors will be sought to support medium-and long-term balancing of operational costs with revenue through the financing of technology enhancements.





Company Governance

“Broadband Infraco promotes good governance through ensuring compliance to all legislative requirements and effective internal control systems and risk management.”

During the period under review, Broadband Infraco continued to evolve its governance structures and practices to ensure that it achieves its vision to deliver to its customers effectively, efficiently and transparently. The Company established new operational committees accountable to the Executive Committee to enhance its compliance and strategic deliverables, which are aligned to international best governance practices.



The figure below depicts the Governance Framework, which regulates the Company's relationship with the Shareholders and guides the manner in which Broadband Infraco conducts business. The framework clearly distinctly that there are clear roles and responsibilities and policies that are in place:

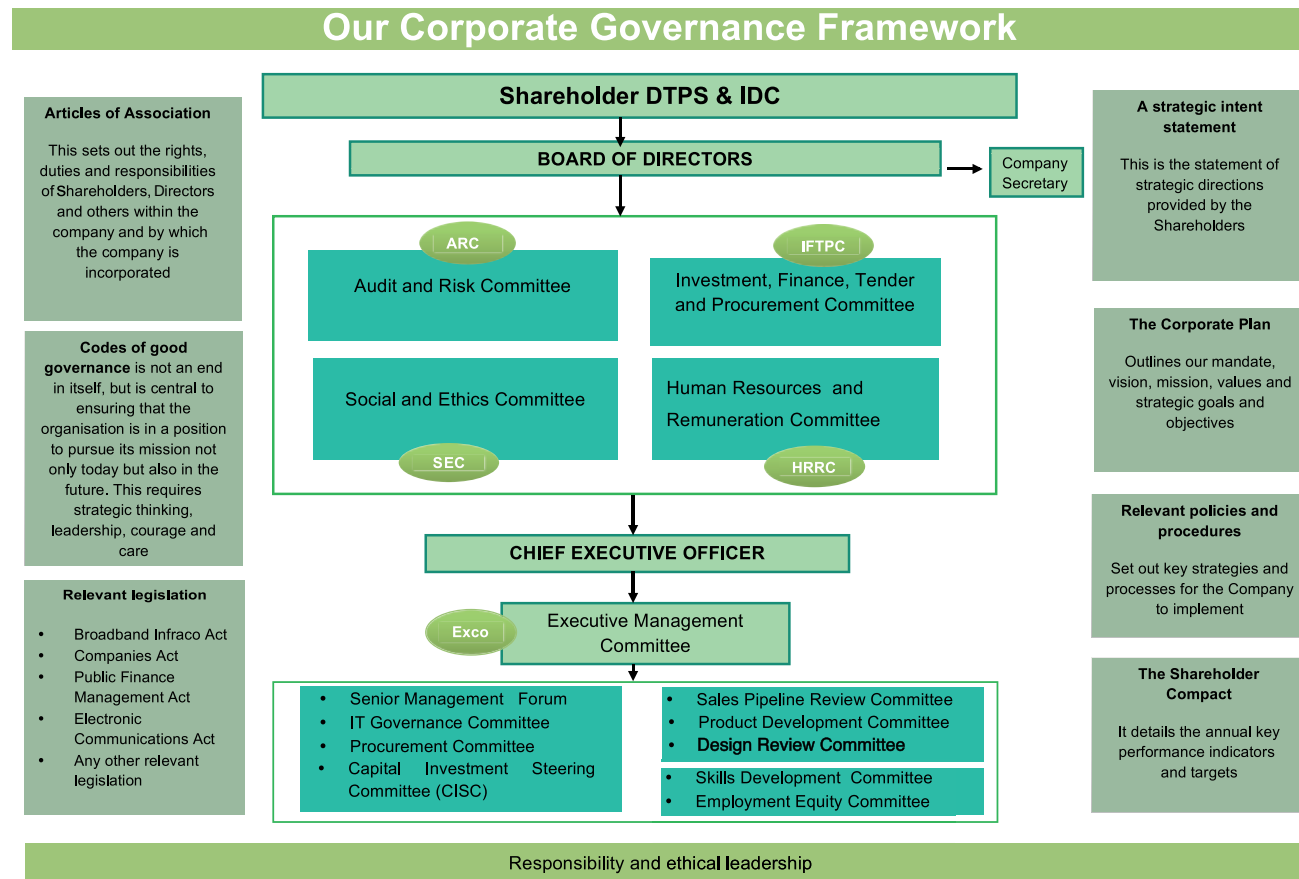


Figure 21: Corporate Governance Framework

Broadband Infraco has an approved Delegation of Authority Policy in place and it is implemented daily at an operational level in the execution of duties and responsibilities.

The Board of Directors alone cannot perform all the tasks assigned to it. In order to meet the targets, the Board delegates authority to the CEO and Executives.

The significance and materiality framework sets out the requirements for those matters needing approval in terms of the PFMA. Read together with the Delegation of Authority Framework; it informs the referral of matters from Executive level to Committees of the Board, the Board of Directors and where applicable, to DTPS, IDC and National Treasury.

Ethical Leadership

Broadband Infraco is committed to good corporate governance, which is the overarching framework of its operations. During the 2016/17 period, the Company continued to work to ensure that its policies and practices promoted good governance and ethics in all areas of the business. This assists in ensuring that the Company delivers on its strategy and address its material issues.

Governance of the Company and the responsibility for ensuring good corporate citizenship rests with the Board, which is assisted by the Board Committees and the Company Secretary. The Board, through its Committees, provides strategic direction and the Chief Executive, supported by the Executive Management Committees (Exco) and its sub-committees is accountable to the Board for execution of the strategy.

Compliance with Laws, Codes, Rules And Standards

The Board of Directors has a duty to ensure that the Company complies with all applicable rules, laws, codes and standards, including the provisions of the Companies Act, the PFMA, the Memorandum of Incorporation (Mol) and the King III Report on Governance (King III). These codes and standards should not be read in isolation, but should be interpreted in the context of the whole compliance universe applicable to the Company. Where required, the Board of Directors needs to determine legislative priorities, for instance, the Company is subject to the PFMA, and in instances of conflicts in legislation, the PFMA prevails.

The Company has, to the best of its ability, complied in all material respects, with all legislation and regulations applicable to it during the period under review. Compliance reviews have been conducted without limitation in respect of, among others, the Companies Act, No. 71 of 2008 (as amended), the Income Tax Act, No. 58 of 1962 (as amended), the Public Finance Management Act No. 1 of 1999 (as amended) and Treasury Regulations.

King III/IV application

The Board recognises the need to conduct the business in accordance with the principles of the King Code of Corporate Practices and Conduct (King III). These principles include discipline, independence, responsibility, fairness, social responsibility, transparency and the accountability of Directors to all stakeholders. Many of these principles are entrenched in the Company's internal controls, policies and procedures governing corporate conduct. The Board is satisfied that every effort has been made during the reporting period to

comply in all material aspects with King III.

During the period under review, the Company continued to focus on the application of and adherence to the King III principles, and also commenced preparations for adopting the King IV Code. The Company is satisfied that it substantially applied the King III principles during the period under review.

Principles	Applied/Not applied
Principle 1: Ethical leadership and corporate citizenship	Applied
Principle 2: Board and Directors	Applied
Principle 3: Audit Committees	Applied
Principle 4: The governance of risk	Applied
Principle 5: The governance of information technology	Applied
Principle 6: Compliance with laws, rules, codes and standards	Applied
Principle 7: Internal audit	Applied
Principle 8: Governing stakeholder relationships	Applied
Principle 9: Integrated reporting and disclosure	Applied

Table 11: King III Governance Register

Composition of the Board of Directors

The Memorandum of Incorporation and the Articles of Association indicate that the Board shall consist of eight Directors, of whom six including the Chairman should be independent Non-executive Directors, and two should be Executive Directors. The Executive Directors are the Chief Executive Officer and Chief Financial Officer.

Non-executive Directors are appointed to the Board by the Shareholders, approved by Parliament, for a period of three years, renewable annually at the Annual General Meeting (AGM).

By definition, a Non-Executive Director is a Director who is not involved in the daily management and operations of a Company, but simply attends and provides objective judgment and votes at Board meetings.

There were no changes to the Board for the period under review.

The Board is satisfied that the balance of power and objectivity on the Board is sufficient.



BMC Ngcobo

Date of Appointment: 23 March 2016

Black Male

Qualifications:

LLB (Natal), LL.M in Company Law (WITS), Business Management Programme (UCT), Admitted Attorney
Chairperson of the Board

Expertise:

Legal, Telecommunications and Business Management



A Githiari

Date of Appointment: 23 March 2016

Black Male

Qualifications:

PhD (Electrical Engineering) Cambridge University, BSc (Electrical Engineering), (Univ. of Nairobi)
Member: IFTP, Audit and Risk Committee

Expertise:

Telecommunications



M Maponya

Date of Appointment: 23 March 2016

Black Female

Qualifications:

B.Com (Accounting) (WITS), B.Com (Honours) (Natal), CA (SA),
Chairperson: Audit and Risk Committee

Expertise:

Auditing and Corporate Finance



S Mabalayo

Date of Appointment: 23 March 2016

Black Male

Qualifications:

B.Com (Economics)
Management Advancement Programme (MAP)

Expertise:

Project Management and General Management



N Selamolela

Date of Appointment: 23 March 2016

Black Female

Qualifications:

B.Com (Accounting) (North West University), B.Com (Honours) (UKZN),
Chairperson: Investment, Finance, Tender and Procurement Committee (IFTP)
Member: Audit and Risk Committee

Expertise:

Telecommunications, Finance and General Management



M Mosweu

Date of Appointment: 23 March 2016

Black Female

Qualifications:

B.Compt (Hons) (UNISA), CA (SA), MBL
Chairperson: Social and Ethics Committee
Member: HRRC-AND

Expertise:

Project and Corporate Finance



P Kwele
Chief Executive Officer

Date of Appointment: 20 June 2012

Black Female

Qualifications:

BSc Honours (WITS), Postgraduate Diploma in Management (WITS), Certificate in Financial, Management (UJ)
MTN Executive Development Programme (GIBS), CM (SA)

Expertise:

Telecommunications and Business Management, Strategy Development and Execution



I I van Niekerk
Chief Financial Officer

Date of Appointment: 15 September 2015

White Male

Qualifications:

B.Compt (Hons) (UNISA), CA (SA), CIBM (UNISA), Certificate in Short Term Reserving Techniques (UP)

Expertise:

Telecommunications, Financial Management, Commercial Management, Strategy

Broadband Infraco's Board of Directors' profiles are listed on page 53.

Diversity and Composition of the Board

The Company acknowledges that diversity gives the Board the benefit of different perspectives and ideas. The Company has a unitary Board, consisting of Executive and Non-executive Directors who represent a broad spectrum of demographic attributes and characteristics. To promote objectivity and reduce the possibility of conflict of interest, the majority of Directors are independent Non-executive Directors. The competence and views of individual Directors, as well as their interaction during Board meetings, allows strategic oversight. Since gender is one of attributes that contribute to a balanced composition of the Board, the Board is focused on improving the representation of women and introducing new skill sets to achieve the Board's objectives.

The Board has delegated its authority to various Board Committees with the mandate to deal with governance issues and report on their activities on a quarterly basis. Each committee operates under terms of reference that set out roles and responsibilities, composition and scope of authority. These are reviewed on an annual basis.

During the year under review, each committee had a number of key duties and responsibilities and the Board is satisfied that the committees effectively discharged their responsibilities in accordance with their respective terms of reference.

Director Development

In order to ensure that all Directors on both the Board and sub-committees of the Company are adequately equipped with the latest information and knowledge relating to the Company's business and to continuously support them in their role as Directors, Members belong to the Institute of Directors (IoD) and identify relevant training programmes that they wish to attend which is arranged via the Office of the Company Secretary. In the next financial year, the Company plans to continue with the training and further entrench the culture of director development.

Approach to Remuneration

Directors' Fees

At Broadband Infraco, the Directors are paid on a retainer basis and this is aligned with the Department of Public Enterprise (DPE) Remuneration and Incentive Standards for State Owned Companies (SOC) Executive Directors, Prescribed Officers and Non-executive Directors (the Remuneration Standards), that was approved by Cabinet. These Remuneration Standards were adopted by the DTPS. The Board's Human Resources and

Remuneration Committee (HRRC) has developed remuneration policies and practices that are aligned with the DPE Remuneration Standards that achieve the best value for the Shareholders and all stakeholders.

The new Shareholder's Compact between the Board of Directors and the Shareholders for 2017/18 captures the above principle and ensures that the Executive Remuneration and Incentive of the Board is aligned with the newly approved DPE Remuneration and Incentive Standards for SOCs, as prescribed by the Department of Public Enterprises.

Executive Remuneration

The Executive Management have fixed term contracts. None of the Executives have special termination of employment contract benefits. No restraints of trade are in place.

The remuneration of Executives is approved by the Board.

All Employees

The approach to remuneration is designed to attract and retain skilled, professional executives and employees. Employees are remunerated in accordance with their job grade and at least at the minimum of the applicable salary scale and not above the 90th percentile. The Company guarantees internal equity through defensible differentials in pay and resolves unjustifiable race- and gender-based income differentials, if they arise.

All employees are remunerated on a Cost-to-Company basis. The package includes pensionable earnings, medical aid, risk benefit and cash allowance. Local benchmarks and market factors are considered in determining the remuneration structures.

Board Committees

In line with the requirements of the Companies Act, the Board of Directors established the Audit and Risk Committee, the Human Resource and Remuneration Committee, the Investment, Finance, Tender and Procurement Committee and Social and Ethics Committee. The Audit and Risk Committee's constitution, functioning and reporting, complies with the PFMA requirements.

During the year under review, each committee had a number of key duties and responsibilities and the Board is satisfied that the committees effectively discharged their responsibilities in accordance with their respective terms of reference.

Company Secretary

The Company Secretary is responsible to ensure the proper administration of the Board and its committees. Directors engage with the Company Secretary regularly for

governance and regulatory advice as well as preparing the annual meeting schedules in consultation with the Board Chairman and Chairpersons of the various committees. The Board has unrestricted access to the Company Secretary.

The performance of the Company Secretary, as well as his relationship with the Board, is assessed on an annual basis by the Chairman of the Board as well as the Chief Executive Officer. The assessment considers his competency, qualifications and experience and whether he maintains an arm's length relationship with the Board and Management.

For the reporting period, the Board is satisfied that the incumbent is suitably qualified and his relationship with the Board is adequate to ensure his independence from Director influence or conflict of interest.

Board and Committee Meetings

Meetings of the Board and its committees are scheduled in advance. Special meetings are convened as and when required to consider specific material issues.

Board and Committee Attendance

Names of members	Total Attendance	Audit and Risk Committee	Human Resource and Remuneration Committee	Investment, Finance, Tender and Procurement Committee
BMC Ngcobo*	7/7	-	4/4	-
MM Maponya*	5/7	4/4	-	-
ST Mabalayo*	6/7	4/4	4/4	2/2
N Selamolela*	7/7	2/4	-	2/2
A Githiari	5/7	3/4	-	2/2
M Mosweu	5/7	-	3/4	0/2
P Kwele**	7/7	4/4	4/4	2/2
I I van Niekerk**	7/7	4/4	-	2/2
M Mopeli**	-	-	4/4	-
M Mojapelo **	-	4/4	-	-
* Chairperson	BMC Ngcobo	MM Maponya	ST Mabalayo	N Selamolela
** Executives				

Table 12: Board and Committee Meeting Attendance

Key Decisions

Board of Directors

Audit and Risk Committee

The Members of the Audit and Risk Committee Comprise of Ms M Maponya (Chairperson), Ms N Selamolela, Mr S Mabalayo and Dr A Githiari.

During the 2016/17 financial year, the Audit and Risk Committee:

- Reviewed the effectiveness of internal control systems by approving the Internal Audit Plan, Internal Audit Charter and reviewing quarterly internal audit reports submitted.
- Considered the risk areas of the operations covered in the scope of internal and external audits.
- Considered accounting and auditing concerns identified as a result of internal and external audits.
- Assessed the adequacy, reliability and accuracy of financial information provided by management.
- Assessed compliance with applicable legal and regulatory requirements.
- Reviewed the effectiveness of the Internal Audit function (IAF) and compliance and risk departments, by assessing of the quality of the reports submitted to the Audit and Risk Committee.
- Reviewed the financial statements and reporting for proper and complete disclosure of timely, reliable and consistent information and confirmed that accounting policies used are appropriate.
- Reviewed the cash flow forecast on a quarterly basis and assessed the liquidity of the Company.
- Reviewed the expertise, resources and experience of the Company's finance function.
- Reviewed the quarterly progress and update on litigations.
- Provided a channel of communication between the Board and management, the risk division, internal auditors, external auditors and the compliance officer.
- Received regular reporting from each of the above functions and monitored timely resolutions of issues or concerns raised by management.
- Liaised with the Board committees and met as required with the regulators and separately with internal and external auditors.

- Ensured that the combined assurance model was applied to provide a co-ordinated approach to all assurance activities.
- Ensured that the combined assurance received was appropriate to address all significant risks faced by the Company.

Human Resource and Remuneration Committee

The members of the Human Resources and Remuneration Committee comprise of Mr S Mabalayo (Chairperson), Mr M Ngcobo and Ms M Mosweu.

During the 2016/17 financial year, the Human Resources and Remuneration Committee:

- Reviewed their terms of reference.
- Approved the Broadband Infraco organogram.
- Approved CEO Office Structure and Acting Chief Marketing and Sales Officer (CMSO) Sales Structure.
- Approved the 2016/17 Employee Retention Incentive.
- Reviewed and approved the following policies:
 - HR Talent Sourcing Policy;
 - Remuneration and Reward Policy;
 - Employee Study Assistance Policy;
 - Leave Policy;
 - Job Evaluation Policy; and
 - HRD Policy.
- Conducted executive recruitment searches.
- Considered the status of capacity within Company.
- Noted the quarterly HR status reports.
- Approved the 2016/17 Employee Performance Incentive.

Investment, Finance, Tender and Procurement Committee

The members of the Investment, Finance, Tender and Procurement committee comprise of Ms N Selamolela (Chairperson), Mr S Mabalayo, Ms M Mosweu and Dr A Githiari.

During the 2016/17 financial year, the Investment, Finance, Tender and Procurement Committee:

- Convened joint meetings with the Audit and Risk Committee to consider and recommend quarterly reports to the Board.
- Reviewed their terms of reference.
- Recommended the Transnet Freight Rail Contract to the Board for approval.
- Reviewed and recommended the Supply Chain Management Policy to the Board for approval.
- Approved the B-BBEE Policy.
- Approved the Travel Subsistence policy.
- Considered and noted the status of the current projects underway.

Social and Ethics Committee

The members of the Social and Ethics Committee comprise of Ms M Mosweu (Chairperson), Ms M Maponya and Mr S Mabalayo.

Although the Social and Ethics Committee did not convene for the period under review, it is important to note that much of the work that is required to be done by the committee on issues such as the market place, work place, social environment, natural environment, CSI, ethics and corporate citizenship, consumer relations, safety health environment and quality (SHEQ) was in fact attended to by other board committees such as the Human Resources and Remuneration Committee and the Audit and Risk Committee. There are also various internal governance structures in place that ensure that all of the matters relevant to social and ethical issues are addressed and communicated to employees at all times.

Executive Committee

The Executive Committee facilitates the effective control of the Company's operational activities in terms of its delegated authority, approved by the Board. It is responsible for recommendations and/or approval of the Company's policies and strategies and for monitoring their implementation in line with the Board's mandate. It meets bi-weekly and more often when required.

The Executive Committee (Exco) comprises the following members:





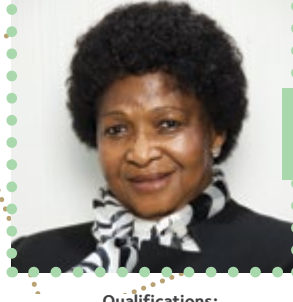


 <p>P Kwele Chief Executive Officer, Committee Chairperson</p> <p>Qualifications: BSc Honours (WITS), Postgraduate Diploma in Management (WITS), Certificate in Financial Management (UJ), MTN Executive Development Programme (GIBS), CM (SA)</p> <p>Expertise: Telecommunications and Business Management, Strategy Development and Execution</p>	 <p>I I van Niekerk Chief Financial Officer</p> <p>Qualifications: B.Compt (Hons) (UNISA), CA (SA), CIBM (UNISA), Certificate in Short Term Reserving Techniques (UP)</p> <p>Expertise: Telecommunications, Financial Management, Commercial Management, Strategy</p>	 <p>G Zowa Chief Technical Officer</p> <p>Qualifications: BSc Electrical Eng (Hons), MBA (University of Pretoria), Pr Eng (ECSA), MSAIEE, MIEE (UK).</p> <p>Expertise: Telecommunications, (Switching, Transmission, Mobile (2G, 3G, LTE) IP, IT. Strategic Management, Business Management</p>	 <p>G Pete Acting Chief Marketing and Sales Officer</p> <p>Qualifications: B.Com (Economics) (North West University) Management Advancement Programme (MAP)</p> <p>Expertise: Telecommunications; Product Management, Sales Management (National, Regional, International)</p>
 <p>M Mopeli Executive: Human Resources</p> <p>Qualifications: Executive Development Programme (GIBS) Masters of Management in HR (WBS) Honours – Bachelor of Library and Information Science BA: Political Science</p> <p>Expertise: HR and General Management (Telecommunications and Manufacturing), Organisational Development and Transformation Strategy, Employee Relations and Labour Legislation</p>	 <p>M Mojapelo Executive: Compliance, Risk and Audit</p> <p>Qualifications: B.Compt, GIA, PA. (S.A), Executive Development Programme (Wits), Leadership Programme for Senior Managers (Univ. of PTA), International Leadership Development Programme, Henley and Penn State Business School</p> <p>Expertise: Internal Auditing, Compliance, Risk, Governance and Strategy</p>	 <p>F Mohamed Company Secretary (ex officio)</p> <p>Qualifications: BA (Law), PGDBM, Henley Business School (UK)</p> <p>Expertise: Company Secretariat, Governance, Administration, Compliance, and Stakeholder Management</p>	

Figure 23: Executive Committee

The Control Environment

Broadband Infraco's control environment consists of various governance functions and operational management practices as reported below.

Internal Audit

In accordance with Section 51 of the PFMA, Broadband Infraco has established – and maintains – an Internal Audit function that is governed by the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA). The Internal Audit function is an independent assurance function that is functionally accountable to the Audit and Risk Committee.

The mandate and terms of reference of internal Audit are included in the Internal Audit Charter, which is approved annually by the Audit and Risk Committee. The Internal Audit is a fully insourced function that operates under the strategic leadership of the Executive: Compliance, Risk and Audit who is a Broadband Infraco permanent employee and an Executive Committee member.

In providing the required assurance on our governance, risk and control environment, Internal Audit has adopted an end-to-end audit approach in conducting its audits. This approach has benefited the Company in ensuring that there is accountability, ownership and synergy to eradicate a silo approach.

Strategic Audit Plan Alignment

The Internal Audit Strategy is aligned with Broadband Infraco's strategic objectives, strategic focus areas and critical risks. It takes the following management and control aspects into account:

- Corporate Plan and Shareholder's Compact.
- 'Tone at the top' that relates to institutionalising a sound governance, risk and control environment.
- Human capital management strategy and employee culture.
- Factors that could obstruct or delay the satisfactory realisation of Broadband Infraco's goals and objectives.
- Findings from previous internal and external audit reports.
- Results from control self-assessments, integrated assurance and other continuous control monitoring tools used by management.

- The cyclical rotation of Internal Audit reviews in accordance with the three-year strategic rolling Internal Audit Plan.

During the financial year, follow-up audits were conducted on external audit findings to ensure implementation of the Management Action Plan. Most of the external audit findings were addressed by management except one that is beyond the control of management, that is, the signing of the Memorandum of Incorporation. An Issue Log Register was implemented for the purpose of tracking reported Internal Audit findings and ensuring the implementation of corrective action plans for IT, internal and external findings. The log register was discussed monthly with management and progress reported to the Audit and Risk Committee for noting.

Risk Management Approach

The Board of Directors has delegated the quality, integrity and reliability of the company's risk management function to the Audit and Risk Committee. Broadband Infraco's strategic risk profile is generated from the Broadband Infraco Enterprise Risk Management Strategy Framework, based on ISO 31000:2009.

The enterprise risk management (ERM) methodology is continuously refined to accommodate improvements in governance, risk ownership and risk measurement. In the past two years, the Company has improved its methodology by implementing an integrated assurance management model for managing risks and controls.

A more collaborative approach to the measurement of risks was introduced by assessing them on an inherent or pre-control basis, thereafter allowing risk owners to explicitly state their desired risk control effectiveness and finally aligning with the control effectiveness rating of the internal assurance providers.

The risk management processes were embedded by ensuring that the annual strategic risk assessment process is conducted to identify any changes to existing strategic risks. There were no major changes in the business model to necessitate a shift in the Company's strategic risks. However, management took note that the strategic risk register is a living document. The identified risks were assessed in terms of impact and likelihood and final results were tabled to the Board for approval and adoption.

Risk Maturity

Broadband Infraco has made significant progress in embedding a risk management culture. However, more emphasis was placed on prudent management of enterprise risk

to achieve the 2016/17 Corporate Plan deliverables. The Company has institutionalised risk management as follows:

- The Board championed the process of risk management;
- Audit and Risk Committee oversaw risk management processes;
- The strategic risk register was continually reviewed and aligned with corporate strategy; and
- Internal and external audits reviewed how the risk management strategy is being discharged.

Top Ten Strategic Risks

Broadband Infraco's top ten risks have not changed from the previous year and as depicted in the table below:

No.	Risk description	Mitigation progress
1	Likelihood not to continue as a going concern	1. a. Continue with the sales drive; and b. Negotiate long tenure revenue contracts. 2. a. Renegotiation of key supplier contracts; and b. Rigorous cash management. 3. Continue to apply for funding from external parties.
2	Limitations in resolving fulfilment value-chain issues	1. Embed the project management methodology and policy. 2. a. Process owners/sponsors to formalise implementation of the current business process approved in their working environment. b. BPM to conduct business process performance assessment to ascertain the effectiveness of approved and implemented business processes.
3	Margin pressure	1. Embed and continue to optimise pricing strategy. 2. Renegotiate of key suppliers contracts.
4	The impact of non-ICT-SOCs on the cost to communicate	1. Continue to engage non ICT-SOCs. 2. Engage the regulators to ensure that non ICT-SOC are governed by the regulations.
5	Lack of awareness for new imperatives in privacy and security of information	1. Set up a IT governance framework. 2. Reinforce the external communication protocol. 3. Formalise controls around logical and physical access. 4. Socialisation of information regulations and policies.
6	Difficulty to raise funds	1. Extended credit terms with major suppliers (rated and international suppliers). 2. Continue to apply for funding from external parties.

No.	Risk description	Mitigation progress
7	Damage to the reputation of Broadband Infraco	1. Reinforce the current communication strategy. 2. Harmonise the external communication with the Shareholders. 3. Continuous engagement with journalists.
8	Lack of regulatory Certainty on new market services	1. Continue to provide inputs as per defined processes. 2. Acquire I-ECS licence. 3. Partner with licence holders.
9	Slow evolution towards IP technology	Roll out IP network by utilising possible OEM funding.
10	Difficulty to retain and attract the required skills	1. Roll out the Internship programme to include both core and non-core units. 2. Continue with employee engagement strategy.

Table 13: Corporate Risk Register

Business Continuity Management

Broadband Infraco has reviewed the Business Continuity Management (BCM) and Information Security Policies to reinforce and expand on the Company Business Continuity programmes, which include capacitating the Network Operation Centre (NOC) and Information Technology Disaster Recovery plan.

The IT department has established infrastructure hosting of Company data and applications under the theme: "Proactive Loss Prevention". Elements such as the Redundant Array of Independent Disks (RAID) storage, redundant power, UPS backup and hosting of information server at Point of Presence are hosted at the Teraco Data Centre. Data protection ensures that data accessed regularly in normal operations, as well as archival records, is secured from unauthorised access and damage.

The NOC Disaster Recovery Plan was improved and expanded to strategic partners in order to monitor network operation systems and requirements to ensure that the NOC Disaster Recovery team is prepared to respond to an event and efficiently regain operations of the systems that may have been inoperable.

Strategy Execution and Corporate Performance Management

Broadband Infraco has approved the performance information monitoring and evaluation that provides a framework for strategy implementation and performance information monitoring and evaluation. To ensure that the strategy is implemented and there is delivery on the identified objectives, each strategic objective has key performance areas

which are key initiatives for achievement of objectives. This ensures that there is overall congruence between the overarching direction of the Company and its Strategic Plan. To this effect, the key performance areas have each been assigned Executive-level sponsors and associated measures to track performance.

The Board enters into a performance agreement as an annexure to the Shareholder's Compact with the Shareholders annually. The Annual Performance Plan (APP) illustrates the key performance areas, indicators and targets that the Company is expected to achieve. The key performance indicators are cascaded down to divisions and individual employees to measure the performance of each business area and employees.

Information Technology Governance

The IT Oversight Committee plays a crucial role in driving a number of IT programmes across the organisation.

The importance of these programmes is then communicated to employees to ensure compliance to the frameworked and associated IT policies, such as the Information Security Policy and the use of Allocated IT Device Policy. In order to gear the technology function to support the growing business environment, a number of governance, risk and compliance objectives have been set.

Ethics and Fraud Management

The Company subscribes to the international principles of anti-corruption behaviour that are embedded in the way it does business.

Values

The Company's values underpin its vision and serves as a compass for its daily activities, including the way the Company does business and interact with its stakeholders. These include:

- Active Engagement of Stakeholders;
- Broadband Infracore prides itself for excellence in service delivery;
- Broadband Infracore executes in a Simple, Flexible and Timeous manner;
- Broadband Infracore acts with Integrity in all we do; and
- Open and transparent communication.

Code of Ethics

Ethical conduct is a cornerstone of Broadband Infracore's values. Its Code of Business Principles and Ethics is fundamental to its culture of performance with integrity. The provisions of the code reflects the values of the Company and affirm the Company's commitment to the highest standards of integrity and ethics in the conduct of the business. Most importantly, the code sets out the Company's expectations of the conduct of all Directors and employees (both full and part time), all contractors customers and other stakeholders.

The Company's code is a key element of its governance, risk management, compliance and ethics initiatives, is intended to maintain a culture of integrity, and sets out the standards of responsible conduct to which employees must adhere to in their daily work. These standards must be well understood and embraced by all. All employees are responsible for living the Company's values by upholding the principles that govern the way they work – integrity, trust, responsibility, accountability, fairness and transparency.

These principles are necessary for upholding and enhancing an ethical culture in regard to which high ethical conduct is a performance requirement for all employees. By building these principles into everyone's actions and decisions, we will continue to earn the confidence necessary for our continued success and growth. Its code contains standards, provides direction and sets forth principles that must guide employee's conduct internally and interactions with business partners and parties, the communities in which the Company operates and undertake its activities, and with the general public.

The Board and all employees are required to submit new Disclosures of Interest forms to the Company Secretary on an annual basis. These interests are checked against the Companies Intellectual Properties Commission (CIPC) in order to ensure that non-executive directors and employees are not conflicted. Board member's declarations are also circulated at every meeting of the Board in order to update their forms and all Non-Executive Directors and employees who sit on committees are requested to declare at every sitting if they have any conflict on any matter on the agenda to be considered. Where conflict is identified, the member or employee is requested to recuse themselves from the meeting for that particular matter or any decision related thereto.

Anti-Corruption

In terms of corporate governance and risk management, the Company is working to ensure that Principle 10 of King III, which states that businesses should work against corruption in all its forms, including extortion and bribery. The prevention of fraud and

corruption is good business practice. Management has taken a number of measures to mitigate fraud and corruption risks in the business and its operating environment, and continually review their effectiveness.

The Board and Audit and Risk Committees monitor compliance with the Code of Ethics through quarterly reports they receive from the Executive: Compliance Risk and Audit, which includes feedback from our whistle-blower hotline and Internal Audit unit.

Addressing Fraud and Corruption

The Fraud and Corruption Prevention Plans that the Board approved in 2016 include aspects of training and awareness. A process has also been established to monitor and report on all reported cases and there has been a significant improvement in understanding and prevention.

Fraud and corruption risks are included in all risk assessment processes, which includes all business units. Incidents of fraud and corruption that are reported or detected through management controls are formally investigated by the Risk Management unit. Where control weaknesses are identified, control enhancement measures are implemented. Should an investigation prove that the Fraud and Corruption Policy has been transgressed, a formal disciplinary process is followed, and/or criminal charges are instituted.

The Fraud and Corruption Prevention Policy, which was updated during 2015, has been distributed to all heads of departments and our first level of management is aware of its provisions and is responsible for cascading it down our management line. Related issues are discussed at Exco meetings as and when they arise. All members of management are required to declare their interests, irrespective of whether or not there is an existing conflict of interest. This information forms the foundation of future fraud prevention activities.

Whistle-Blowing

Broadband Infracore is operating in line with industry best practices and standards, and has developed a Whistle-Blowing Policy and Procedure. The prevention and detection of fraud consists of the following four key components:

- Commitment to zero tolerance to fraud;
- Control mechanisms to prevent and detect fraud, using an independent hotline service provider to help fight and combat corruption, fraud and unethical behaviour within the workplace;
- Promote a culture that will discourage corruption, using a pro-active approach to fraud i.e. policies and procedures, a code of conduct; and
- Communication at all levels about fraud and unethical behaviour e.g. Code of Ethics.

For the year under review, only two cases were reported. This gives assurance that systems and processes are implemented and that the potential for fraud and corruption risk across all business areas are mitigated. This plan, together with the Whistle Blowing Policy and Tip-offs Anonymous Hotline procedures shall be reviewed when there are material changes.

There has been a huge improvement in the number of reported cases compared to the previous years which can be attributed to the success of the interventions put in place. The table below provides comparative figures.

Case description	2014/15	2015/16	2016/17
Follow up on previous cases reported	0	1	0
Enquiry on previous cases reported	3	5	0
Dropped or wrong calls	11	0	0
Test calls	11	0	0
Allegation reported calls	0	0	2
Total	25	6	2

Table 14: Hotline Trends

Integrated Assurance

Broadband Infraco has developed an Integrated Assurance Model for managing risks and controls, which consists of three levels of assurance providers, namely Management (first line of defence), EXCO Sub-committees and specialists (second line of defence), and Internal Audit and External Audit are the third line of defence, which provide independent assurance. The Integrated Assurance Model will be implemented fully in the new financial year and is an improvement on the traditional combined assurance model.

The Audit and Risk Committee ensures that a combined assurance model is applied to provide a co-ordinated approach to all assurance providers. The model will also support the King III on the interdependency between Internal Audit and other assurance providers such as risk management.

The benefits for the integrated assurance approach are:

- Reduced duplication of responsibilities;
- Better assurance on risk;
- Improvement on efficiency; and
- Better optimisation of resources.

The figure below depicts our Integrated Assurance Model:

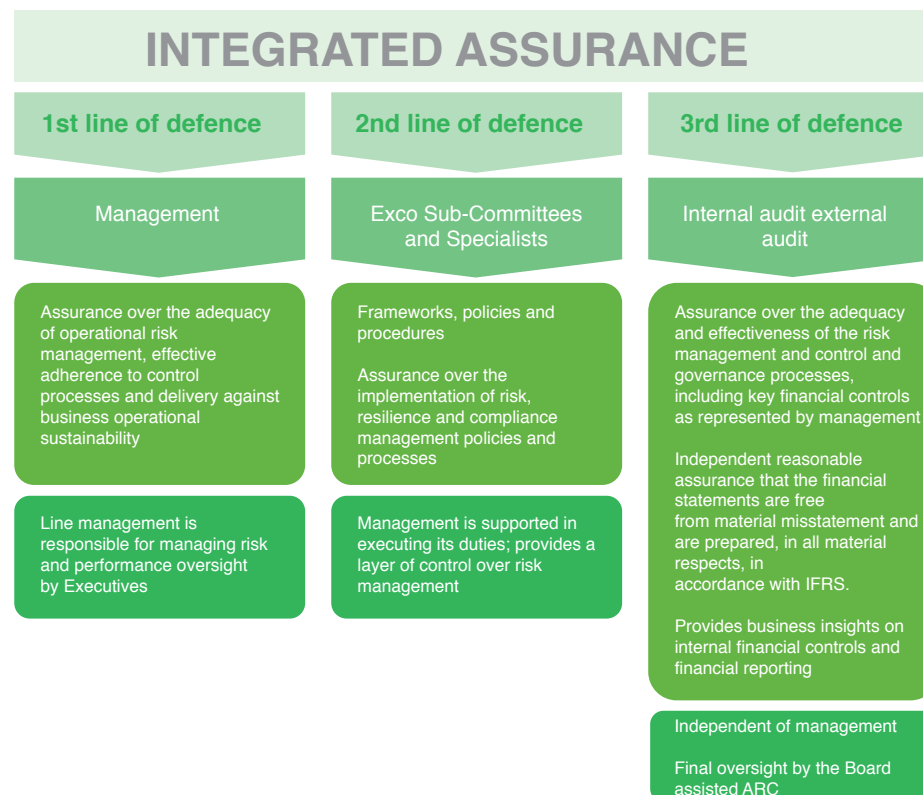


Figure 24: Integrated Assurance Model

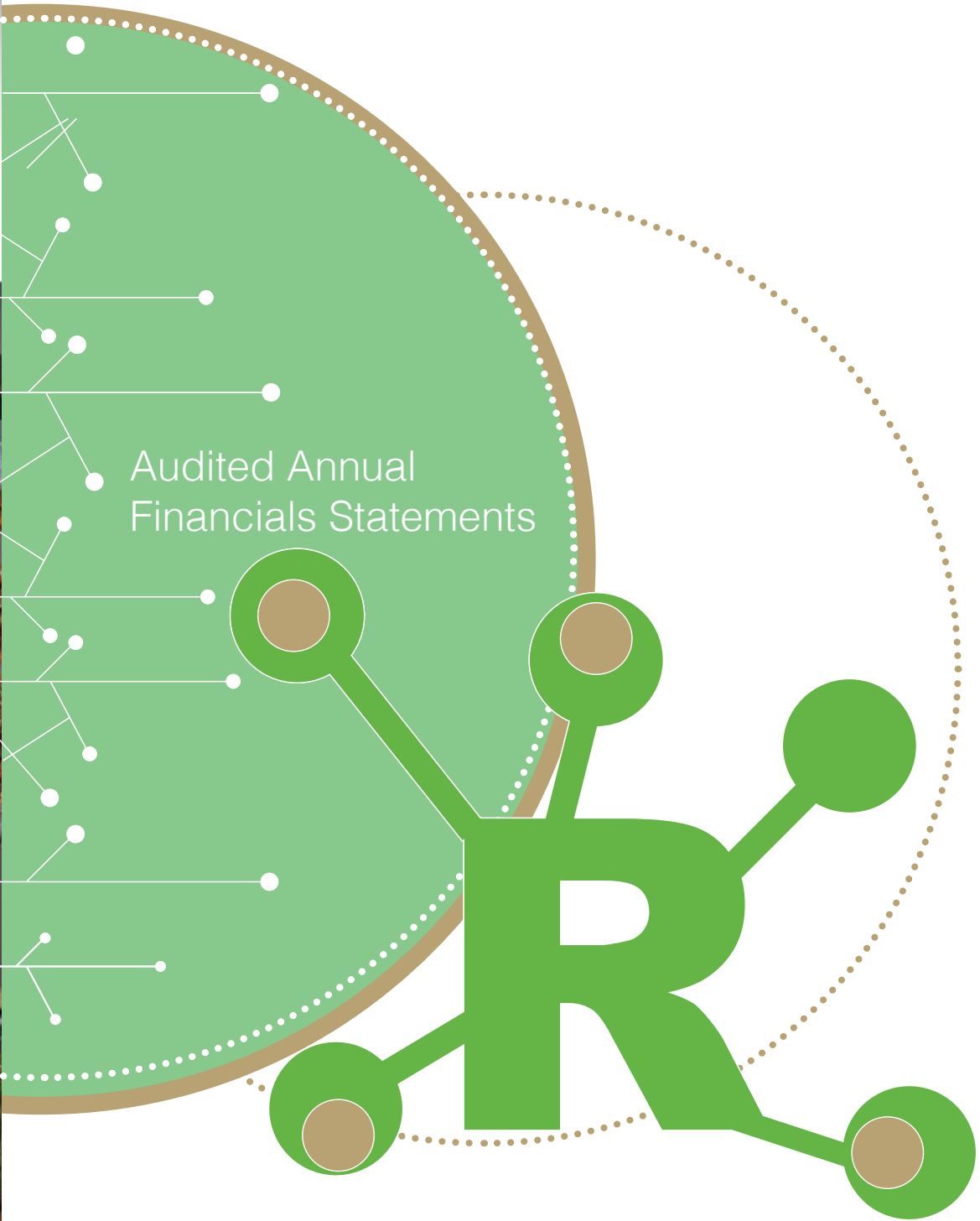
Regulatory Compliance

Sixty-eight regulatory requirements have been identified as falling within the scope of compliance risk for the organisation and incorporated in the Company-wide regulatory universe, which is currently being reviewed for the 2017/18 financial year. Compliance is implemented through a risk-based approach, with high priority given to mandatory/primary legislation impacting the organisation and its operations. The Company has a

Compliance unit, the primary function of which is to assist and support the Board of Directors and management to discharge their compliance responsibilities.

During the year, the Company has ensured that it reports on its compliance obligations to the Shareholders on a quarterly basis and has not been subjected to any non-compliance fines, penalties or compliance transgressions, during the period under review.





Audited Annual
Financials Statements

ANNUAL FINANCIAL STATEMENTS

Financial Statements for the year ended 31 March 2017

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ANNUAL FINANCIAL STATEMENTS

Financial Statements for the year ended 31 March 2017

AUDIT COMMITTEE REPORT

The Audit and Risk Committee is an independent committee constituted to review the control, governance and risk management of the Company in terms of regulation 27(1) of the Public Finance Management Act No.1 (1999)(PFMA), as amended, the Audit and Risk Committee reports that it has discharged its responsibilities as contained in the Audit and Risk Committee terms of reference.

The Committee comprised Ms Meta Maponya (Chairperson and Independent Non-Executive Director), Ms Nokuthula Selamolela (Non-Executive Director), Mr Sydney Mabalayo (Non-Executive Director) and Dr Anthony Githiari (Non-Executive Director). The Audit and Risk Committee was in place for the 2016/17 financial year and the members were re-appointed by the Shareholders at the Company's AGM on 12 August 2016 as required in terms of section 94(2) the Companies Act 71 of 2008.

The Audit and Risk Committee meets at least four times per annum, and has the authority to convene additional meetings as and when necessary. There were four meetings held during financial year. Critical issues were discussed and minutes were recorded. The minutes of the Audit and Risk Committee meetings were made available to the Board on request.

Names of Directors	1	2	3	4	Total Attendance
	30/05/16	21/07/16	26/10/16	27/01/17	
MM Maponya*	√	√	√	√	4/4
ST Mabalayo	√	√	√	√	4/4
N Selamolela	A	A	√	√	2/4
A Githiari	A	√	√	√	3/4
Executives					
P Kwele	√	√	√	√	4/4
Il Van Niekerk	√	√	√	√	4/4

*Chairperson √ Attendance A Absent with apology

Table 15: Audit and Risk Committee Meetings in 2016/17

During the 2016/17 financial year, the Audit and Risk Committee:

- Reviewed the effectiveness of internal control systems by approving the Internal Audit Plan, Internal Audit Charter and reviewing quarterly Internal Audit reports submitted;
- Considered the risk areas of the operations covered in the scope of internal and external audits;
- Considered accounting and auditing concerns identified as a result of internal and external audits;
- Assessed the adequacy, reliability and accuracy of financial information provided by management;

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- Assessed compliance with applicable legal and regulatory requirements;
- Reviewed the effectiveness of the Internal Audit function, compliance and risk departments;
- Reviewed the financial statements and reporting for proper and complete disclosure of timely, reliable and consistent information and confirmed that accounting policies used are appropriate;
- Reviewed the cash flow forecast on a quarterly basis and assessed the liquidity;
- Reviewed the expertise, resources and experience of the Company's finance function;
- Reviewed the quarterly progress and update on litigations;
- Provided a channel of communication between the Board and management, the risk division, internal auditors, external auditors and the compliance officer;
- Received regular reporting from each of the above functions and monitored timely resolutions of issues or concerns raised by management;
- Liaised with the Board Committees and met as required with the regulators and separately with internal and external auditors;
- Ensured that the combined assurance model was applied to provide a co-ordinated approach to all assurance activities; and
- Ensured that the combined assurance received was appropriate to address all significant risks faced by the Company.

The Audit and Risk Committee ensured that the Company's Internal Audit function was independent and had the necessary resources, and standing authority to enable it to discharge its duties. Having considered, analysed and reviewed the information provided by management, Internal Audit, External Audit and the Risk and Combined Assurance Committee, the Audit and Risk Committee confirms that:

- The internal controls of the Company were effective in most material aspects throughout the year under review;
- Appropriate policies, supported by reasonable and prudent judgements and estimates were applied;
- Proper accounting records were maintained;

- The adequacy and effectiveness of controls that are in place safeguarded the assets;
- The financial statements comply, in all material respects, with the relevant provisions of the PFMA and International Financial Reporting Standards; and
- The skills, independence, audit plan reporting and overall performance of the external auditors were acceptable.



M Maponya

Chairperson: Audit and Risk Committee

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Financial Statements for the year ended 31 March 2017

DIRECTORS' RESPONSIBILITIES AND APPROVAL

The Directors are required in terms of the Companies Act No. 71 of 2008, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Directors acknowledge that they are ultimately responsible for the system of internal financial controls established by the Company and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the Board sets standards for internal control, aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Company and all employees are required to maintain the highest ethical standards in ensuring the Company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Company is on identifying, assessing, managing and monitoring all known forms of risk across the Company. While operating risk cannot be fully eliminated, the Company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Directors are of the opinion, based on the information and explanations given by management, that the system of internal controls provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatements or loss.

During the year under review, the Directors retained full and effective controls over the Company and monitored management in implementing the approved plans and strategies. The Directors are of the opinion that the annual financial statements fairly present the financial position of Broadband Infracore and the results of their operations and cash flows for the year ended 31 March 2017.

The Board of Directors has considered whether the going concern assumption is appropriate for the Company in the preparation of the annual financial statements. The Directors have reviewed the Company's forecasted financial performance for the year 31 March 2018 as well as 31 March 2019. In light of this review and the current financial position, they are satisfied that the Company has access to adequate resources to continue its operational existence for the foreseeable future.

The going concern is discussed in more detail in the section below this report.

The external auditors are responsible for independently auditing and reporting on the Company's annual financial statements. These statements have been examined by the Company's external auditors and their report is presented on pages 70 to 74.

The annual financial statements set out on pages 77 to 124, which have been prepared on the going concern basis, under the supervision of Ian van Niekerk, were approved by the Board on 26 July 2017 and were signed on their behalf by:



BMC Ngcobo

Chairman of the Board



P Kwele

Chief Executive Officer

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COMPANY SECRETARY'S CERTIFICATION

In terms of section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that the Company has lodged with the Commissioner 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.

The Audit and Risk Committee concurs with the Board of Directors and management that the adoption of the going concern principle in the preparation of the financial statements is appropriate, and agrees with the details in the director's report.



F Mohamed

Company Secretary

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INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT AND THE SHAREHOLDERS ON BROADBAND SOC LIMITED

Report on the Annual Financial Statements

Opinion

We have audited the annual financial statements of Broadband Infraco SOC Limited as set out on pages 77 to 124, which comprise the statement of financial position as at 31 March 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Broadband Infraco SOC Limited as at 31 March 2017, 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 and the Companies Act of South Africa.

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditors' responsibilities for the audit of the annual financial statements section of our report.

We are independent of the entity in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA code) and other independence requirements applicable to performing audits of the annual financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA code is consistent with the International Ethics Standards Board for Accountants' Code of Ethics for professional accountants.

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

Material Uncertainty Related To Going Concern

We draw attention to the statement of profit or loss and other comprehensive income which indicates that the Company incurred a net loss R127 460 000 during the year ended 31 March 2017. As at that date, the Company's total liabilities exceeded its total assets by R1 079 524 000. These conditions, along with the other matters as set forth in the annual financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to operate as a going concern as disclosed in note 26 of the annual financial statements. The note further states that the shareholders' loans, which comprise the significant portion of the total liabilities, have been subordinated, until such time as the Company is in a position to repay the loans. Our opinion is not modified in respect of this matter.

Emphasis of Matter

Restatement of Corresponding Figures

As disclosed in note 31 to the annual financial statements, the corresponding figures for 31 March 2016 have been restated as a result of an error in the annual financial statements of the Company at, and for the year ended, 31 March 2017.

Responsibilities of the Accounting Authority for the Annual Financial Statements

The Board of Directors, which constitutes the Accounting Authority, is responsible for the preparation and fair presentation of the annual financial statements in accordance with

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International Financial Reporting Standards and the requirements of the Public Finance Management Act and the Companies Act and for such internal control as the Accounting Authority determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the of annual financial statements, the Accounting Authority is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Accounting Authority either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for The Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

A further description of our responsibilities for the audit of the annual financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof we have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. We performed procedures to identify findings but not to gather evidence to express assurance.

Our procedures address the reported performance information which must be based on the approved performance planning documents of the entity. We have not evaluated the completeness and appropriateness of the performance indicators established and included in the planning documents. Our procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance information. Accordingly, our findings do not extend to these matters.

We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the Company for the year ended 31 March 2017:

Objectives	Pages in the Integrated Annual Report
Objective 1 – Maintain a Reliable Network	32
Objective 2 – Ensure Financial Sustainability	32
Objective 3 – Sound HR Practices	32
Objective 4 – Economic Transformation	33

We performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. We performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

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We identified a material finding in respect of the usefulness of the reported performance information for the following objective

- Objective 4 – Economic Transformation

Indicator 8 – Number of digital learning tools

The target set as Installation of e-curriculum on digital learning platform in adopted school(s) for this indicator was not specific in clearly identifying the nature and required level of performance during the planning process, as required by the Framework for Managing Programme Performance Information (FMPPI).

We did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives

- Objective 1 – Maintain a Reliable Network
- Objective 2 – Ensure Financial Sustainability
- Objective 3 – Sound HR Practices Other information

Other Matters

Achievement of Planned Targets

Refer to the annual performance report on pages 32 to 33 for information on the achievement of planned targets for the year and explanations provided for the under achievement of some of the targets.

Report on the Audit of Compliance with Legislation

Introduction and scope

In accordance with the PAA and the general notice issued in terms thereof we have a responsibility to report material findings on the compliance of the entity with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.

Annual financial statements, performance and annual report

The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1) (b) of the PFMA and section 29(1) (a) of the Companies Act (Registered Companies).

Material misstatements of non-current assets, non-current liabilities, and expenditure and disclosure items identified by the auditors in the submitted financial statement were corrected and the supporting records were provided subsequently, resulting in the annual financial statements receiving an unqualified audit opinion.

Other Information

The Company's Accounting Authority is responsible for the other information. The other information comprises the information included in the integrated annual report which includes the director's report, the Audit and Risk Committee's report and the Company Secretary's certificate as required by the Companies Act. The other information does not include the financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's reports.

In our opinion the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

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In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements and the selected objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditors report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Internal Control Deficiencies

We considered internal control relevant to our audit of the annual financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on annual performance report included in this report above.

Leadership

Management did not establish and communicate adequate policies and procedures to enable and support the understanding and execution of internal control objectives on certain performance objectives.

Auditor Tenure

In terms of the IRBA rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Inc. has been the auditor of Broadband Infraco SOC Limited for 1 year.



Mxolisi Mthimkhulu
Director
Registered Auditor

31 July 2017

SizweNtsalubaGobodo Inc.
20 Morris Street East
Woodmead
2191

ANNEXURE – AUDITOR’S RESPONSIBILITY FOR THE AUDIT

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout our audit of the annual financial statements, and the procedures performed on reported performance information for selected objectives and on the Company’s compliance with respect to the selected subject matters.

Annual Financial Statements

In addition to our responsibility for the audit of the annual financial statements as described in the auditors report, we also:

- Identify and assess the risks of material misstatement of the annual financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting in the preparation of the annual financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Broadband Infraco SOC Limited’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the annual financial statements. Our conclusions are based on the information available to us at the date of the auditor’s report. However, future events or conditions may cause a company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those Charged with Governance

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also confirm to management that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence and applicable, related safeguards.

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DIRECTORS' REPORT

The Directors have pleasure in submitting their report on the annual financial statements of Broadband Infraco SOC Limited for the year ended 31 March 2017.

1. Review of Financial Results and Activities

The annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act No. 71 of 2008. The accounting policies have been applied consistently compared to the prior year.

The Company recorded a net loss after tax for the year ended 31 March 2017 of R127 460 000. This represented an increase of 40% from the net loss after tax of the prior year of R90 770 000.

Company revenue decreased by 12% from R 451 650 000 in the prior year to R 397 185 000 for the year ended 31 March 2017. This decrease in cash flows from operations is mainly due to the settlement of the arbitration matter and the longer payment terms of some customers. Improved payments by major customers after 31 March 2017 improved the overall payment cycle experienced by the Company.

Company cash flows generated from operating activities decreased by 124% from R145 969 000 in the prior year to cash utilised in operating activities of R35 096 000 for the year ended 31 March 2017.

Broadband Infraco continues to drive sales to new customers and up-selling to existing customers. Management also continues to drive overall cost optimisation.

2. Share Capital

There have been no changes to the authorised or issued share capital during the year under review.

3. Events after the Reporting Period

The Directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

4. Going Concern

The Directors believe that the Company has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis. The Directors have satisfied themselves that the Company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The Directors are not aware of any new material changes that may adversely impact the Company. The Directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the Company. Improved payments by major customers after 31 March 2017 improved the overall payment cycle experienced by the Company. More details around the going concern principles applied are in note 26 of the annual financial statements section.

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5. Auditors

SizweNtsalubaGobodo is in office as auditors for the Company from 2017.

At the AGM, the shareholders will be requested to reappoint SizweNtsalubaGobodo as the independent external auditors of the Company and to confirm Mr Mxolisi Mthimkhulu as the designated lead audit partner for the 2018 financial year.

6. Secretary

The Company Secretary is Mr Fahim Mohamed.

7. Approval of Annual Financial Statements

The financial statements set out on pages 77 to 124, which have been prepared on the going concern basis, were approved by the Board on 26 July 2017, and were signed on its behalf by:



BMC Ngcobo
Chair of the Board



P Kwele
Chief Executive Officer

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Financial Statements for the year ended 31 March 2017

Statement of Financial Position

	Note(s)	2017 R'000	2016 R'000
Assets			
Non-Current Assets			
Property, plant and equipment	3	1 202 234	1 297 319
Intangible assets	4	55 129	62 352
Trade and other receivables	5	8 930	-
Deferred tax	6	-	-
Prepayments		12 340	13 587
		1 278 633	1 373 258
Current Assets			
Trade and other receivables	5	81 273	43 115
Prepayments		4 473	5 460
Cash and cash equivalents	7	35 515	141 625
		121 261	190 200
Total Assets		1 399 894	1 563 458

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Financial Statements for the year ended 31 March 2017

Statement of Financial Position

	Note(s)	2017 R'000	2016 R'000
Equity and Liabilities			
Equity			
Share capital	8	-	-
Accumulated deficit		(1 079 524)	(952 064)
		(1 079 524)	(952 064)
Liabilities			
Non-Current Liabilities			
Shareholders' loans	9	1 829 530	1 829 530
Deferred income	10	454 342	502 857
Long-term liabilities	11	35 335	-
		2 319 207	2 332 387
Current Liabilities			
Trade and other payables	12	77 157	98 913
Deferred income	10	58 145	71 759
Provisions	13	7 824	12 463
Current portion of long-term liability	11	17 085	-
		160 211	183 135
Total Liabilities		2 479 418	2 515 522
Total Equity and Liabilities		1 399 894	1 563 458

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Statement of Profit or Loss and other Comprehensive Income

	Note(s)	2017 R'000	2016 R'000
Revenue	14	397 185	451 650
Cost of sales	15	(222 241)	(259 573)
Gross profit		174 944	192 077
Operating expenses	16	(303 407)	(291 506)
Operating loss		(128 463)	(99 429)
Investment income	17	6 230	8 909
Finance costs	18	(2 186)	(250)
Loss before taxation		(124 419)	(90 770)
Taxation	19	(3 041)	-
Total comprehensive loss for the year		(127 460)	(90 770)

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Statement of Changes in Equity

	Accumulated deficit R'000	Total equity R'000
Opening balance as previously reported	(865 872)	(865 872)
Prior period errors	4 578	4 578
Balance at 01 April 2015 as restated	(861 294)	(861 294)
Loss for the year	(90 770)	(90 770)
Other comprehensive income	-	-
Total comprehensive loss for the year	(90 770)	(90 770)
Opening balance as previously reported	(952 688)	952 688
Prior period errors	624	624
Balance at 01 April 2016 as restated	(952 064)	(952 064)
Loss for the year	(127 460)	(127 460)
Other comprehensive income	-	-
Total comprehensive loss for the year	(127 460)	(127 460)
Balance at 31 March 2017	(1 079 524)	(1 079 524)

Statement of Cash Flows

	Note(s)	2017 R'000	2016 R'000
Cash flows from operating activities			
Cash generated from (used in) operations	21	(39 140)	137 310
Interest income		6 230	8 808
Finance costs		(2 186)	(149)
Net cash from operating activities		(35 096)	145 969
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(70 026)	(118 408)
Purchase of other intangible assets	4	(988)	(42 604)
Net cash from investing activities		(71 014)	(161 012)
Total cash movement for the year		(106 110)	(15 043)
Cash at the beginning of the year		141 625	156 668
Total cash at end of the year	7	35 515	141 625

Accounting Policies

Corporate Information

Broadband Infraco SOC Limited is a public Company incorporated and 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 owned by the South African Government and 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.

The annual financial statements for the year ended 31 March 2017 were authorised for issue in accordance with a resolution of the Directors on 26 July 2017.

1. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

1.1 Basis of Preparation

The Annual Financial Statements have been prepared in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC"), interpretations issued and effective at the time of preparing these financial statements and the Companies Act No. 71 of 2008.

The annual financial statements have been prepared on the historic cost basis, unless otherwise stated in the accounting policies that follow and incorporate the principal accounting policies set out below. They are presented in south african rands, which is the Company's functional currency.

These accounting policies are consistent with the previous period.

1.2 Significant Judgements and Sources of Estimation Uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Critical Judgements in Applying Accounting Policies

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

Going Concern

The Company's Directors have assessed the appropriateness of application of going concern principle as the basis owing to the material uncertainty that exists and have assessed it as being appropriate.

Following due consideration of the operating budgets, an assessment of the funding requirements, solvency and liquidity, cash flow forecasts and other pertinent issues, the directors have concluded that the Company has adequate resources and Shareholder support (if required) to enable the Company to continue operations for the foreseeable future. For these reasons, the financial statements have been prepared on a going concern basis.

Details of the considerations are detailed in note 26.

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Trade receivables and loans and receivables

The Company assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the Company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Key sources of estimation uncertainty

Trade Receivables

The Company assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from the financial asset.

Impairment Testing

The Company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be fully recoverable. When such indicators exist, management determine the recoverable amount by performing value in use and fair value calculations. These calculations require the use of estimates and assumptions. When it is not possible to determine the recoverable amount for an individual asset, management assesses the recoverable amount for the cash generating unit to which the asset belongs.

Useful lives of Property, Plant and Equipment

Management assess the appropriateness of the useful lives of property, plant and equipment at the end of each reporting period. The useful lives of network infrastructure, spares and test equipment, office equipment, motor vehicles and computer equipment are determined based on Company replacement policies for the various assets. Individual assets within these classes, which have a significant carrying amount, are assessed separately to consider whether replacement will be necessary outside of normal replacement parameters.

When the estimated useful life of an asset differs from previous estimates, the change is applied prospectively in the determination of the depreciation charge.

Provisions

Provisions are inherently based on assumptions and estimates using the best information available. Additional disclosure of these estimates of provisions are included in note 13.

Long Term Liabilities

Long-term liabilities are comprised of obligations on which deferred payment arrangements have been made with the counterparties.

Long-term liabilities are measured at the present value of the obligation, based on the interest rate applicable. When no interest is chargeable, the present value is measured, at taking into account the expected return that a market participant would demand as repayment immediately in order to obtain a better return elsewhere.

1.3 Property, Plant and Equipment

Property, plant and equipment are tangible assets which the Company holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the Company, and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset.

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Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost can be measured reliably. Day-to-day servicing costs are included in profit or loss in the year in which they are incurred.

Major spare parts and standby equipment which are expected to be used for more than one year are included in property, plant and equipment, and depreciated at a similar rate with the related equipment.

Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the assets carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the assets economic benefits are consumed by the Company. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Network Infrastructure	Straight line	5-20 years
Capital – Work in Progress	Not depreciated	-
Spares and test equipment	Straight line	5-15 years
Office equipment	Straight line	10 years
Computer equipment	Straight line	3-6 years
Motor vehicles	Straight line	5 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

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

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1.4 Intangible Assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result, the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, is included in profit or loss when the asset is derecognised.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Servitudes	20 years
Computer software	5–7 years

1.5 Financial Instruments

Classification

The Company classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost.

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

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A financial liability should be removed from the balance sheet when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires.

Impairment of Financial Assets

At each reporting date the Company assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial assets recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Trade and Other Receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Debtors are assessed on an individual basis and the probability of debt collection determined. The allowance recognised is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

Trade and Other Payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at amortised cost.

1.6 Tax

Deferred Tax Assets and Liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects

neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases – Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or operating lease liability. This asset and liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.8 Impairment of Non-Financial Assets

The Company assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment

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loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in profit or loss.

1.9 Share Capital and Equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.10 Shareholders' Loans

Loans made by Shareholders where the entity has no present obligation to repay are classified as long-term liabilities.

1.11 Employee Benefits

Short-term Employee Benefits

The cost of short-term employee benefits, i.e. (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined Contribution Plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

1.12 Provisions

Provisions are recognised when:

- the Company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

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1.13 Revenue

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised at the end of the reporting period. 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 end of the reporting period 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.

All revenue earned by the Company is from the rendering of services and is recognised in equal portions over the full duration of the agreement.

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 (VAT).

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

1.14 Cost of Sales

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract; and
- such other costs as are specifically chargeable to the customer under the terms of the contract.

1.15 Translation of Foreign Currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in South African rand, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period, foreign currency monetary items are translated using the closing rate.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

Cash flows arising from transactions in a foreign currency are recorded in rand by applying to the foreign currency amount the exchange rate between the rand and the foreign currency at the date of the cash flow.

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1.16 Related Parties

Related-party transactions are defined as transactions with entities that have the same controlling Shareholder as the Company and transactions with Directors and key management and their families and entities controlled or jointly controlled by these individuals.

1.17 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.

1.18 Deferred Income

Deferred income relates to revenue received under Irrefutable rights of use (IRU) agreements of which services are prepaid by the customer on commissioning of services. The revenue will be recognised on a monthly basis when the service is provided over the period of the agreement.

1.19 Operating Segments

The Company's operating activities are conducted in one segment and there is no product and geographical segments to report on.

Notes to the Annual Financial Statements

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the Company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Disclosure Initiative: Amendment to IAS 1: Presentation of Financial Statements

The amendment provides new requirements when an entity presents subtotals in addition to those required by IAS 1 in its financial statements. It also provides amended guidance concerning the order of presentation of the notes in the financial statements, as well as guidance for identifying which accounting policies should be included. It further clarifies that an entity's share of comprehensive income of an associate or joint venture under the equity method shall be presented separately into its share of items that:

- a) will not be reclassified subsequently to profit or loss
- b) will be reclassified subsequently to profit or loss.

The effective date of the Company is for years beginning on or after 01 January 2016.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendment clarifies that a depreciation or amortisation method that is based on revenue that is generated by an activity that includes the use of the asset is not an appropriate method. This requirement can be rebutted for intangible assets in very specific circumstances as set out in the amendments to IAS 38.

The effective date of the amendment is for years beginning on or after 01 January 2016.

2.2 Standards and interpretations not yet effective

The Company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Company's accounting periods beginning on or after 01 January 2018 or later periods:

IFRS 16 Leases

IFRS 16 Leases is a new standard that replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the Company are as follows:

Company as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short-term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received, initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.

- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications that decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right-of-lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications that are not required to be accounted for as separate leases, the lessee remeasures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

Company as lessor:

- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

Sale and leaseback transactions:

- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer

of the asset is accounted for as the sale of an asset.

- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-of-use asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after 01 January 2019.

The Company expects to adopt the standard for the first time in the 2020 annual financial statements.

It is unlikely that the standard will have a material impact on the Company's annual financial statements.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after 01 January 2018.

The Company expects to adopt the standard for the first time in the 2019 annual financial statements.

It is unlikely that the standard will have a material impact on the Company's annual financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after 01 January 2018.

The Company expects to adopt the standard for the first time in the 2019 financial statements.

It is unlikely that the standard will have a material impact on the Company's annual financial statements.

Amendments to IAS 7: Disclosure Initiative

The amendment requires entities to provide additional disclosures for changes in liabilities arising from financing activities. Specifically, entities are now required to provide disclosure of the following changes in liabilities arising from financing activities:

- Changes from financing cash flows;
- Changes arising from obtaining or losing control of subsidiaries or other businesses;
- The effect of changes in foreign exchanges;
- Changes in fair values; and
- Other changes.

The effective date of the amendment is for years beginning on or after 01 January 2017.

The Company has early adopted the amendment for the first time in the 2018 annual financial statements.

The impact of the amendment is set out in note Changes in Accounting Policy.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation)

IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance.

The interpretation addresses how to determine the exchange rate to use on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability arising from advance consideration in a foreign currency.

The amendment will be applied prospectively and will not have a material impact on the Company's financial statements.

The effective date of the interpretation is for years beginning on or after 1 January 2018.

The Company expects to adopt the interpretation for the first time in the 2018 annual financial statements.

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3. Property, plant and equipment

R'000	2017			2016		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Motor vehicles	5 950	(2 533)	3 417	5 950	(1 328)	4 622
Office equipment	10 820	(5 223)	5 597	10 356	(4 139)	6 217
Computer equipment	16 835	(15 135)	1 700	17 414	(14 444)	2 970
Network infrastructure	1 997 339	(997 415)	999 924	1 964 663	(846 753)	1 117 910
Spares and test equipment	15 920	(13 327)	2 593	15 920	(12 110)	3 810
Capital - work in progress	189 003	-	189 003	161 790	-	161 790
Total	2 235 867	(1 033 633)	1 202 234	2 176 093	(878 774)	1 297 319

Reconciliation of property, plant and equipment - 2017

R'000	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Motor vehicles	4 622	-	-	-	-	(1 205)	3 417
Office equipment	6 217	-	-	464	-	(1 084)	5 597
Computer equipment	2 970	200	(111)	-	-	(1 359)	1 700
Network infrastructure	1 117 910	56	-	32 657	-	(150 699)	999 924
Spares and test equipment	3 810	-	-	-	-	(1 217)	2 593
Capital - work in progress	161 790	69 770	-	(33 121)	(9 436)	-	189 003
Total	1 297 319	70 026	(111)	-	(9 436)	(155 564)	1 202 234

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Reconciliation of property, plant and equipment - 2016

R'000	Opening balance	Additions	Transfers	Depreciation	Total
Motor vehicles	5 045	781	-	(1 204)	4 622
Office equipment	7 218	36	-	(1 037)	6 217
Computer equipment	4 294	-	-	(1 324)	2 970
Network infrastructure	1 071 026	-	167 410	(120 526)	1 117 910
Spares and test equipment	2 302	-	2 658	(1 150)	3 810
Capital - work in progress	214 267	117 591	(170 068)	-	161 790
Total	1 304 152	118 408	-	(125 241)	1 297 319

Included in Network Infrastructure is the 5.1 Terabits/s West Africa Cable System (WACS) project. The cable connects South Africa to the United Kingdom, with landing stations in Portugal and 12 other countries along the west coast of Africa. The Company is a Tier 1 investor in the 5.1 Terabits/s West Africa Cable System, and is part of the consortium that jointly controls the WACS asset.

The Company has full right of use of these assets without any restriction.

None of the property, plant and equipment have been pledged as security.

4. Intangible assets

2017				2016		
R'000	Cost /valuation	Accumulated amortisation	Carrying value	Cost /valuation	Accumulated amortisation	Carrying value
Computer software	60 484	(17 842)	42 642	59 496	(9 631)	49 865
Servitudes	12 487	-	12 487	12 487	-	12 487
Total	72 971	(17 842)	55 129	71 983	(9 631)	62 352

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Reconciliation of intangible assets - 2017

R'000	Opening balance	Additions	Amortisation	Total
Computer software	49 865	988	(8 211)	42 642
Servitudes	12 487	-	-	12 487
Total	62 352	988	(8 211)	55 129

Reconciliation of intangible assets - 2016

R'000	Opening balance	Additions	Amortisation	Total
Computer software	11 439	42 604	(4 178)	49 865
Servitudes	12 487	-	-	12 487
Total	23 926	42 604	(4 178)	62 352

Intangible assets consist of property servitudes, licences and software acquired and is measured at cost less accumulated amortisation on a straight line basis over expected useful lives. The Company has full right of use of these assets without any restriction.

None of the intangible assets have been pledged as security.

There are no contractual commitments outstanding at the end of the reporting period.

	2017 R'000	2016 R'000
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5. Trade and other receivables

Trade and other receivables consists of:

Long term and current trade receivables.

Non-current assets

Long term receivables*	8 930	-
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*Long term receivables is the amount due to the Company by West African Cable System for past upgrades done and will be utilised by the Company to settle future upgrades.

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	2017 R'000	2016 R'000
Current Assets		
Trade receivables	74 250	35 998
Deposits	2 183	2 162
VAT	4 796	1 286
Foreign tax credits	-	3 041
Accrued interest	44	526
Straight-lining of operating leases	-	102
Trade and other receivables	81 273	43 115

None of the trade and other receivables have been pledged as security.

Trade and other receivables that are past due but have not been impaired are as follows:

Trade receivables	15 724	596
Deposits	2 183	2 162
	17 907	2 758

Trade and other receivables impaired

As of 31 March 2017, trade and other receivables of R1 438 000 (2016: R 1 498 000) were impaired and provided for.

Factors taken into account when considering impairment included the age of the debt and the likelihood of recovery.

Movements of the doubtful debt allowance is as follows:

Balance at the beginning of the year	1 498	2 305
Reversal of impairment loss from prior year	(60)	(807)
Balance at the end of the year	1 438	1 498

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	2017 R'000	2016 R'000
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Trade and other receivables pledged as security

The Company has not pledged any trade or other receivables as collateral.

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

6. Deferred tax

A deferred tax asset has not been raised as it is considered improbable that temporary differences will reverse in the foreseeable future.

Reconciliation of deferred tax asset

Movement in temporary differences

(17 714) 11 187

Deferred tax assets not recognised

17 714 (11 187)

At end of the year

- -

Deferred tax rates

The deferred tax rate applied was 28% (2016: 28%).

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Financial Statements for the year ended 31 March 2017

	2017 R'000	2016 R'000
Recognised (cumulative balances)		
Straight-lining of lease liabilities	78	(29)
Capital allowances	(1 628)	(97 551)
Prepayments	(315)	(1 559)
Provision for bad debts	403	419
Leave pay accrual	1 052	1 114
Bonus provision	1 855	2 370
Credit note provision	2 091	-
Other provisions	336	-
Unrealised foreign exchange differences	43	-
Deferred income	143 496	161 194
Deferred tax asset not recognised	(147 411)	(65 958)
	-	-

The unused tax credits amount to R3 041 205 (2016: R3 041 205). The amounts will expire between 15 October 2021 and 12 December 2021. The unused tax losses amount to R587 625 887 (2016: R406 621 706).

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Current accounts – Standard Bank	1 018	1 575
Short-term deposits – First National Bank – bearing interest at (2016: 6%–6.95%)	-	30 348
Short-term deposits – Nedbank – bearing interest at 2017: 7.25%; (2016: 6%–6.8%)	15 000	40 682
Short-term deposits – Standard Bank bearing interest at 2017: 6.5%; (2016: 5.9%–6.5%)	1 367	69 202
Short-term deposits – Investec bearing interest at 2017: 6.85%–7.5%	18 130	-
	35 515	141 625

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Financial Statements for the year ended 31 March 2017

	2017 R'000	2016 R'000
8. Share capital		
Authorised		
Ordinary	1	1
Issued		
Ordinary*	-	-
Shares are held as follows:		
• 74 ordinary shares held by the State, represented by the Department of Telecommunications and Postal Services.		
• 26 ordinary shares held by the Industrial Development Corporation of South Africa.		
Unissued shares are controlled by the Executive Authority (the Minister of the Department of Telecommunications and Postal Services).		
* Amounts less than R1 000.		
9. Shareholders' loans		
Department of Telecommunications and Postal Services	1 351 130	1 351 130
Industrial Development Corporation of South Africa	478 400	478 400
	1 829 530	1 829 530
The loans are unsecured, have no fixed terms of repayment, bear no interest and are subordinated by the Shareholders to the Company. 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.		
10. Deferred income		
Deferred income relates to irrefutable rights of use (IRU) contracts over various periods. These amounts are received in advance and revenue is recognised over the contract term as the services are being rendered.		
Non-current liabilities	454 342	502 857
Current liabilities	58 145	71 759
	512 487	574 616

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	2017 R'000	2016 R'000
Reconciliation of deferred income		
Opening balance	574 616	617 359
Payments received	36 851	28 933
Recognised in profit and loss	(98 980)	(71 676)
Closing balance	512 487	574 616

11. Long-term liabilities

The amounts included in long-term liabilities are as follows:

Deferred maintenance payments	43 803	-
Long-term payable	6 956	-
Deferred interconnect charges	1 661	-
	52 420	-
Non-current liabilities	35 335	-
Current liability	17 085	-
	52 420	-

Deferred maintenance payments

This liability relates to the maintenance costs payable for the fibre leased for the period 1 November 2015 – 28 February 2017. An agreement was reached to settle the debt amount of R 51 253 749 with no interest charges over the next 36 months, commencing 1 April 2017 at a monthly repayment of R1 423 715. The fair value of this debt at reporting date was discounted to R 43 803 330.

Long-term payables

Long-term payables relates to the amount due by the Company to the West African Cable System for past upgrades done. This amount will be settled by the Company when the future upgrades are done. No interest is paid on the amount outstanding. Also refer to note 5.

Deferred interconnect charges

Deferred interconnect charges relates to interconnect charges paid by a customer. The Company agreed to a setoff of these costs against future Quarterly Operations and Maintenance costs charged to that customer. This agreement will start in June 2017 and will end in March 2020. No interest is levied on the outstanding amount.

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Financial Statements for the year ended 31 March 2017

	2017 R'000	2016 R'000
12. Trade and other payables		
Trade payables	69 478	75 767
Trade payables- Neotel settlement	-	15 789
Salary payables	4	-
Straight-lining of leases	278	-
Accrued leave pay	3 758	3 978
External audit	780	1 000
PAYE	2 859	2 379
	77 157	98 913

13. Provisions

Reconciliation of provisions - 2017

R'000	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Legal proceedings	4 000	-	-	(2 800)	1 200
Retention Incentive	8 463	3 526	(4 521)	(844)	6 624
Total	12 463	3 526	(4 521)	(3 644)	7 824

Reconciliation of provisions - 2016

R'000	Opening balance	Additions	Total
Legal proceedings	4 000	-	4 000
Performance bonus	7 913	550	8 463
Total	11 913	550	12 463

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	2017 R'000	2016 R'000
Legal proceedings		
The provision relates to current employee cases that are underway and pending. These amounts have been recognised as it is probable that the outcome of the cases may be unfavourable to the Company. The amount and timing of the payments are subject to the outcomes of the CCMA cases. The provision is based on management estimates.		
Performance bonus		
The performance bonus provision relates to performance reviews to be completed with qualifying personnel based on individuals' and Company's performance after year-end. It is probable that the Board may approve a payout to qualifying staff in the following financial year, as an enabler to retain core skills within the Company. The performance bonus is based on management estimates.		
14. Revenue		
The amounts included in revenue arising from exchanges of goods or services are as follows:		
Sale of broadband services	298 205	379 974
Irrefutable right of use income	75 213	48 174
Operations and maintenance	23 767	23 502
	397 185	451 650
15. Cost of sales		
Rendering of services	222 241	259 573
16. Operating expenses		
Operating expenses include the following:		
Operating expenses	303 407	291 506
Employee costs		
Salaries	101 348	109 405
Directors' emoluments		
Non-Executive Directors	2 508	2 468
Executive Directors	4 841	4 316
	7 349	6 784

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	2017 R'000	2016 R'000
Service fees		
Legal fees	(1 052)	19 034
Consulting and professional fees	1 495	2 168
Co-sourcing	6 107	-
External audit fees	827	266
Internal audit fees	-	(224)
	7 377	21 244
General and administrative expenses		
Repairs and maintenance	7 505	10 446
Advertising	459	372
Travel – local	2 397	2 375
Recoveries – (WACS)	(2 332)	(4 379)
Insurance	1 193	957
Telephone and fax	351	669
Training	(337)	837
IT expenses	3 441	3 855
Licence fees	2 043	1 745
Other expenses – deductible	8 481	6 391
	23 201	23 268
Operating leases		
Premises	7 279	7 144
Motor vehicles	403	1 025
	7 682	8 169

	2017 R'000	2016 R'000
Operating leases		
Depreciation and amortisation		
Depreciation of property, plant and equipment	155 564	125 241
Amortisation of intangible assets	8 211	4 179
	163 775	129 420
17. Investment income		
Bank	5 787	8 909
Trade and other receivables	241	-
Unrealised foreign exchange gains	202	-
	6 230	8 909
18. Finance costs		
Realised loss on foreign exchange transaction	154	247
Interest paid	2 032	3
	2 186	250

	2017 R'000	2016 R'000
19. Taxation		
Reconciliation of the tax expense		
Reconciliation between accounting profit and tax expense		
Accounting loss	(124 419)	(90 770)
Tax at the applicable tax rate of 28% (2016: 28%)	(34 837)	(25 416)
Tax effect of adjustments on taxable income		
Tax losses recognised	50 681	15 629
Permanent differences	1 870	(1 226)
Deferred tax not recognised	(17 714)	11 187
Botswana withholding tax	(3 041)	-
Deferred tax expense - underprovision	-	(174)
	(3 041)	-
20. Operating leases		
The Company has entered into a number of lease arrangements for office space and PoP sites nationally, with the most significant lease payments being for the Head Office in Woodmead until 2022.		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	6 658	7 886
Between one and five years	23 258	4 757
	29 916	12 643

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Financial Statements for the year ended 31 March 2017

	2017 R'000	2016 R'000
21. Cash generated from (used in) operations		
Loss before taxation	(124 419)	(90 770)
Adjustments for:		
Depreciation and amortisation	163 775	129 420
Losses on disposals, scrapings and settlements of assets and liabilities	463	-
Interest income	(6 230)	(8 808)
Finance costs	2 186	149
Movements in provisions	(4 639)	550
Movement in deferred income	(62 129)	(42 743)
Tax receivable	(3 041)	-
Reversal of prepayment on work in progress	9 084	-
Changes in working capital:		
Trade and other receivables	(38 158)	212 066
Prepayments	2 234	(3 085)
Long-term receivables	(8 930)	-
Long-term liabilities	52 420	-
Trade and other payables	(21 756)	(59 469)
	(39 140)	137 310

22. Related parties`

Relationships

Ultimate holding company	The state, represented by the Department of Telecommunications and Postal Services
Shareholder with significant influence	Industrial Development Corporation of South Africa
Major public entities	Telkom SA (SOC) Limited, Eskom, Transnet, Industrial Development Corporation of South Africa
Other public entities	SITA (SOC) Limited

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	2017 R'000	2016 R'000
Related party balances		
Loan accounts – owing to related parties		
Department of Telecommunications and Postal Services	(1 351 130)	(1 351 130)
Industrial Development Corporation of South Africa	(478 400)	(478 400)
Amounts included in trade receivables/(trade payables) regarding related parties		
Major public entities	4 367	1 791
Major public entities	(80 629)	(31 919)
Other public entities	9 093	11 703
Related party transactions		
Purchases from (sales to) related parties		
Major public entities	85 190	56 818
Major public entities	(4 477)	(1 571)
Other public entities	(128 686)	(147 045)
Compensation to directors and other key management		
Short-term employee benefits- Non-Executive Directors	2 508	2 468
Short-term employee benefits- Executive Directors	4 841	4 316
Short-term employee benefits- Key management	7 550	9 510
	14 899	16 294

23. Directors' and prescribed officers' emoluments remuneration

Executive

2017

R'000	Position	Service period in months	Basic salary	Retention bonuses	Expenses and other allowances	Total
P Kwele	Chief Executive Officer	12	2 798	-	30	2 828
Il van Niekerk	Chief Financial Officer	12	1 917	66	30	2 013
			4 715	66	60	4 841

2016

R'000	Position	Service period in months	Basic salary	Expenses and other allowances	Total
P Kwele	Chief Executive Officer * *	12	2 674	30	2 704
T Pama	Interim Chief Financial Officer*	5	604	10	614
Il van Niekerk	Chief Financial Officer	7	982	16	998
			4 260	56	4 316

*The basic salary is the net amount after the deduction of an early-termination penalty recovered.

** This includes three years' retrospective cost of living adjustments.

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Non-executive

2017

R'000	Position	Service period in months	Directors' fees	Total
BMC Ngcobo	Board Chairperson	12	847	847
SD Mabalayo	Board member	12	418	418
MM Maponya	Board member	12	322	322
A Githiari	Board member	12	304	304
N Selamolela	Board member	12	334	334
M Mosweu	Board member	12	283	283
			2 508	2 508

2016

R'000	Position	Service period in months	Directors' fees	Total
BMC Ngcobo	Board Chairperson	12	803	803
SD Mabalayo	Board member	12	423	423
MM Maponya	Board member	12	332	332
A Githiari	Board member	12	288	288
N Selamolela	Board member	12	317	317
M Mosweu	Board member	12	305	305
			2 468	2 468

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Key management

2017

R'000	Position	Service period in months	Basic salary	Bonus	Expenses and other allowances	Total
G Zowa	Chief Technical Officer	12	2 123	160	30	2 313
V Maharaj	Executive: Capital Programme	2	631	-	5	636
ST Mafu	Chief Marketing and Sales Officer	7	1 089	-	18	1 107
M Mopeli	Executive: Human Resources	12	1 487	113	30	1 630
M Mojabelo	Executive: Compliance, Risk and Audit	12	1 219	70	30	1 319
			6 549	343	113	7 005

2016

R'000	Position	Service period in months	Basic salary	Expenses and other allowances	Total
G Zowa	Chief Technical Officer	12	1 994	30	2 024
V Maharaj	Executive: Capital Programme	12	1 854	30	1 884
K Motlhabane	Executive: Legal	12	1 663	30	1 693
ST Mafu	Acting Chief Marketing and Sales Officer	12	1 501	26	1 527
M Mopeli	Executive: Human Resources	12	1 177	30	1 207
M Mojabelo	Executive: Compliance, Risk and Audit	12	1 145	30	1 175
			9 334	176	9 510

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24. Categories of financial instruments

R'000	Note(s)	Financial assets at amortised cost	Financial liabilities at amortised cost	Equity and non-financial assets and liabilities	Total
Categories of financial instruments - 2017					
Assets					
Non-current assets					
Property, plant and equipment	3	-	-	1 202 234	1 202 234
Intangible assets	4	-	-	55 129	55 129
Trade and other receivables	5	8 930	-	-	8 930
Prepayments		-	-	12 340	12 340
		8 930	-	1 269 703	1 278 633
Current Assets					
Trade and other receivables	5	76 477	-	4 796	81 273
Prepayments		4 473	-	-	4 473
Cash and cash equivalents	7	35 515	-	-	35 515
		116 465	-	4 796	121 261
Total Assets		125 395	-	1 274 499	1 399 894
Equity and Liabilities					
Equity					
Equity attributable to equity holders of parent:					
Retained income	8	-	-	(1 079 524)	(1 079 524)
Total equity		-	-	(1 079 524)	(1 079 524)

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R'000	Note(s)	Financial assets at amortised cost	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
Liabilities					
Non-current liabilities					
Shareholders' loan	9	-	-	1 829 530	1 829 530
Deferred income	10	-	-	454 342	454 342
Long-term liabilities	11	-	42 786	(7 451)	35 335
		-	42 786	2 276 421	2 319 207
Current liabilities					
Trade and other payables	12	-	70 262	6 895	77 157
Deferred income	10	-	-	58 145	58 145
Provisions	13	-	-	7 824	7 824
Long term liabilities	11	-	17 085	-	17 085
		-	87 347	72 864	160 211
Total liabilities		-	130 133	2 349 285	2 479 418
Total equity and liabilities		-	130 133	1 269 761	1 399 894
Categories of financial instruments - 2016					
Assets					
Non-Current assets					
Property, plant and equipment	3	-	-	1 297 319	1 297 319
Intangible assets	4	-	-	62 352	62 352
Prepayments		-	-	13 587	13 587
		-	-	1 373 258	1 373 258

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R'000	Note(s)	Financial assets at amortised cost	Financial liabilities at amortised cost	Equity and non-financial assets and liabilities	Total
Current assets					
Trade and other receivables	5	38 686	-	4 429	43 115
Prepayments		5 460	-	-	5 460
Cash and cash equivalents	7	141 625	-	-	141 625
		185 771	-	4 429	190 200
Total Assets		185 771	-	1 377 687	1 563 458
Equity and liabilities					
Equity					
Equity Attributable to Equity Holders of Parent:					
Retained income	8	-	-	(952 064)	(952 064)
Total equity		-	-	(952 064)	(952 064)
Liabilities					
Non-current liabilities					
Shareholders' loan	9	-	-	1 829 530	1 829 530
Deferred income	10	-	-	502 857	502 857
				2 332 387	2 332 387
Current liabilities					
Trade and other payables	12	-	92 558	6 357	98 915
Deferred income	10	-	-	71 759	71 759
Provisions	13	-	-	12 463	12 463
		-	92 558	90 579	183 137
Total liabilities		-	92 558	2 422 966	2 515 524
Total equity and liabilities		-	92 558	1 470 902	1 563 460

	2017 R'000	2016 R'000
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25. Risk management

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for Shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in notes 11, long-term liabilities and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the Company monitors capital on the basis of the current ratio.

There have been no changes to what the entity manages as capital or the strategy for capital maintenance from the previous year.

The current ratio at 2017 and 2016 respectively were as follows:

Current ratio	129%	192%
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The current ratio excludes deferred income and provisions.

Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by the Finance department governed by policies approved by the Board. The Company identifies and evaluates financial risks in close cooperation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, non-derivative financial instruments and investment of excess liquidity.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company maintains flexibility in funding by maintaining availability under committed credit lines.

The Company's risk to liquidity is a result of the funds available to cover future commitments. The Company manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate short-term investments are monitored.

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The following are the contractual maturities of financial liabilities:

R'000	Carrying amount	Contractual cash flows	6 months or less	6-12 months
2017				
Trade and other payables	(77 155)	(77 155)	(77 155)	-
Long-term liabilities	(59 871)	(59 871)	(8 543)	(8 542)
2016				
Trade and other payables	(98 912)	(98 912)	(98 912)	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The Company only deposits cash with major banks with high a quality credit standing. The Company further limits exposure to any one counter-party by limiting, in terms of the Company policy, the amount invested with any one institution to 50% of total funds invested.

Management evaluated credit risk relating to customers on an ongoing basis. Customers are required to undergo a vetting process where their liquidity is investigated. The Company also performs monthly follow-ups with debtors to ensure that they pay within agreed payment terms, this is evident by the 90% of debtors that are within 60 days .

	2017 R'000	2016 R'000
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Financial assets exposed to credit risk at year end were as follows:

By geographical area

Domestic	73 662	35 680
International	588	318
	74 250	35 998

By customer

Telecom service provider companies	74 250	35 998
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Ageing

Not past due	58 536	35 402
60 days	8 514	17
90 days	7 200	579
	74 250	35 998

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Foreign exchange risk

The Company operates predominantly in its functional currency of South African Rand (ZAR). Certain transactions take place in foreign currencies, primarily with respect to the US dollar. The Company's main US dollar exposure is in respect to 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 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. At year end, there were no active foreign exchange contracts in place.

Foreign currency sensitivity analysis

The following 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.

R'000	2017 8% strengthening	2017 8% depreciation	2016 8% strengthening	2016 8% depreciation
Foreign long-term debtors	714	(714)	25	(25)
South African rand				
Foreign long-term creditors	(556)	556	-	-
South African rand				
Foreign cash and cash equivalents	91	(91)	-	-
South African rand				
			2017 R	2016 R
US dollar rates used				
Closing rate			13,53	14,82
Average rate			14,06	13,77

26. Going concern

We draw attention to the fact that the Company incurred a net loss of R 127 460 000 during the year ended 31 March 2017. As at that date, the Company's total liabilities exceeded its total assets by R1 079 524 000.

The Shareholders Loans, which comprise the significant portion of the total liabilities, have been subordinated, until such time as the Company is in a position of repay the loans. IAS 1 prescribes that the Board of Directors and management of the Company should thoroughly assess the financial sustainability of the business and ensure that the business will continue without the threat of liquidation for the foreseeable future, usually regarded as at least within 12 months after reporting date. It also requires the Board and management to declare the intention to keep the Company as continuing in business for the foreseeable future with neither the intention to cease trading nor seeking protection from creditors pursuant to laws or regulation. The going concern assumption is a fundamental principle in the preparation of financial statements. Under the going concern assumption, an entity is ordinarily viewed to realise its assets, discharge its liabilities, and obtain refinancing in the normal course of business.

Broadband Infraco SOC has prepared its financial statements for the year ended 31 March 2017 on the basis that it will continue as a going concern for the foreseeable future, thus at least the next 12 months. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The Board of Directors has considered whether the going concern assumption is appropriate for the Company in the preparation of the annual financial statements. The Directors have reviewed the Company's financial performance forecast for the year 31 March 2018 as well as 31 March 2019 and in light of this review and the current financial position, they are satisfied that the Company has access to adequate resources to continue in operational existence for the foreseeable future, taking into account access to some funding in the medium term being obtained.

Although the Company is currently in a solvent and liquid position, the going concern principle is under consideration due to the following significant material uncertainties:

- Trading losses since inception and in the current year; and
- Revenue streams in the short term is not adequate to cover all costs, resulting in a monthly cash break-even shortfall.

The assessment considered below examines interventions by the Company and Shareholders to substantiate why the going concern assumption in preparing the annual financial statements for the year ended 31 March 2017 is considered appropriate.

During the preceding financial year management, under the guidance of the Board of Directors, reviewed its business model, cash flow forecasting, break-even analysis and the Company's corporate plan.

During the past 24 months, management undertook several optimisation exercises to reduce cost of sales and operational costs. This resulted in significant sustainable reduction of cost of sales and operational costs as can be seen in the annual financial statements.

Non-investment in capital expenditure will pose minimum risk in the generation of revenue, due to the sweating of the existing asset principle. A set-up fee to be payable upfront from new customers has been introduced as part of the new sales contracting model. The set-up fee will represent a percentage of the total contract value.

The Company has been able to secure vendor financing from one of its major suppliers and is well advanced in concluding a similar agreement with a second supplier. The Company also secured short-and medium-term facilities to fund specific capital expenditure. This will assist the Company in managing the cash flow when specific customer capital expenditure or maintenance is required.

The total new sales concluded during the first quarter of the new financial year totalled more than R70 million. R4.7 million of this can be recognised as revenue during the new financial year. Management is working and driving sales hard to ensure this momentum continues.

The Company was mandated during May 2017 to participate as a service provider in the rollout of SA Connect: Phase 1.

	2017 R'000	2016 R'000
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All of the above are part of the overall improvements in the operating efficiency and cost management environment of the business and has resulted in an improved forecasted cash flow position.

27. Capital commitments

Capital commitments approved and contracted

33 331	5 205
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28. Events after the reporting period

The Company was appointed during May 2017 to participate as a service provider in the rollout of SA Connect: Phase 1. The Company believes that it is well placed to provide much needed capacity to assist in Government's SA Connect project and to connect underserved parts of the country to high-speed internet.

There has not been other significant events between 1 April 2017 and 26 July 2017.

29. Irregular, fruitless and wasteful expenditure

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 disclosed as being irregular expenditure, in terms of section 55(2)(b) of the Public Finance Management Act No.1 of 1999.

Irregular expenditure

Opening balance	1 830	3 010
Identified in the current year relating to prior years	-	118
Removal from register	(1 555)	(926)
Condoned during the year	(275)	(372)
Closing balance*	-	1 830

*Internal processes to resolve these matters are in progress.

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Financial Statements for the year ended 31 March 2017

Irregular expenditure detail 2017

R'000	Expenditure identified	Amounts condoned	Amounts removed from register	Remaining expenditure
Identified in previous years				
Expenditure incurred in transgression of commercial processes and policies	1 830	(275)	(1 555)	-

Irregular expenditure detail 2016

R'000	Action	Expenditure identified	Amounts condoned	Amounts removed from register	Remaining expenditure
Expenditure identified and/or incurred in the current year					
Expenditure incurred in transgression of commercial processes and policies	Matters are being/have been ratified	118	(118)	-	-
Identified in previous years					
Expenditure incurred in transgression of commercial processes and policies	Matters are in the process of being ratified	3 010	(254)	(926)	1 830
		3 128	(372)	(926)	1 830

	2017 R'000	2016 R'000	
Fruitless and wasteful expenditure			
Losses recovered or written off			
Section 1 of the Public Finance Management Act, No. 1 of 1999, as amended, defines fruitless and wasteful expenditure as expenditure that was made in vain and would have been avoided had reasonable care been exercised.			
The following losses, through fruitless and wasteful expenditure have been identified as being reportable in terms of section 55(2)(b)(iii) of the Public Finance Management Act, No. 1 of 1999, as amended, for the year under review:			
Fruitless and wasteful expenditure			
Opening balance	-	-	
Identified in the current year	21	3	
Written off	(21)	(3)	
	-	-	
Fruitless and wasteful expenditure in detail 2017			
	Action	Losses identified	Losses written off
Interest incurred from suppliers	Losses written off	21	(21)
Fruitless and wasteful expenditure in detail 2016			
	Action	Losses identified	Losses written off
Interest incurred from suppliers	Losses written off	3	(3)
30. Retirement benefits			
Defined contribution plan			
It is the policy of the Company to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.			
The Company is under no obligation to cover any unfunded benefits.			
Total Company contributions		2 268	2 543



	2017 R'000	2016 R'000
31. Prior period errors		
Intangibles assets namely Servitudes, have an indefinite useful life. However, this asset category was being depreciated over 20 years since its acquisition in 2008.		
The correction of the error resulted in adjustments as follows:		
Statement of Financial Position		
Intangible assets	-	(5 203)
Opening retained earnings	-	4 578
Profit or Loss		
Depreciation expense	-	(625)



List of Acronyms

LIST OF ACRONYMS

ACRONYMS

APP	Annual Performance Plan
ARC	Audit and Risk Committee
BA	Business Administration
B-BBEE	Broad-Based Black Economic Empowerment
BCM	Business Continuity Management
BGE	Build, Grow and Expand
BPM	Business Process Management
BSC	Bachelor of Science
CA	Chartered Accountant
CAPS	Curriculum and Assessment Policy Statement
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIPC	Companies Intellectual Properties Commission
COSO	Committee of Sponsoring Organisations
CMSO	Chief Marketing Sales Officer
CRA	Compliance, Risk and Audit
CSI	Corporate Social Investment
CTO	Chief Technical Officer
DPE	Department of Public Enterprise
DTPS	Department of Telecommunications and Postal Services
DWDM	Dense Wavelength Division Multiplexing
EBITDA	Earnings Before Interest, Taxation, Depreciation and Amortisation
ERM	Enterprise Risk Management
ESS	Employee Self-Service
Exco	Executive Management Committee
FY	Financial Year
FMPPI	Framework for Managing Programme Performance Information

FTTX	Fibre to the X
FVToCI	Fair Value Through other Comprehensive Income
Gbit/s	Gigabits per Second
HR	Human Resource
HRM	Human Resource Management
HRRC	Human Resources and Remuneration Committee
IA	Internal Audit
IAF	Internal Audit Function
IAS	International Accounting Standards
ICC	International Convention Centre
ICT	Information Communication Technology
ICASA	Independent Communications Authority of South Africa
IDC	Industrial Development Corporation
I-ECS	Individual Electronic Communications Service
I-ECNS	Individual Electronic Communications Network Services
IFRS	International Financial Reporting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFTPC	Investment, Finance, Tender, and Procurement Committee
IIRC	International Integrated Reporting Council
IoD	Institute of Directors
IP	Internet Protocol
IR	Integrated Reporting
IRBA	Independent Regulatory Board of Auditors
IRU	Irrefutable Rights of Use
ISAs	International Standards on Auditing
ISO	International Organisation Standards
IT	Information Technology
KAM	Key Account Manager
LTIFR	Lost-Time Injury Frequency Rate

LIST OF ACRONYMS

MBA	Masters in Business Administration	SADC	Southern African Development Community
MICT SETA	Media, Information and Communication Technologies Sector Education and Training Authority	SCM	Supply Chain Management
Mol	Memorandum of Incorporation	SCOPA	Standing Committee of Public Accounts
MSA	Master Service Agreement	SDH	Synchronous Digital Hierarchy
MTTR	Mean Time To Restore	SEC	Social and Ethics Committee
NCOP	National Council of Provinces	SHEQ	Safety Health Environment and Quality
NDP	National Development Plan	SITA	State Information Technology Agency
NEDS	Non-Executive Directors	SLA	Service Level Agreement
NOC	National Operating Centre	SMME	Small Medium and Micro Enterprise
NOSA	National Occupational Safety Association	SOC	State Owned Company
OD	Organisational Development	SONA	State of the Nation Address
OPGW	Optical Fibre Composite Overhead Ground Wire	SNG	SizweNtsaluba4Gobodo
OHS	Occupational Health and Safety	UCT	University of Cape Town
OHSAS	Occupational Health and Safety Assessment Series	UJ	University of Johannesburg
OSI	Open System Interconnection	UKZN	University of Kwa-Zulu Natal
Opex	Operational expenditure	UP	University of Pretoria
PAA	Public Audit Act	USD	United States Dollar
PAYE	Pay as You Earn	WACS	West Africa Cable System
PDI	Previously Disadvantaged Individuals	WIP	Work in Progress
PFMA	Public Finance Management Act	VAT	Value Added Tax
PoP	Point of Presence	ZAR	South African Rand
PPP	Public-Private-Partnerships		
PPPFA	Preferential Procurement Policy Framework Act		
PRM	Preventative Routine Maintenance		
PWDs	People with Disabilities		
RAID	Redundant Array Of Independent Disks		
SA	South Africa		
SABS	South African Bureau of Standards		



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Standard Bank

EXTERNAL AUDITORS

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