Table Of Contents

ABOUT THIS REPORT

This fifth Annual Report of Broadband Infraco SOC Limited ("Broadband Infraco") provides a concise overview of the organisation and its activities, a reflection of its business model describing the manner in which it currently creates value and an overview of its governance structures. Broadband Infraco reports on its activities and performance to the shareholders, namely, the Minister of Public Enterprises in his capacity as shareholder representative on behalf of the Government of South Africa, and to the Industrial Development Corporation of South Africa. The Company's main accountability instruments are the Corporate Plan, Annual Report, Quarterly Reports (Investor Briefs) and any other information that may be requested from time to time. The Annual Report is tabled annually in the National Assembly in compliance with the requirements of the Public Finance Management Act (PFMA) of 1999 as ammended, the National Treasury Regulations issued in terms of the PFMA and the Companies Act No. 71 of 2008.

The Company is working towards an inclusive approach to provide a holistic and forward looking reporting framework to its stakeholders who are impacted by and who in turn impact the Company. In light of this, the Company has performed an assessment on compliance with the King Report on Governance for South Africa (King III) with the focus on integrated reporting. The King III core principles are: strategy, risk, performance and sustainability, which are inseparable, and those which the Company complie with.

This report therefore demonstrates how Broadband Infraco gives effect to its mandate through its business model, strategy, governance, financial, economic, social and environmental performance. The framework beneath is the pillar for how Broadband Infraco conducts its operations:

Framework					
Public Finance Management Act 1 of 1999	Companies Act 71 of 2008	King III Code on Corporate Governance Principles	Protocol on Corporate Governance in the Public Sector	International Financial Reporting Standards	Discussion Papers issued by the South African Integrated Reporting Committee

This reporting period marks the first full anniversary of the end of the Rights of Use (RoU) Agreement between Broadband Infraco and Neotel. This report thus reflects the major internal reorganisation Broadband Infraco underwent in terms of complete self-management of service provisioning, maintenance and related operational work.

This report also comes at a time when Broadband Infraco remains the Government and people of South Africa's most strategic response to addressing long-standing Information and Communication Technology (ICT) market inefficiencies in terms of persistent gaps across the majority of provinces, districts and metropolitan cities.

Broadband Infraco has in the financial year embarked on a very intense business process re-design programme to ensure tasks are performed better and more rapidly. This has been a journey to return and apply fundamental basic commercial and engineering principles to the work. This theme is unpacked throughout this report.

The report focuses on enhanced content, exemplifying how the Company is positioned for growth, and highlights the imperative matters identified with its engagement with stakeholders. The Company will continue improving its reporting processes to align with integrated standards requirements. This will lead to improved governance, high standards in sustainability, accountability, transparency and integration of the internal and external business practices.

Minister Malusi Gigaba, MP and Mandla Ngcobo, Chairman of the Board at the 2012 AGM

1. Who We Are and What We Do

WHO WE ARE

Our Vision

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

Our Mission

- To enable national and regional private and public collaboration regarding infrastructure development;
- To expand the availability and affordability of access to electronic communications networks and services, including but not limited to underdeveloped and under-serviced areas; and
- To ensure that the high capacity connectivity and bandwidth requirements for specific projects of national interests are met.

Our Strategic Intent

Broadband Infraco seeks to provide wholesale broadband connectivity products and related value added services to public and private licensed or license exempt customers across all industries in South Africa. This also extends to Africa and international markets whilst at the same time continuing to support projects of national importance.

Our Values

Stakeholder Engagement

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

Broadband Infraco prides itself for excellence in service delivery

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

Execution in a simple and flexible manner

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

Act with integrity in all we do

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

Our Legislative Mandate

Broadband Infraco is the only State Owned Company (SOC) whose exclusive mandate is to plan, design and roll-out the foundational ICT infrastructure which enables high-speed, high-data, broadband communications. This infrastructure when utilised appropriately within public (health; education; service delivery) and private markets (intermediaries), will unlock improved and affordable broadband connectivity across all areas of South Africa including under-serviced areas. This will lead to innovation, market efficiencies and reduce the price of telephony as a whole, thereby leading South Africa into a high-technology first world economy.

"... design and roll-out the foundational ICT infrastructure which enables high-speed, high-data, broadband communications."

Our History

Broadband Infraco was created as a State Owned Company (SOC) in 2007 to provide ICT infrastructure and broadband capacity. This would provide first and second tier networks with an alternative long distance carrier leading to reducing prices; affordable connectivity for business and the population in general.

Broadband Infraco owns and/or leases fibre from Eskom Enterprises and Transnet. It will continue to synergise and to enhance these relationships including joint infrastructure planning and optimisation to avoid duplicate roll-outs. Broadband Infraco will build where there is no infrastructure thus filing unique unaddressed gaps. In October 2009, the Company obtained an Individual Electronic Communications Network Services (I-ECNS) license, and launched commercially in November 2010 in order to broaden its customer base to other licensed operators.

Our Operating Context

One of the factors inhibiting South Africa's economic growth during the past decade has been very high telecommunications costs. The lack of open access international bandwidth and a non-liberalised market posed severe constraints for the growth of the South African economy.

These, added to the high cost of doing business, limited access to broadband connectivity preventing South Africa from becoming a significant part of the global knowledge based-economy. In order to rectify these problems, market forces as well as Government intervention, through the liberalisation of the telecommunications industry, began to dismantle the monopoly structure.

The Industry Landscape

The wholesale market has two major suppliers of which Broadband Infraco is one. Overall, market competitiveness has improved. The outlook for the market in 2013, is to increase competitiveness with the introduction of wholesale products that will enable many smaller competitors in the metro and access markets.

"Broadband Infraco will build where there is no infrastructure thus filling unique unaddressed gaps."

WHAT WE DO

Our Core Business

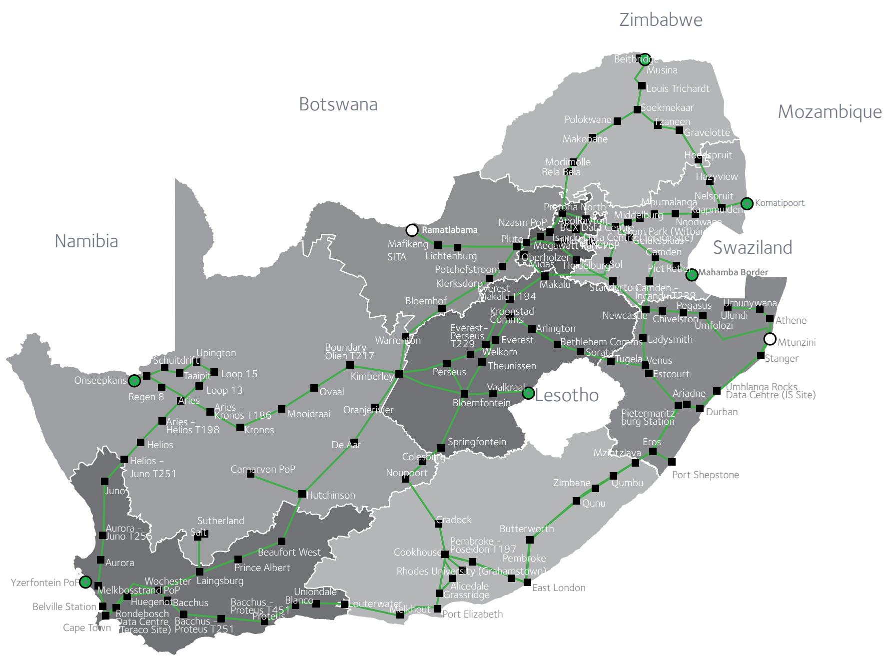
Broadband Infraco's services are based upon the provisioning of high capacity managed bandwidth from Point of Presence (PoP) to PoP within our National Long Distance fibre-optic network. Broadband Infraco delivers its mandate by providing national, regional and international connectivity.

National Connectivity

In line with the Government's *"Broadband For All"* initiative, the Broadband Infraco fibre optic national network currently comprises of approximately 12 800 km of fibre. Broadband Infraco has significant backhaul capacity between the three major metropolitan cities of Johannesburg, Cape Town and Durban (the "Golden Triangle") and is currently upgrading the Limpopo/Mpumalanga segment of its network to similar capacities over time. It is also migrating its network from the existing technology protocol referred to as Synchronous Digital Hierarchy (SDH) to Internet Protocol (IP) technology.

Broadband Infraco provides all areas where it has network footprint with the same quality of service, thereby galvanising a broadband superhighway in South Africa and the rest of Africa.

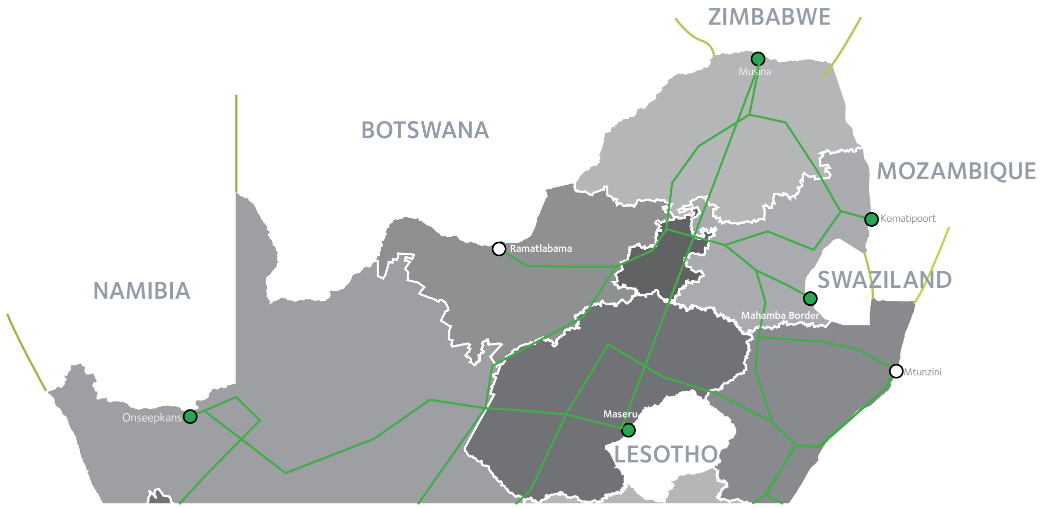
Broadband Infraco's National Long Distance Network covers all nine provinces, most major cities and towns. Broadband Infraco's national network links the west and east coast international cable system. Plans have been approved to improve the resilience and scalability of the network to accommodate the expected market demand and to continue to exceed the carrier class expectations of the wholesale market. The continued roll-out of the capital investment programme will extend the reach of the network and improve accessibility to both urban and underserviced areas.



Regional Connectivity

Broadband Infraco has extended collaborative and commercial engagements to various Pan-African operators in support of the Southern African Development Community (SADC) regional socio-economic development programmes as well as provisions of the SADC protocol on transport, communications and meteorology and will continue to do so.

Network extensions have also been implemented to provide fibre connectivity to the neighbouring countries of Lesotho, Mozambique, Namibia, Swaziland, and Zimbabwe. The connection to Botswana is planned for the future.



International Connectivity

South Africa previously needed sufficient international connectivity for the country's development and commercial needs. Broadband Infraco was a core founder and pioneered the collaborative West Africa Cable System (WACS) project, bringing different stakeholders together. Due to such leadership, South Africa can today connect local operators across all of Africa to Europe.

WACS

WACS provides lower cost, sustainable and efficient international bandwidth and positions South Africa for future economic growth as it connects South Africa to key global knowledge economies such as North America and Europe.

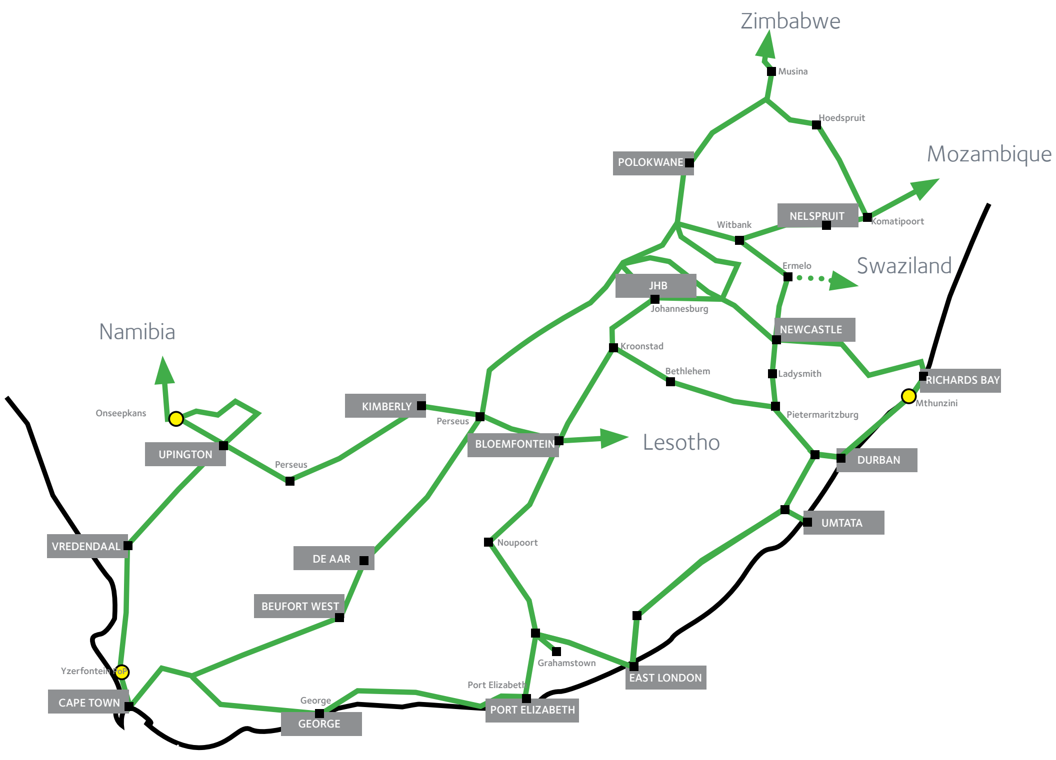
Broadband Infraco expects competition on both national and international cable systems to intensify over the next few years. This inevitably means that despite the price declines already seen in the market over the past few years, further reductions in long distance pricing is likely to follow.

Broadband Infraco has set aside 70% of its existing capacity on the WACS for the Square Kilometer Array (SKA) project of national importance led by the Department of Science and Technology (DST).

Operational Presence

Broadband Infraco runs a comprehensive in-house network operations and maintenance infrastructure. This gives Broadband Infraco full control of the network and the ability to drive service improvements including reduced Mean Time To Repair (MTTR). A state of the art Network Operations Centre (NOC) is operated at Broadband Infraco's Woodmead Head Office. The NOC provides large screen views of the network, detailed reporting on Service Level Agreements (SLAs) and a customer contact centre. It is operational 24 x 7 x 365 days per year.

From January 2012, Broadband Infraco up scaled its operations including establishing a physical presence nationwide as depicted in the adjacent map. This team responds to 24-hour callouts for maintenance and faults restoration, provides direct customer support, conducts Trouble Ticketing, Work order and Site Access, performance of services, generates utilisation reports. This team is also responsible for installations, testing, commissioning and preventative maintenance. In addition, Broadband Infraco has thirteen (13) offices in eight (8) provinces.




Broadband Infraco
BroadbandInfraco

FLOW OF ORIGINAL FUNDING AND ITS DEVELOPMENTAL IMPACT

Developmental Impact Thus Far

Through the initial R1 825 billion equity investment from the shareholders, Broadband Infraco was able to make the following impact in the market:

1. Increased the expansion of broadband connectivity through rollout of 12 800 km of optic fibre.

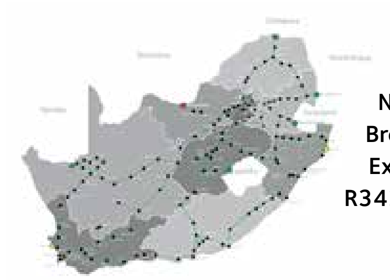
2. Supported projects of national interests through investment in the West Africa Cable System (WACS). Through this project, Broadband Infraco catalysed dramatic price declines in the backhaul and international product segments of up to 70% in some instances.

3. The rollout of fibre influenced market forces which contributed to a decline in overall broadband connectivity prices.

4. In pursuit of Broadband Infraco providing *"Broadband For All"* it increased the number of its Points of Presence (PoPs) including to under serviced areas as defined by the Independent Communications Authority of South Africa (ICASA).

5. Expanded Government inter-connection by providing national backhaul services to the State Information Technology Agency (SITA) for seven (7) provinces.

6. Integrated regional telecommunication between Southern African Development Community regions.



National Broadband Expansion R342.0 million

International Connectivity R541.0 million

Shareholders Equity Investment

Department of Public Enterprises

R1 825 Billion

Industrial Development Corporation

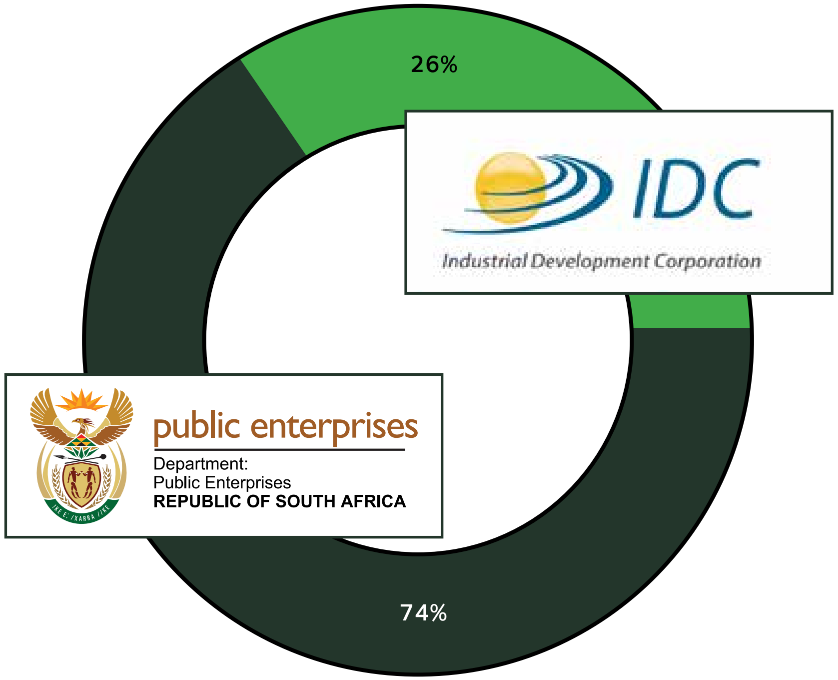
Enabling Government connectivity through a third party R445.5 million

Regional SADC Connectivity R36.7 million

Operations R89.9 million

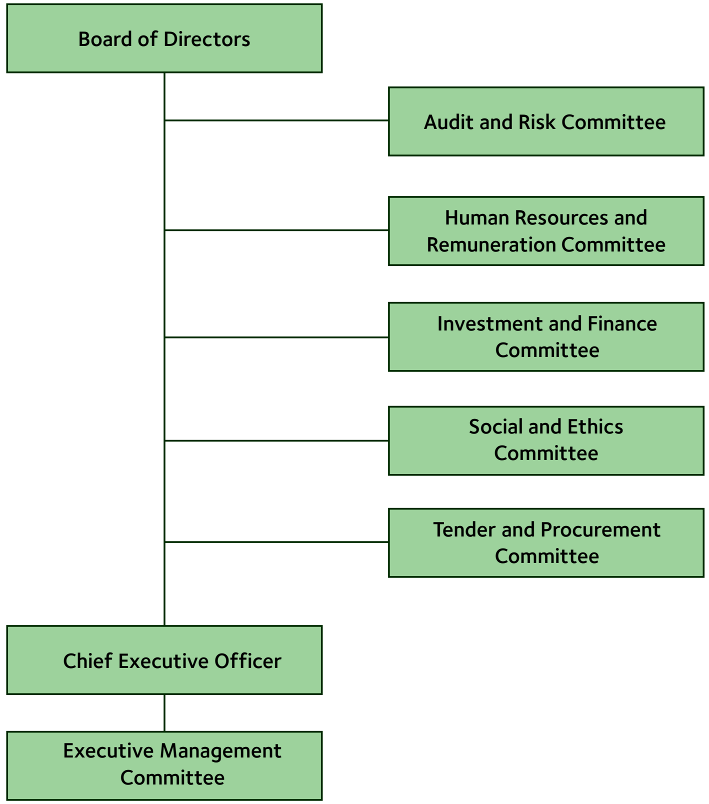
Note: R342.9 million cash in the bank as at the end of March 2013 (minus R10.2 million cash generated from operations)

OUR SHAREHOLDERS



OUR LEADERSHIP

Board and Executive Management Structure



BOARD OF DIRECTORS

Mandla Ngcobo (53)
Chairman of the Board and Non-Executive Director
Expertise: Telecommunications and Business Management.
Appointed to the Board:
18 October2011.

Salim Essa (35)
Non-Executive Director
Expertise: Financial and Business Management.
Appointed to the Board:
18 October2011.

Dr Anthony Githiari (45)
Non-Executive Director
Expertise: Telecommunications Industry.
Appointed to the Board:
18 October2011.

Sydney Mabalayo (50)
Non-Executive Director
Expertise: Project and General Management.
Re-Appointed to the Board:
18 October2011.

Shakeel Ahmed Unus Meer (51)
Non-Executive Director
Expertise: Finance, Strategy and General Management.
Re-Appointed to the Board:
18 October2011.

Puleng Kwele (45)
Executive Director and Chief Executive Officer
Expertise: Telecommunications and Business Management.
Appointed to the Board:
01 June 2012.

Ramasela Magoele (38)
Executive Director and Chief Financial Officer
Expertise: Financial Management.
Appointed to the Board:
18 October2011.

Xoliswa Kakana (49)
Non-Executive Director
Expertise: Telecommunications, Engineering and Business Management.
Appointed to the Board:
18 October2011.

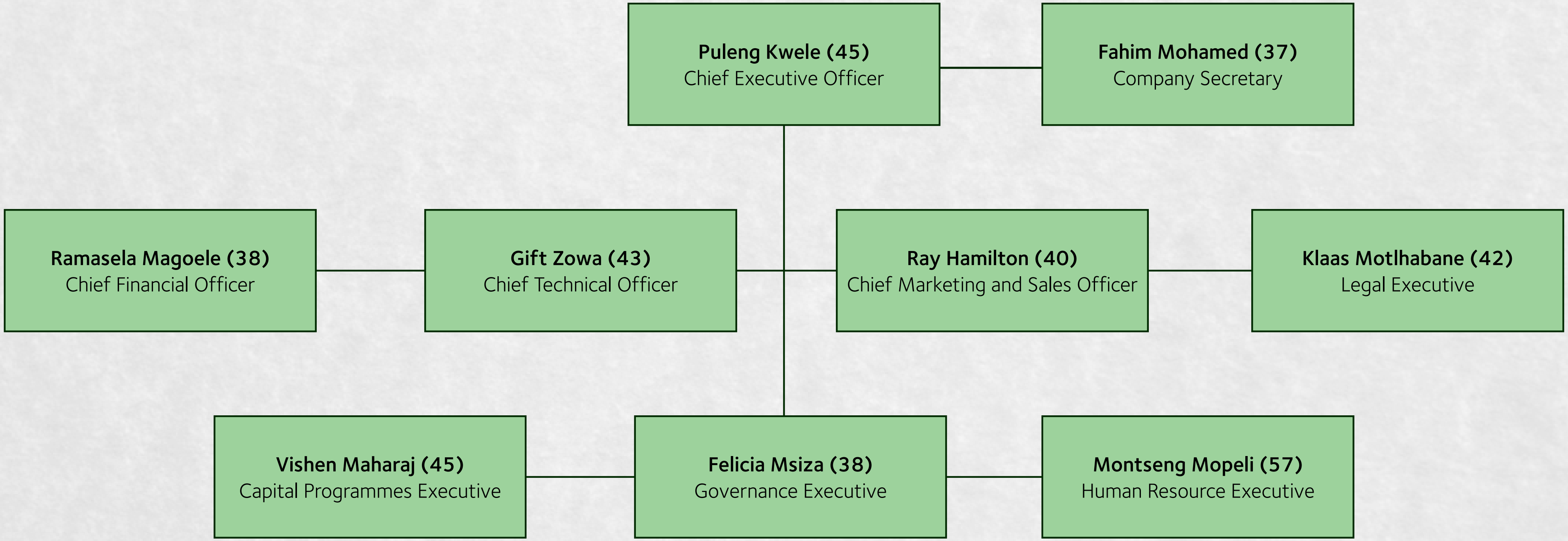
Nokuthula Selamolela (37)
Non-Executive Director
Expertise: Telecommunications, Finance and General Management.
Appointed to the Board:
18 October2011.

Meta Maponya (34)
Non-Executive Director
Expertise: Auditing, Corporate Finance, and General Management.
Appointed to the Board:
18 October2011.

EXECUTIVE COMMITTEE

Front Row (left to right): **Vishen Maharaj (**Executive: Capital Programmes), **Montseng Mopeli (**Executive: Human Resources), **Felicia Msiza** (Executive: Governance) and **Puleng Kwele** (Chief Executive Officer).
Middle Row (left to right): **Ramasela Magoele** (Chief Financial Officer), **Klaas Motlhabane** (Executive: Legal and Regulatory) and **Ray Hamilton** (Chief Marketing and Sales Officer).
Back Row (left to right): **Fahim Mohamed** (Company Secretary) and **Gift Zowa** (Chief Technical Officer)

EXECUTIVE FUNCTIONAL STRUCTURE




Broadband

Mandla Ngcobo (Chairman of the Board)

2. Directors Report

REPORT FROM THE CHAIRMAN

On behalf of the Board of Directors, I would like to present the 2013 Annual Report for Broadband Infraco, marking a major milestone in the Company's evolution. This report covers the progressive turn-around from inception to growing a sustained delivery programme as one of South Africa's most strategic national assets. Broadband Infraco has the potential to truly catalyse national growth to aspirant levels across several industries. My report focuses on six key areas including: the Company's performance progress; governance improvements; the turn-around programme; the Board's view on a series of strategic Policy matters; challenges as well as the Board's view on Broadband Infraco's future strategy.

1. Overall Performance

In the year under review, Broadband Infraco's initial service provisioning structure via the Rights of Use (RoU) Agreement with Neotel was terminated. A reduction in services resulted in a decline in revenues. The Company geared itself for an accelerated competitive drive and grew its customer base from 7 to 11 customers year-on-year. This customer base spans across diverse segments. Broadband Infraco also succeeded in retaining 100% of its existing customer base. Significant capacity upgrade orders from existing customers signals high levels of customer satisfaction in terms of service delivery. It also reflects confidence the customers have in Broadband Infraco's delivery platforms and processes.

Broadband Infraco will continue to grow its business from existing customers and other markets that have not been serviced yet and it will continue to collaborate with the broader market.

Broadband Infraco is in the process of finalising a transaction with the Council for Scientific and Industrial Research (CSIR) for the sale of 70% of its capacity in the West Africa Cable System (WACS).

1.1 Financial Performance

Broadband Infraco's revenues reduced by 40% in the year under review. This is a consequence of the reduction of services from Neotel. Broadband Infraco transitioned successfully from enabling the Second Network Operator to a broader operating environment. The Company has done well in reducing its Cost of Sales by 37%. For a second year in a row it has generated positive cash flow from operations to the value of R10.2 million. The Company's sale of 70% of its initial capacity in WACS to the CSIR will allow for improved liquidity in the forthcoming financial year.

2. Governance

For a second successive year, Broadband Infraco has achieved an unqualified audit opinion marking its on-going momentum towards embedding stringent governance processes and improvements.

The Board has reviewed all the financial and business plans and budgets before submission to the Shareholders and tracks the investment performance of the Company on a quarterly basis including reviewing its long term and short term funding plans.

In line with good corporate governance practices all the Board committees are fully functional and exercise oversight on various organisational outputs. The Board is satisfied that substantial operational internal controls have been put in place in the form of several cross-functional committees; executive sub-committees; policy reviews and developing new policies where gaps are found; robust internal audit; risk management; financial compliance and governance controls.

3. Turn-around Programme

Broadband Infraco has engaged with its Shareholders regarding the injection of shareholder funding in order to deliver on its mandate. A combination of funding by the State and other sources is being explored. The recapitalisation is informed by the need to deliver on the mandate and bridge the digital divide.

The Board is cognisant that the following turnaround dependencies are of critical importance:

- Secure funding from Government and other sources;
- Increase revenue from existing customers and acquiring new customers;
- Secure Government as an anchor customer;
- Improve collaboration with other operators;
- Improve operational excellence and efficiency.

4. Strategic Policy Reflections

There are a number of key strategic matters the Board pronounced itself on:

4.1 The adoption of the National Development Plan (NDP) by the ruling party and Government

This Board feels vindicated in that the National Development Plan resonates with its own view that broadband connectivity is a key enabler for economic growth and social development. Access to broadband should be recognised and treated as a basic human need, equal to water, electricity and housing. By having access to broadband, people and organisations can be empowered through information and knowledge, services and opportunities that are associated with the internet.

The NDP confirmed long-held positions by this Board that far from being about fibre pipes, or just conventional infrastructure, broadband connectivity is understood as an ecosystem of interrelated networks, services, applications and content.

The NDP calls for a broader conceptualisation of broadband connectivity as a central economic enabler at the centre of building a capable state, and creating viable health and education systems as the means for connecting the citizenry in new public spheres.

To this effect, Broadband Infraco has developed a multi-layered foundational network design to enable *"Broadband For All"*. Its national network extends to all major towns and cities. Its national backhaul is integrated with its international West Africa Cable System which continues to impact backhaul pricing downwards. It has Points of Presence (PoP) at the borders of the neighbouring countries. Broadband Infraco is working with all nine provinces to extend connectivity to district and metro-level access Points of Presence. This is in line with the NDP priority of establishing national, regional and municipal fibre-optic networks to provide the backbone for broadband access.

Information Communication and Technology is a key galvanising instrument in the NDP. This includes creating enabling milestones by making high-speed broadband internet universally available at competitive prices. The introduction of Broadband Infraco ensured a reduction of backhaul prices by up to 70% between certain major links and the launch of WACS has had the same downwards effect on pricing. Broadband Infraco will continue to fill gaps especially in areas where the commercially driven incumbents do not invest. Private investments complemented by public funds are required to meet such social objectives. Thus the NDP and Broadband Infraco's mandate are directly synched and aligned.

4.2 The Draft National Broadband Policy Plan

As a Board, we note the circulation of the draft National Broadband Policy and Plan. The Board supports the Policy's objectives as they are largely consistent with Broadband Infraco's statutory mandate of "expanding the availability and affordability of access to electronic communications, including but not limited to underdeveloped and under-serviced areas". The Board has nevertheless noted the Policy does not adequately address the short, medium and long-term objectives of the National Development Plan and will engage all relevant parties to ensure this is addressed.

As a Board, we also note the market inefficiencies which have led to very High Broadband Deprivation Indices across the majority of provinces and thus cannot underestimate the role of Government in ensuring broadband access for all.

The draft Policy correctly suggests that Government should play a critical role in the deployment of broadband backhaul networks, especially in rural and underserviced areas, which are regarded as not being commercially viable. The draft Policy advocates for the deployment of wholesale backbone networks operated by private and public operators on an open access and non-discriminatory basis thus allowing for innovation by service providers. Broadband Infraco has engaged several public and private market players on a case-by-case basis to address these gaps.

"...expanding the availability and affordability of access to electronic communications, including but not limited to underdeveloped and under-serviced areas"

Furthermore, the draft Policy neglects to mention the role to be played by other ICT SOC's including The Company. Broadband Infraco was established by the Government, for the sole purpose of providing affordable broadband infrastructure and services inclusive of under developed areas. Broadband Infraco's mandate encapsulates the core principles of the draft Policy. Failure to recognise Broadband Infraco's central role in the implementation of the draft Policy may lead to wasteful expenditure of funds already invested in the Company.

As a Board, we recommend that there be alignment between the Broadband Infraco Act of 2007, the draft Broadband Policy and work done by the Presidential Infrastructure Coordination Commission (PICC), the ICT Policy Review and legislation underway to enhance the Electronic Communications Act and the ICASA Act. Such alignment would ensure infrastructure roll-outs are not duplicated and would achieve efficient use of limited State resources.

4.3 Government as an anchor customer

The draft National Broadband Policy indicates that Government will encourage and support the investment in broadband backbone network infrastructure thereby increasing the uptake and usage of broadband services. Broadband Infraco would like to partner with Government and its various ICT State Owned Companies (SOC's) on how usage and consumption will be achieved as it is only in the usage that value is extracted from the infrastructure. To that end, Broadband Infraco has pursued partnerships with all nine provinces and other major ICT SOC's to carry their backhaul long distance requirements on its core transmission network. Various provincial broadband initiatives are increasingly becoming aligned to the national agenda and Broadband Infraco's mandate.

5. Key Challenges

The key challenges faced by the Company are highlighted as follows:

- Broadband Infraco requires significant capital injection from its shareholders to turn the business around;
- Uncertainty in National Broadband Policy frameworks which impact Broadband Infraco's mandate; and
- Oversight of governing legislation such as the Preferential Procurement Policy Framework Act (PPPFA) and its capacity for assisting the industrialisation of South Africa.

6. The future of Broadband Infraco

Compared with the best international (and even leading African) standards, South Africa's ICT infrastructure is not at the levels it should be. Efficient information infrastructure that promotes economic growth and greater inclusion requires a stronger broadband and telecommunications network, and lower prices. The economic and employment benefits far outweigh the costs.

More broadly, it is common cause that Broadband Infraco operates in a sector which is dynamic and changes occur very quickly, and whilst the Company has a broad legislative mandate to reduce the costs of telecommunications and access to cheaper broadband, such task is made more onerous by the fluidity of the market and fierce competition. Government funding, financial and legislative interventions are necessary for Broadband Infraco's value proposition to succeed.

The appointment of a permanent Chief Executive Officer and other key Executives ushered in a much required stability and robustness to process adherence, rigorous compliance reporting including improved tracking progress with regards to the Company's mandate.

The Board is confident that the core of its business, that of infrastructure roll-out, is sound and places the Company on a firm footing to secure and roll-out into various other commercial and public opportunities. This will require additional funding to ensure the existing network is available for all to use in the country in terms of rolling out access Points of Presence.

I am of the view that the developing world, and in particular Africa, must improve their communication infrastructure without fail.

As the Board, we will continuously interact with the Executive Team of Broadband Infraco to prevent strategic deviation; provide visionary leadership and safeguard the interest of the Shareholders. This we will do, as the Company gears itself for its forthcoming phase of accelerated growth.

Appreciation

A special thanks and appreciation to our Shareholders and, in particular, the Minister of Public Enterprises, Mr Malusi Gigaba and his department, the Deputy Minister of Public Enterprises Mr BG Magwanishe, the Chairperson of the Industrial Development Corporation (IDC) of South Africa; Ms Monhla Hlahla, the IDC Shareholder Representative; Ms Katinka Schumann and her team, for their on-going support. We also thank the Parliamentary Portfolio Committee of the Department of Public Enterprises and the National Council of Provinces for their guidance and support.

I wish to thank my colleagues on the Board who have provided valuable and tireless guidance and I would like to thank them for their commitment in assisting to re-position and turn around the Company.

Gratitude is also expressed to the Chief Executive Officer, Mrs Puleng Kwele, and all Broadband Infraco staff members who have worked tirelessly to reposition the Company through this period. The CEO's Report will address the operational matters and will further make reference to the re-positioning of Broadband Infraco going forward.

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

BMC NGCOBO
Chairman of the Board
Broadband Infraco SOC Ltd (11 July 2013)

Minister Malusi Gigaba, MP and Mandla Ngcobo (Chairman of the Board)

Puleng Kwele (Chief Executive Officer)

Report from the CEO

On behalf of the Executive Committee of Broadband Infraco, I present the operational performance of the Company for the year under review.

Broadband Infraco is the only State-Owned Company created for the sole purpose of rolling out universal broadband infrastructure for all. It is our contention that in years to come, access to afffordable, high-speed, high quality broadband connectivity will become a developmental imperative equal to electricity, free education and affordable healthcare.

Our report covers the achievements including meeting targets set in the Shareholders Compact, significant improvements in governance; and the challenges encountered as well as plans for future.

1. Achievements for the financial year under review

Broadband Infraco has in the year under review achieved the following milestones:

Financial

- For a second year in a row, the Company has achieved positive cash generated from its internal operations in excess of R10.2 million.
- The Company has decreased the cost at which it does business (cost of sales) by 37% to R172.2 million.

Operational Excellence

- Successfully transitioned its operations from being focused on enabling the Second Network Operator (SNO) to a fully-fledged strategic operator. This new operating model marked the first full year of operating a fully insourced network; evolving its operating model to serving both its mandate expectations and broader market requirements.

Delivering on its Mandate in terms of Infrastructure roll-out

- Completed significant Capital Programmes in excess of R143 million including:
  - connecting the West Africa Cable System (WACS) to the National backbone via the the Yzerfontein Point of Presence. WACS will continue to revolutionise international bandwidth pricing and market supply as well as serve scientific projects of national importance;

- rolling out seven Points of Presence across four provinces and five districts;
- completion of the cross border (SADC) connection to Zimbabwe at Beitbridge; and
- extending its network by 112km of fibre.

- Rolled out 25 Universal Service Obligation Points of Presence to enable *"Broadband For All"*.

Excellent service delivery

- Maintained and achieved an impressive Network Service Availability of 99.64% for the year; and a Network Mean Down Time of only 5.22 hours was achieved.
- Developed a holistic Network Engineering Master Plan to better anticipate and plan for customer and mandate infrastructure requirements.

Realising project value through excellence in governance

- Capitalised several projects to the value of R109 million within established governance structures.
- Establishments and embedding segmented governance oversight committees to track critical work areas.

Expansion of and up-selling to existing customer base

- Acquisition and growing our diversified client base from 7 to 11 customers. This includes customers who are extending their services mix and others increasing their capacities dramatically as a result of confidence in Broadband Infraco's delivery.
- During the year under review,a historic relationship, in the form of a Memorandum of Understanding (MoU) between Broadband Infraco and the Limpopo Government was signed.
- Retention of all existing customers including implementation of its Master Services Agreement with its anchor client.

Stakeholder Management

- Establishing direct relationships with its servitude partners (Eskom and Transnet) which resulted in significant cost savings; improved collaboration and better planning.
- Improving reputation through robust but targeted brand campaigns including hosting the Southern African Telecommunications Association (SATA) comprised of over 18 SADC operators; and
- Undertook engagements with all nine provinces.

Valuing its people

- Successful stabilisation of workflow and processes in spite of significant resignations.
- Implementation of fundamental Human Resources processes; policies and practises.
- Created an enabling and condusive environment for optimum employee productivity.

Product leadership

- Evolving new products such as Carrier Ethernet Layer 2; co-location for additional revenue streams and expanding into smaller niche markets.

2. Shareholder Compact

In terms of the Shareholder Compact, the Company achieved 75% of the targets. These targets include selling planned capacity to SADC; exceeding rolling out the number of Universal Service Obligation PoPs; achieving world-class network performance statistics in terms of client service availability and mean down-time; retaining and growing its client base; exceeding its spend on Black Economic Empowerment and significant up-skilling of talent management.

The 25% performance indicators not achieved pertain to revenue losses, public private partnership not being developed and failure to roll-out phase 2 of the Internet Protocol (IP) project as well as the appointment of interns. This non-achievement should be understood in the context of reduced services by the Second Network Operator resulting in negative revenue which had a ripple-effect on the Company's EBITDA. Broadband Infraco's capital infrastructure funding plan therefore was not realisable without simultaneously effecting significant changes in the Company's operating model.

The Company's redefined business model resulted in a comprehensive network engineering plan within which a new internship programme has been started with the appointment of eight (8) interns.

3. Governance

The focus on internal controls across all areas of the business continued during the year under review. Improvement on the foundation laid during the previous year was build. The establishment of various Governance committees in unblocking progress and highlighting areas of improvement occurred. This process includes a combination of EXCO-Subcommittees and functional sub-committees. Through its governance process, Broadband Infraco has been able to capitalise outstanding projects and realise values in excess of R109m. This remains an on-going platform for deepening excellence in the organisation.

4. Challenges Experienced

Broadband Infraco's salient strategic challenge remains securing shareholder funding to recapitalise the Company. Meeting its mandate of providing *"Broadband For All"* and new customer requirements require considerable upfront capital investment in order to provide the necessary supporting infrastructure and generate sustainable returns. The mandate requirements of the Broadband Infraco Act, 33 of 2007 to service underserviced areas are capital intensive and do not always present a fundable business case.

5. Future Plans

Broadband Infraco has geared itself to deliver various major capital programmes including the Northern Ring; enabling *"Broadband For All"* and a network renewal programme.

The Northern Ring

The Northern Ring refers to a major infrastructure roll-out that Broadband Infraco is undertaking covering the northern parts of Gauteng; Mpumalanga and the Limpopo Provinces. The total capacity in the Northern Ring, once fully completed, will rival the Golden Triangle as the nerve-centre of major transmission connectivity in South Africa at 480 gigabits per second. It will herald the next wave of integrated provincial backhaul networks, linking several layers of connectivity by establishing core PoPs in district municipalities, extending fibre and radio networks across provinces.

Enabling *"Broadband For All"*

Broadband Infraco will continue to roll-out network infrastructure to improve network accessibility for South Africans. This will include delivering several access Points of Presence (PoPs) in Kwa-Zulu Natal; Eastern Cape; Mpumalanga and Limpopo as priority provinces. Working collaboratively with both private and public partners, Broadband Infraco will spearhead bridging the digital divide to bring the socio-economic benefits offered by broadband to rural communities in South Africa and other developing countries. The objective would be to offer broadband access to rural communities in an affordable and sustainable fashion.

Network Renewal Programme

Broadband Infraco network will be upgraded to improve its overall quality of service; remove points of vulnerability and evolve it to IP platform.

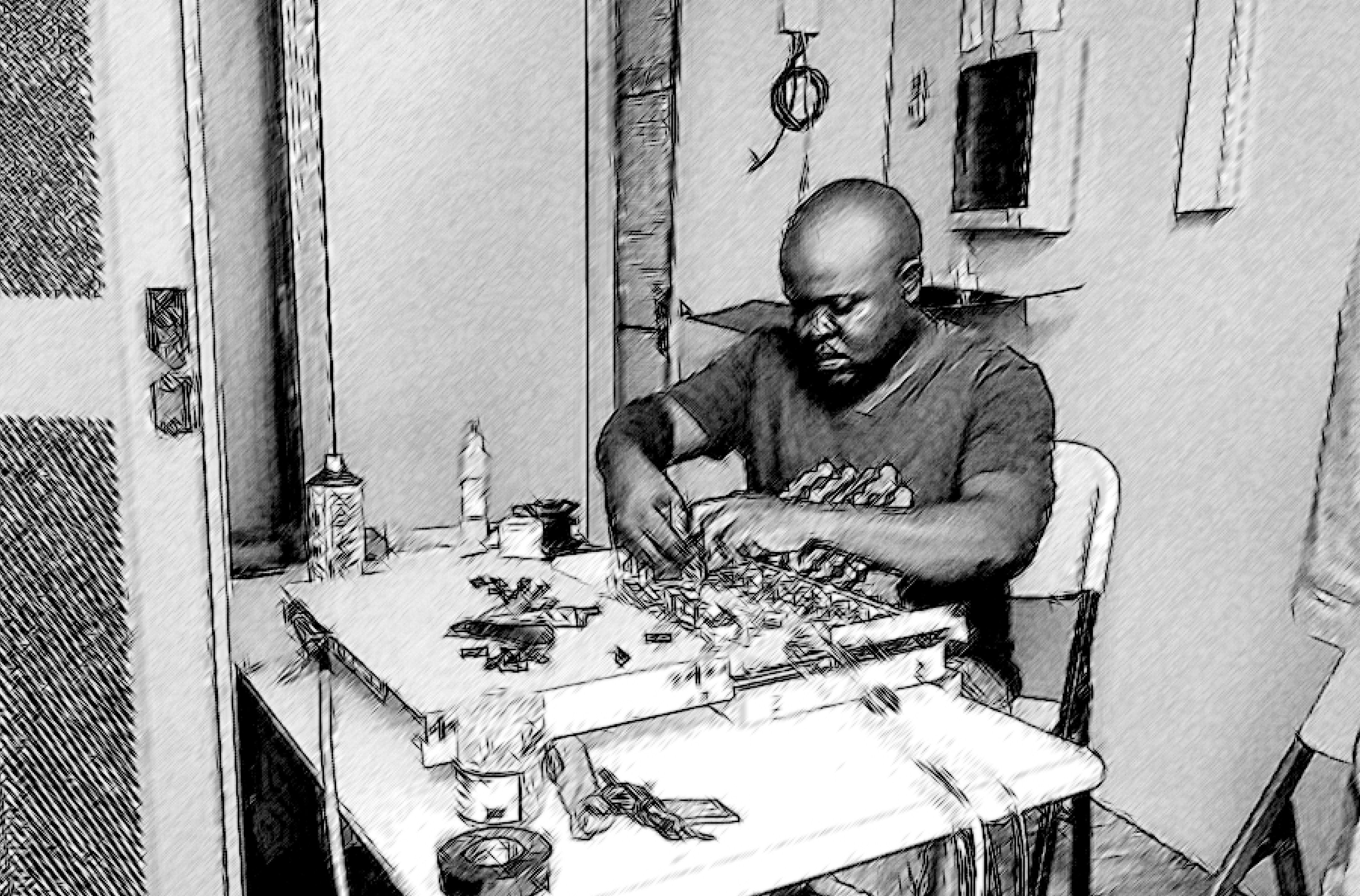
> *"The total capacity in the Northern Ring will be 480 gigabits per second"*

6. Acknowledgements and Appreciation

I would like to thank my Executive Management team for their continued contribution to galvanising foundational synergies in the year under review.

A special word of thanks goes to the Chairman, Mr Mandla Ngcobo and the Board of Directors, who have been unwavering in their valued support and guidance to me over the year under review. I would also like to thank all Broadband Infraco employees for their continued dedication and commitment, especially organised labour and their leadership in their robust engagement on how to take the Company forward. I'd also like to thank all staff many of whom execute their duties with depth and diligence.

Mrs P Kwele
Chief Executive Officer (CEO)
11 July 2013



3. Our Performance

HIGHLIGHTS

Below are the highlights for the year under review:

- Successful insourcing of the Network Operating Centre.
- Intense engagements with all nine provinces in partnership with the Government Communications and Information Services (GCIS) targeting provincial ICT decision-makers.
- 100% retention of all customers including the anchor client.
- Grew our diversified customer base from 7 to 11.
- Savings in direct operating costs of up to R103 million achieved. Savings derived from consolidating direct and stable relationships with Eskom and Transnet Freight Rail.
- Second year of generating positive cash from internal operations.
- Hosting of the Southern African Telecommunications Association (SATA) conference (an ITU chapter event).
- Filling all critical Executive positions.
- Created awareness through targeted brand building campaign.
- Unqualified audit achieved for a second year in a row.

CHALLENGES

Below are the challenges experienced for the year under review:

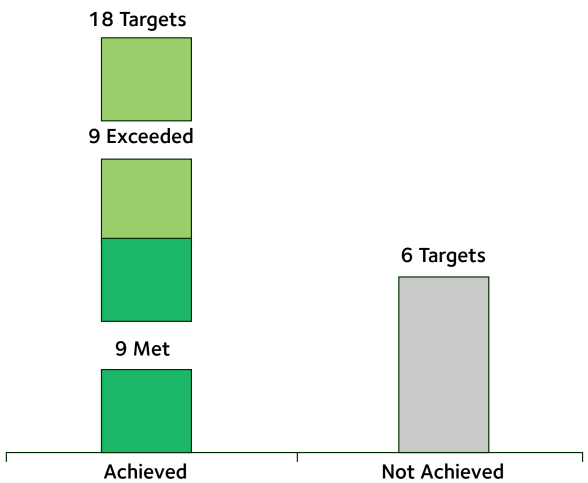
- Broadband Infraco made an application for funding allocation from the Medium Term Expenditure Framework (MTEF). However a note in the Ministry of Finance Budget Vote stated that there will be no funding for broadband in general during the MTEF period. This is due to the absence of an approved National Broadband Policy. This raises serious concerns about the possibility of obtaining funding as per the funding programme from both Shareholders. The funding from both Shareholders was to ensure that the Company is able to address technology life cycle, improve integrity of the network and make the network accessible to key customers.
- Transitioning from being embedded in the SNO network initially to being an autonomous network.
- The network was designed with a single customer in mind, in terms of route diversity, location of Points of Presence and access sites. This resulted in Broadband Infraco not having a network in the metropolitan areas.

SHAREHOLDERS COMPACT

A Shareholders Compact which outlined the performance objectives, measures and indicators in line with National Treasury Regulations issued in terms of the Public Finance Management Act 1 of 1999, as amended (PFMA), was developed and agreed to, between the DPE, IDC and Broadband Infraco for the period under review.

The Shareholders Compact does not interfere with the normal principles of company law while ensuring that the relationship between the Shareholders and the Board will be preserved at all times. The Shareholder's Compact promotes good corporate governance by helping to clarify the Board and Shareholder's roles and responsibilities and ensures consensus on Broadband Infraco's mandate and key objectives. It also forms the basis for the development of the strategic direction of the Company whilst the Key Performance Indicators (KPI) included in the Compact serve as a framework for the performance monitoring of the Company.

The performance of the Company against the targets agreed to, is depicted in the graph below:



PERFORMANCE INFORMATION BY SHAREHOLDER COMPACT

Stakeholder Management

Strategic objectives	Key Performance Indicator	Planned Target 2012/2013	Actual Achievement 2012/2013	Deviation from planned target to Actual Achievement for 2012/2013	Comment on deviations
To ensure customer satisfaction	Customer satisfaction index rating	Baseline +5%	Survey done in April 2012	-	✓
To ensure revenue growth through retention and acquisition	Failure to convert trials to paying customer	80%	Three (3) trials one (1) conversion	-	✓
Optimise operating cost structure	Capacity sold to SADC	At least one STM4 per year	Two (2) STM4 sold to SADC	-	✓ ✓
To ensure collaboration with other state owned companies/departments on project in PPP sphere	Identify and support project of national interest	One project per year	One project in progress not yet finalised	-	✓

Regulatory and Compliance

Strategic objectives	Key Performance Indicator	Planned Target 2012/2013	Actual Achievement 2012/2013	Deviation from planned target to Actual Achievement for 2012/2013	Comment on deviations
Compliance with license condition	Number of Universal Service Obligation PoP site roll-out	18	25	-	✓ ✓

Socio Economic Objectives

Strategic objectives	Key Performance Indicator	Planned Target 2012/2013	Actual Achievement 2012/2013	Deviation from planned target to Actual Achievement for 2012/2013	Comment on deviations
Ensure proper and effective talent management strategy is in place	Talent management plan and number of critical skills identified	HRD strategy, Competency framework for Engineering, Talent management policies endorsed by HRRC.	Talent management plan and number of critical skills identified	-	✓
	Number of training hours per person	40 hrs.	64hrs.	-	✓ ✓
Creates and maintains high performance culture	Staff satisfaction index/employee culture survey	Baseline	Survey done	-	✓
Demographic alignment, gender focus	Employment Equity Report	25%	34.6%	-	✓ ✓
Interns	Job creation/skills	10	6	4	✗ [1]

1. The 25% making up performance indicators not achieved pertain to revenue losses, public private partnership not developed and failure to roll-out phase 2 of the IP project as well as the appointment of interns. As a result of reduced services, resultant negative revenue had a ripple-effect on the Company's EBITDA. Broadband Infraco's capital infrastructure funding plan therefore was not realisable without simultaneously effecting significant changes in the Company's operating model.

Network Operations

Strategic objectives	Key Performance Indicator	Planned Target 2012/2013	Actual Achievement 2012/2013	Deviation from planned target to Actual Achievement for 2012/2013	Comment on deviations
Ensure Network Performance	Network Mean down time (hrs. per annum	8	5.22	-	
	% of network service availability	99.5%	99.64%	-	
	SLA penalties as a % of revenue	<5%	<5%	-	
	Expansion of IP core network points (cumulative)	20	0	20	1
Effective and Efficient customer roll out	Project time variance from agreed customer delivery date	<15%	<15%	-	
	Project cost variance from approved investment decision	<10%	<10%	-	
Expansion	KMs of Fiber Installed	104km	112km	-	
	Number of PoP roll out	7	8	-	

Finance

Strategic objectives	Key Performance Indicator	Planned Target 2012/2013	Actual Achievement 2012/2013	Deviation from planned target to Actual Achievement for 2012/2013	Comment on deviations
Retain and grow revenue	Revenue per AFS	8%	35% below budget	35% below budget	✗ 1
EBITDA Margin	EBITDA Margin	(2%)	(112%) below target	(112%) below target	✗ 1
BEE Spend	% of total discretionary spend	60%	86%	-	✓ ✓
Debt Equity Ratio	Debt < 50% of equity	Debt less than 50% of equity	No debt	-	✓
Develop and implement a Funding Plan for developmental expansion	An approved funding plan	Approved plan	Not yet completed	Funding plan not approved	✗ 1
Approved PPP	Approved plan	Approved plan	Not yet completed	PPP plan not approved	✗ 1

FUTURE OUTLOOK

In order to ensure that the Broadband Infraco strategic growth objectives are achieved and to ensure continuous progress of previous objectives, the Company will continue to focus on key strategic priority areas. The priority areas focus on human capital, funding, the engineering division and underpinning a resilient internal control environment.

Secure Funding to Enable Growth	• Re-capitalisation by the Shareholders to ensure Broadband Infraco delivers on its strategic intent of "*Broadband For All*". • Access funds from the Universal Service Fund (USF). • Source funds from commercial funding institutions. • Strengthening Broadband Infraco's balance sheet to secure debt and enable sourcing Government guarantees.
On-Going effective people Management	• Implementation of HR integrated strategy. • Embedding good organisational culture and behaviour . • Intensify leadership competencies.
Expand our network infrastructure	• Continuous optimisation of the Network Engineering Master plan. • Network expansion. • Deliver access PoPs in optimal geographical locations. • Expand maintenance footprints. • Formulate strategic partnership with other providers (public and private).
Creating a Sustainable Company	• Optimal access PoPs to be able to connect to metro-access PoPs. • Strategic partnerships with other public and private entities. • Continue to attract and retain customers. • Engage the Universal Service Fund to deliver on the Broadband Infraco mandate and Act. • Continue to position Broadband Infraco as the backhaul provider of choice. • Continue our strategic engagements with various provinces. • Implementation of International Strategy.
Governance institution-alisation	• Improve the functioning of the governance committees. • Ensure compliance with governance imperatives. • Ensure maximum responsibility and accountability of our EXCO sub-committees. • Focus on strategy execution and institutionalising Broadband Infraco policies.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4. Core Business Overview

4.1 DELIVERING ON OUR MANDATE

In line with the Government's *"Broadband For All"* initiative, the Broadband Infraco fibre optic national network currently comprises of approximately 12 800 km of fibre. Broadband Infraco has significant backhaul capacity in the Golden Triangle and is upgrading the Limpopo/Mpumalanga segment of its network to similar capacities over time. It is also migrating its network from the existing technology protocol SDH to Internet Protocol (IP) technology.

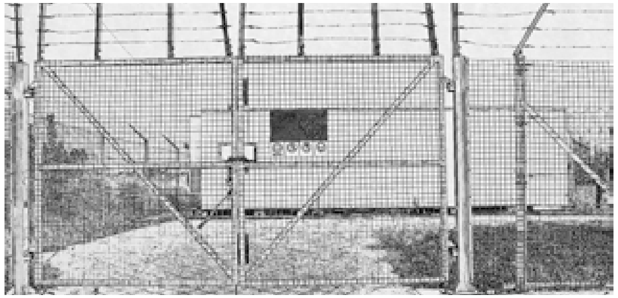
Broadband Infraco provides all areas where it has network footprint with the same quality of service, thereby galvanizing a broadband superhighway in South African and the rest of the African continent. In the year under review, Broadband Infraco delivered on its mandate through the following pillars of work:

I. PROJECTS OF NATIONAL INTEREST

The Yzerfontein project was for the establishment of an open access PoP at the West Africa Cable System (WACS) landing station in Yzerfontein (Western Cape). This was critical in order to connect international capacity to the national backhaul and enable client connectivity.

The second portion of the project involved deployment of Fibre Optic Cable (FOC) from Yzerfontein to Cape Town.

A total of R15.3 million was spent on the establishment of the Yzerfontein PoP and capilisation process has been initiated.



II. SADC REGIONAL CONNECTIVITY

Establishment of Open Access PoP at Beitbridge and fibre optic cable extension from Musina to the border. This project was meant to satisfy the cross border connectivity requirement. A site was established at Beitbridge.

A total of R4.5 million was spent on the project.

III. NATIONAL CONNECTIVITY

The project was to establish 7 Open Access PoP sites in four strategically chosen provinces in South Africa, to enable Broadband Infraco to be able to offer services in those areas and also offer co-location services to other industry players. These PoPs were built in the following areas: Worcester (Western Cape), Huegenot (Western Cape), Prince Albert (Northern Cape), Middelburg (Mpumalanga), Bloemhof (Free State), Lainsburg (Western Cape), Hutchinson (Northern Cape).

On each site the following activities were performed, civil works, container installation, fibre interconnection, installation of cabinets, fibre splicing, DC systems installation and AC Power connection.

A total of R7 million was invested on the project.

4.2 OPERATIONAL EXCELLENCE

Network Operations and Maintenance provides high network availability and reliability. This ensures that the Company delivers an acceptable Quality of Service (QoS) and complies with the performance metrics specified in Service Level Agreements (SLAs). During the year under review, the following were successfully completed:

- The negotiation and completion of the maintenance contract with both Eskom and Transnet Freight Rail;
- The insourcing of the Facilities and Terminal equipment functions, resulting in a much improved network integrity and lower operational costs;
- Network refurbishment pertaining to 124km of Adlash fibre cable which was re-lashed, resulting in fewer failures, thus improving the overall network availability;
- The provisioning of Cell C services and the commissioning of the Yzerfontein – Rondebosch link and the provisioning of services on that link;
- The completion of the NOC insourcing. This has resulted in significant reduction in the cost of sales for the Company;
- The migration of a major customer services from Right of Use agreement to Master Service Agreement (MSA);
- The achievement of customer services availability target as per Shareholder Compact KPI (99.5%); and
- Action was taken to eliminate the risk by updating civil engineering building specifications and implementing new shelter specifications for improved safety and security.

"The achievement of customer services availability target as per Shareholder Compact KPI (99.5%)."

4.3 EMBEDDING OF GOVERNANCE INSTITUTIONALISATION

There has been a significant stabilisation of the Company with many improvements in the way decisions are executed especially in the Network Engineering department. Major emphasis was placed on improving operational excellence in conjunction with programmes from other departments. This has resulted in a very stable engineering environment overall and better retention rates for staff.

Broadband Infraco has established fully functional and well-resourced governance committees including the:

- Design Review Committee (DRC): responsible for tracking engineering worflow and approving optimal project designs and determining business cases; and
- Capital Infrastructure Steering Committee (CISC): ensures that all major capital expenditure supported by quality proposal that is viable.

Broadband Infraco also embarked on a programme to review its project management methodology and reinstate sound project management and governance within Capital Programme. To achieve this, all infrastructural projects that Broadband Infraco has undertaken since inception were reviewed, analysed and audited. The programme focused on the following:

- Audited and validated project expenditures;
- All anomalies in project expenditures were corrected;
- All completed projects were closed and capitalised;
- Business cases for certain projects were re-evaluated,
- The project approvals for certain projects were validated; and
- Project scope for all open projects were validated.

Capital Programme Management developed a full project solution and methodology to avoid further inconsistencies in project implementation and avoid scope creep and prevent future cancellations/suspensions by ensuring that all necessary and basic information that will enable implementation of projects is supplied before project execution.

"...Management developed a full project solution and methodology to avoid further inconsistencies in project implementation and avoid scope creep..."

4.4 PROJECT IMPLEMENTATION

Capital Programme Management executed a portfolio of projects with a combined value in excess of R143 million during the year under review.

Capital projects completed during this reporting period included, the Yzerfontein Point of Presence (PoP) and associated fibre connectivity as well as 7 other PoPs which are ready for customer connections and the completion of the cross border connection to Zimbabwe at Beitbridge. The network was extended by 112km of fibre.

"The network was extended by 112km of fibre."

4.5 TECHNOLOGY EVOLUTION

Due to the growing demand from Broadband Infraco's potential client base for IP services, the Company rolled out an IP/MPLS Core Network between the three major metropolitan cities of Johannesburg, Cape Town and Durban (the "Golden Triangle"). An achievement in this area was a successful trial of the Carrier Ethernet services E-LINE (point to point service) and E-LAN (point to multipoint service).

"... this area was a successful trial of the Carrier Ethernet services E-LINE (point to point service) and E-LAN (point to multipoint service)."

4.6 CUSTOMER ENGAGEMENT

- **Customer Retention**

Broadband Infraco retained all its existing customers in the year under review. That includes its anchor client and several pan-African as well as leading mobile operators. High service availability improved customer service provisioning and improved key account management contributed to such outcomes.

- **Customer Acquisition**

Broadband Infraco grew its customer base significantly in the year under review as a consequence of aggressive business development endeavours and soliciting customer trials. A cross-functional Sales Pipeline Review Committee has been established with a focus on unblocking bottlenecks between customer demand and technical provisioning feasibility.

- **Product management**

Broadband Infraco has evolved its network technology to the IP platform, which allows for the ability to sell its capacity in smaller capacities than previously possible. This addresses the requirements of smaller ICT re-sellers and other ICT players. It commenced with selling its first IP-based Level 2 Carrier Ethernet services in the financial year under review.

"High service availability improved customer service..."

Broadband Infraco is now offering co-location as a product, this means other players can co-locate their equipment with Broadband Infraco and avoid duplication of capital layout investments, contributing towards making the entire industry more cost effective and enables greater access footprint in the country.

Brand Reputation and Stakeholder Engagements

The very first fully fledged, targeted brand building and awareness campaign was undertaken during this period. All nine provinces were reached through a monthly partnership programme with the Government Communications and Information Services (GCIS) department. This target audience included provincial ICT decision makers and improved awareness and brand affinity were created through such engagements.

Mpumalanga province Public Sector Management event. Broadband Infraco's Sammy Mafu Csecond from the right) surrounded by dignitories

Southern African Telecommunications Association (SATA)

In pursuit of delivering on the SADC protocol on transport, communications and meteorology Broadband Infraco successfully hosted the SATA SNO Conference attended by 18 SADC operators. SATA is the regional representative of the International Telecommunications Union (ITU). Participants had opportunity to explore the Broadband Infraco NOC and gained first hand experience on how the high service levels are maintained.

Launch of the WACS cable

Broadband Infraco partnered with the WACS consortium members to organise a very successful WACS launch event that took place on the 11 May 2012 in Cape Town. The Deputy Minister of the DPE as well as the Deputy Minister of the DoC addressed the attendees of the event. This event further enhanced Broadband Infraco's position as an enabler of international connectivity that continues to bring prices down in South Africa.

5. Sustainability and Governance

5.1 HUMAN CAPITAL MANAGEMENT

The Human Resources Department has constituted a programme of action that seeks to address the organisational changes effectively and expeditiously. The strategic intent was about putting the basics in place in order to establish a sound basis for enhancement of talent management.

Priorities and Impact Thereof

- Enhancing leadership and managerial capability for strategic direction, repositioning and effective organisational functioning.
- Organisational capacity building to enable the execution of strategic objectives.
- Organisational culture change initiatives to align the culture to the vision, mission and values of the organisation for coherence, shared ownership and harmony.
- Formulation of talent development strategies, policies and procedures to align to conditions of employment, legislative requirements and best people management practices.

Achievements

Leadership Capability Enhancement

Six (6) executive positions have been filled, namely, Executive: HR, Chief Executive Officer, Executive: Legal and Regulatory, Chief Sales and Marketing Officer and Chief Technical Officer, including a General Manager: Marketing during the year under review. The positions for Executive: Special Projects and General Manager: Capital Programs have now been consolidated into one position regarded as Executive: Capital Programs.

Information sharing sessions were facilitated at Senior Management and Executive for alignment of people management practices in the organisation. Talent management processes and practices such as human resources planning, employee annual performance evaluation and contracting, remuneration philosophy and change management were work-shopped for increased awareness. Training programmes on matters of mutual employee/employer relations were arranged.

Organisational Capacity Building

Job Profiling

Twenty-six (26) positions were profiled for accurate job content, clarity of roles, responsibilities and correct levels of accountability graded as well as ability to determine internal and the outcome was communicated to management and the incumbents where positions are occupied.

Broadband Infraco staff social event

World Aids Day

Staff Movement

The headcount figure for the 2012/2013 financial year is highlighted below:

Categories	Numbers	Totals
Permanent Staff		**168**
New Hires	**15**	
Separations	**(28)**	
Resignations	26	
Involuntary Reductions	2	
Expiry of Contracts	**(11)**	
Contract Workers	5	
Internship Students	6	
Closing Headcount		**146**
Permanent	144	
Contract(s)	2	

Attraction and Retention of Talent

Improvement of workplace morale by creating an environment conducive for employee empowerment through information sharing, on-going communication (written or direct) was of essence. Consultative workplace practices on matters relating to conditions of service, competitive employee benefit schemes, career advancement opportunities and regular engagement were some of the vehicles employed to boost workplace morale and enable attraction and retention of talent.

Talent Acquisition

- A human capital plan was developed by EXCO for the 2012/13 FY and 189 positions were planned. Of these, twenty-nine (29) were vacant. With 28 separations, the total number of over the year vacancies came to fifty seven (57).
- Twenty-four (24) vacant positions were filled with seventeen (17) new appointments (15 permanent and 2 Contractors) from external recruitment and seven (7) internal promotions.
- The challenge remains the appointment of women at management level.

Job Levels	No.	Gender		Race			
		M	F	A	I	C	W
Executive	6	4	2	5	-	-	1
Senior Management	8	7	1	7	1	-	-
Middle Management	4	4	-	4	-	-	-
Operational	5	4	1	4	-	-	1
Support	1	-	1	1	-	-	-
TOTAL	**24**	**19**	**5**	**21**	**1**	**-**	**2**

Employment Equity Demographic Profile

Occupational Levels	Male				Female				Foreign Nationals		Total
	A	C	I	W	A	C	I	W	Male	Female	
Top management	2	0	2	1	4	0	0	0	0	0	**9**
Senior management	7	0	0	2	3	0	0	1	0	0	**13**
Professionally qualified and experienced specialists and mid-management	21	0	1	3	12	0	0	2	0	0	**39**
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	41	1	2	3	20	0	0	0	1	0	**68**
Semi-skilled and discretionary decision making	1	0	0	0	12	0	0	2	0	0	**15**
Unskilled and defined decision making	0	0	0	0	0	0	0	0	0	0	**0**
TOTAL PERMANENT	72	1	5	9	51	0	0	5	1	0	**144**
Temporary employees and Interns	0	0	0	0	2	0	0	0	0	0	**2**
GRAND TOTAL	**72**	**1**	**5**	**9**	**53**	**0**	**0**	**5**	**1**	**0**	**146**

Total Separations

Job Levels	No.	Gender		Race			
		M	F	A	I	C	W
Executive	3	2	1	-	1	-	2
Senior Management	10	7	3	4	3	2	1
Middle Management	7	4	3	6	1	-	-
Operational	8	5	3	7	-	-	1
Support	5	0	5	5	-	-	-
Interns	6	3	3	6	-	-	-
TOTAL	**39**	**21**	**18**	**28**	**6**	**2**	**3**

- Attempts to identify persons living with disabilities (PwD) will receive more impetus in the new financial year. A move to premises with required facilities for access and accommodation will be a vital enabler.

ORGANISATIONAL CULTURE CHANGE FOR PERFORMANCE IMPROVEMENT

Performance Management

- Reinstituting the performance management framework through change process to instil a culture of effective performance was pivotal in the organisational transformation process and talent management. The modified framework and appropriate approach instilled by means of training at all levels of the organisation constituted a means to align employee performance to the Company's planned objectives. The appreciation for performance management as a tool of measuring individual and team contribution towards the organisation's success rate is being raised at different levels. The model is being developed further to include 360 degrees feedback and measuring adherence to the organisational values.

- The transition from the old framework was challenging to some and the process was protracted. It is anticipated that over and above the training provided at conceptual and methodology level, the approval of a revised and more comprehensive policy and procedure will enable efficient 2012/13 performance evaluation and the 2013/14 contracting processes.

"The appreciation for performance management as a tool of measuring individual and team..."

Change Management project

- Change Management project played a significant role in eliciting information that provided organisational diagnostics about the issues behind the problematic dynamics that manifested in the organisation. It created an opportunity for the establishment of an employee value proposition that informed talent capital strategies and policy formulation. The revised implementation plan was approved by EXCO and a diagnostic survey on employee perceptions was concluded during the reporting period.

- The state of the organisation report, change management strategy and implementation plan have been presented to Excutive Management, Senior Management and Middle Management. Leadership Competency profile and Development, assimilation of Performance Management Framework principles and review of HR Policies and Procedures were completed. The training of Change Agents to facilitate implementation of transformation, team building sessions for the establishing a coherent senior management body and assimilation of how to live the organisation's values are parts of the remaining phase of the project.

Strategic Partnerships and Line Management Empowerment

- Strategic partnerships with different stakeholders are regarded as an essential positioning, shared ownership and cooperative approach to people management practices. There was need for establishment of a Senior Management Forum to inculcate a culture of accountability and responsibility for shared ownership of business challenges. The establishment of Pension Fund Management Committee for administration of the employee fund, Employee Study Assistance Committee are structures of collaboration between HR and other members of staff at different levels that were established to ensure representation of all interests in the organisation.

Employee Assistance Programme

- The service provided by ICAS was launched during the third quarter to assist in alleviating performance problems that might be as a result of personal and work related challenges for which employees need professional support, counselling and advise services. In terms of the uptake of the services, 11 individuals engaged with the programme, presenting with 19 issues, for which 17 services were provided. Core individual Employee Assistance Programme (EAP) utilisation for the period was 25.7% against a benchmark of 7.4% for the public sector. However, no employees presented any problems that caused a severe impact on their work performance.

"The service provided by ICAS was launched during the third quarter to assist in alleviating performance problems..."

TALENT DEVELOPMENT STRATEGIES AND POLICIES

Review of HR Policies and Procedures

- A further priority was the review of existing HR policies and formulation of new people management guidelines to enable the implementation of an integrated talent management strategy and ensure synergy between the employee value proposition and the organisation's people management philosophy as well as legislative prescripts.

People Development

- A talent development strategy that outlines a career advancement structure and development processes was approved by the Human Resources and Remuneration Committee (HRRC). The strategy addresses development for leadership capability, managerial competence, technical skills upgrading, fundamental/functional programmes; dual career progression streams and up-skilling programmes.

- The 2012/13 annual training plan was compiled from individual development plans and divisional requirements presented by divisional heads. Total number of 412 participants received trained at the total cost of R901 170.00 over 9 646 hours. Seventy-one percent (71%) was spent on core technical skills programmes.

"training plan was compiled from individual development plans and divisional requirements..."

Internship, Career Pathing and Succession Planning frameworks

- A dual career stream framework has been focal point for the organisation development function of HR. It is believed that these are critical components of the talent management strategy for capacity building and leadership development pipeline. The relevant policies have been developed to facilitate implementation in the new financial year.

- A career path framework for the technical environment (Engineering and Project Management).

Employee Relations Management

- The turnaround time for the management of internal disciplinary hearings has improved. Proceedings were instituted within 21 days of arising and being reported to HR. There were a number of occasions where employee relations management assistance was required to deal with various employee such as poor attendance and behavioural problems such as poor attendance, behaviour corrective procedures. The function provided support for organisation development processes like redesign of jobs.

- Two cases referred to the CCMA were resolved amicably with no adverse outcome for the Company. One of them was on the substantive negotiations. An unfair dismissal dispute lodged by an ex senior employee was withdrawn from the CCMA by the appellant. There were three (3) Labour Court registered cases in progress but no new cases were registered.

- The annual substantive negotiations process was settled at a point where the employer offered 6.6% salary increase on a Total Cost To Company (TCTC) across the board at bargaining level.

Going Forward

- The 2013/14 financial year moves HR from basics to awareness and implementation of the strategies through the policy framework. Leadership capability development needs to be expedited and linked to succession planning.

- The attraction and retention of critical core skills and the determination of skills gaps will be the most critical process to ensure that organisational competence is developed. There is a need for establishing internal assessment centres to evaluate levels of skills depth.

- The department needs to have an upgraded Human Resources Integrated Information System (HRIIS) in order to deliver as per the organisation's expectation. Partnerships with other SOC's must be intensified to exchange skills, share methodologies for talent development and career advancement.

- To provide capacity for the short to medium terms projected business growth and operational activities, an additional 19 positions at different levels of the hierarchy on the organisational structure have been approved.

- Implement the Broadband Infraco Human Resources Development Strategy based on principle of a combination of build, buy or borrow.

5.2 SUPPLY CHAIN MANAGEMENT

Supply Chain Management (SCM) is a critical aspect of the business and has a major impact in delivering on the Company's objectives and mandate. The function has experienced challenges related policies and processes as well as a host of various operational shortcomings during the period under review.

In spite of the challenges mentioned above, SCM was able to facilitate the procurement of goods and services for the Company. The total procurement costs for the year amounted to R269.3 million. As an infrastructure Company in the telecommunication industry, Broadband Infraco procured the following critical goods and services:

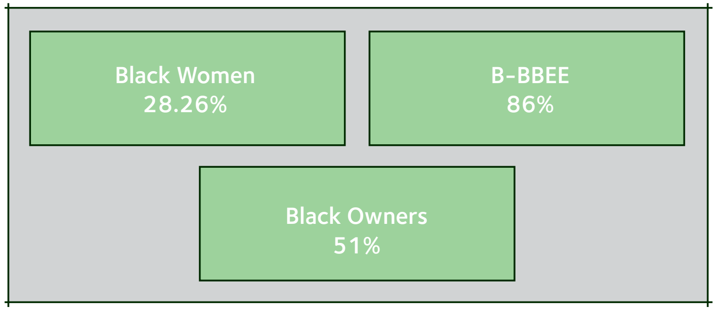
- Transmission equipment;
- Fibre and installation of thereof;
- Fibre accessories;
- Civil works including trenches, fencing, constructing building sites;
- Supply of poles and manholes ;
- Batteries and rectifiers;
- Containers and construction of building;
- Cabinets of different sizes;
- Major generators, air conditioners; and
- Professional services including engineers and project management.

A number of framework agreements were concluded and these include refurbishment of containers throughout the country, supply of batteries and rectifiers, containers and professional services for engineering services to assist with obtaining way-leaves, planning and design.

The conclusion of framework agreement is in line with the process of enhancing procurement activities and move from procure-to-buy to more strategic procurement process.

Broadband Infraco's investment programme drive to major infrastructure development called for a shift in the way the SCM department was structured to move from being a support department but more of a strategic partner to the business in order to achieve the Company's objectives.

SUPPLIER DEVELOPMENT PROCUREMENT AND B-BBEE



Interventions for the Next Financial Year

Broadband Infraco will be employing a developmental procurement approach, which will assist with maximising economic impact of procurement, both in terms of job creation and developing local industrial capability and capacity. There is also a drive of ensuring that there is industrialisation of telecommunication industry by involving women and the youth.

The shift to partnering with business will put more focus on delivering value through strategic sourcing whilst concentrating on transformation and empowerment through preferential procurement especially black women and the youth.

Broadband Infraco will optimise its contribution to B-BBEE in all its activities. Broadband Infraco aims to achieve a preferential procurement target for recognised B-BBEE spend of between 70% – 80% of the total measured procurement spend.

As a critical state owned player in the ICT industry, Broadband Infraco support and align with the ICT Charter and will continue to investigate opportunities which will lead to the creation of specific initiatives for assisting and accelerating the development and sustainability of beneficiary companies. Broadband Infraco B-BBEE statistics has been tracked by the amount of spent with B-BBEE companies as per the Codes of Good Practice. This industrialisation effort will be supported by a renewed vigour of the industry, including women and youth.

5.3 LEGAL AND REGULATORY

The Company views its adherence to legal and regulatory requirements seriously as a means in providing assurance and creating stakeholder loyalty and strengthening trust between itself and all of the stakeholders and to reinforce its commitment to good corporate governance.

A number of regulatory developments have taken place in the financial year. These developments are likely to have a significant impact on the ICT industry in general, including the business and operations of Broadband Infraco. These include the ECA Amendment Bill, ICASA Amendment Bill, Digital Migration Regulations, ICT Policy, National Development Plan, General Licence Fees Regulations, Revised Broadband Policy for South Africa, ECNS Licence- Universal Access Obligations and ECS Licence.

ECA Amendment Bill

During July 2012, the Department of Communications (the "DoC") published the Electronic Communications Amendment Bill (the "ECA Amendment Bill"), accompanied by an explanatory memorandum for public comment. The ECA Amendment Bill addresses issues that have been prevalent since the enactment of the Electronic Communications Act No. 36 of 2005 (the "ECA"). These issues range from control and ownership of licences, management, control and administration of radio frequency spectrum, to regulation of anti-competitive behaviour. The current version of the ECA Amendment Bill will, if enacted into law, drastically change the ICT landscape in South Africa. The Company has commented on various aspects of the ECA Amendment Bill, and will continue to monitor movements around this important piece of legislation.

ICASA Amendment Bill

The DoC has, towards the end of 2012, published the ICASA Amendment Bill for public comment. The Bill is aimed at, amongst others, improving the functioning and efficiency of ICASA, and ensuring that ICASA regulates the sector in the public interest aligned to broader policy objectives of the Government. The Bill has come under heavy criticism from the ICT industry, on the basis that it compromises the independence of ICASA. Broadband Infraco's comments have also emphasised the importance of preserving ICASA's independence (both administrative and financial independence) from the DoC Minister. The ICT sector requires an independent, and a sufficiently capacitated regulator who will regulate the sector under a revised policy framework.

"The Bill is aimed at (amongst others) improving the functioning and efficiency of ICASA"

Digital Migration Regulations

During December 2012 ICASA published the final Digital Migration Regulations that will govern the digital migration process. The regulations are aimed at ensuring a smooth transition from analogue to digital broadcasting. ICASA intends to, through these Regulations, achieve three objectives:

- *Universal Service* – currently 85% of the population receive an analogue terrestrial TV signal. Upon completion of the migration process, 85% of the population will receive a digital terrestrial TV signal. The remaining 15% will receive a digital satellite TV signal. Coverage for the entire population will, for the first time be possible.
- *Consumer Choice* – the migration from fewer than 15 analogue terrestrial channels to up to 140 digital terrestrial channels (of superior quality) will offer more choice to the consumer.
- *Fair Prices* – Increased choice will drive down prices for the consumer.

The dual illumination period (analogue and digital signals being switched on simultaneously) and the final switch-off date of the analogue signal will be determined by the Minister of Communications. The switch-off date was initially estimated to take place in December 2013. This target is likely to be missed due to the delays in rolling out Set Top Box decoders. The 800 MHz spectrum (in which the Company is interested) will only become available upon expiry of the dual illumination period.

ICT Policy Review Process

The DoC hosted a National ICT Policy Colloquium during April 2012 to start a process of reviewing all the Government ICT policies that have been in existence since 1994. The Colloquium was the first step towards the formulation of an integrated National ICT Policy. The Company participated in various discussions held during the Colloquium, towards the reformulation of policy and regulation in the ICT sector. The Colloquium was followed by the hosting, by the DoC, of the ICT Indaba during June 2012. This was followed by the DoC's press release, during December 2012, announcing the appointment of the ICT Policy Review Panel that will advise the DoC on the development of the Green and White Papers on an Integrated National ICT Policy Framework.

The Panel is expected to make recommendations on appropriate policy and regulatory frameworks that support the growth and development of the country and determine the principles that will underpin this new vision and policy framework, make recommendations on implementation plans, options and time frames, determine the potential impact of the reform options on the ICT industry, consumers and the community, and identify progress and constraints in ICT Research and Development, ICT skills development and ICT investments. The Company will be making representations to the DoC to include it on the Panel responsible for this important policy formulating process.

"Increased choice will drive down prices..."

National Development Plan

The National Planning Commission released the National Development Plan ("NDP") on 15 August 2012. The NDP builds on the Government's New Growth Path, which aims to eliminate poverty and reduce inequality by building/enabling a faster growing and an inclusive economy. It focuses on ICT within the context of financing, building, improving and rolling-out infrastructure. The NDP outlines certain priorities to achieve an enabling ICT sector. The short term goals (2012-2015) set out in the plan include adjusting market structure and removing legal constraints to enable full competition, fast-tracking the local loop unbundling process, reviewing institutional arrangements to ensure the existence of a resourced regulator, managing spectrum for efficient use, ensuring access to low cost international bandwidth with open access policies, facilitating the development of high bandwidth backhaul networks, and reviewing SOC's to determine if they are fulfilling their purpose, constraining competition, or squeezing out private investment. In the medium term (2015-2020), the NDP supports the DoC's target of 100% broadband penetration by 2020, and expects broadband speed of at least 2Mb per second by 2020.

The long-term objective (2020-2030) of the plan is to ensure that, through the implementation of e-strategy (the Government will make extensive use of ICT to engage with and provide services to its citizens), ICT must support rather than limit the global competitiveness of South Africa. The NDP has been adopted by Cabinet, and will guide future developments of national policies and strategies, including those applicable in the ICT sector.

General Licence Fees Regulations

In terms of the General Licence Fees Regulations, 2009, licensed operators were required to make payment to ICASA of annual licence fees equal to 1.5% of their Gross Profit. Consequently, Broadband Infraco did not incur any liability towards the payment of annual licence fees in the current financial year, since it recorded a loss. ICASA has now published revised General Licence Fees Regulations, 2012, which came into effect on 1 April 2013. These Regulations prescribe that the calculation of annual licence fees would be based on revenue generated from licensed services and applied in accordance with the stipulated sliding scale. The Company is therefore expected to attract liability for payment of licence fees in respect of its future revenue, and regardless of whether or not it is in a loss-making position.

Revised Broadband Policy for South Africa

The DoC has recently released the draft National Broadband Policy for South Africa (the "draft Policy") for public comment. The draft Policy seeks to replace the current version of the Broadband Policy for South Africa published in July 2010. The objectives of the draft Policy are (amongst others) ensuring universal service and access to reliable, affordable and secure broadband services by all citizens, prioritising rural and under-serviced areas, reducing the cost of broadband services and clarifying the roles of State Owned Companies and the private sector in developing world-class broadband infrastructure in the country. It recognises that funding by Government of broadband initiatives is fragmented.

According to the draft Policy, the state's primary role in the future in the ICT sector will be to facilitate competition and private investment, and to ensure effective regulation where market failures are apparent. It suggests that, over and above the existing international bandwidth capacity, further investments in submarine cable systems be made with a view to strengthening SADC regional integration.

The draft Policy advocates for the deployment of wholesale backbone networks, operated on a wholesale open access model, with Telkom being the bulk provider of such backbone infrastructure. With regards to local access networks, the draft Policy encourages the roll-out of fibre to the home in the long run, but also recognises that radio-based technologies will continue to play a complimentary role to fibre in relation to deployment of technologies. The draft Policy further mentions that the allocation and assignment of radio frequency spectrum suitable to low-capacity coverage areas will be prioritised for purposes of rolling-out broadband services in rural areas. Broadband Infraco will be making a comprehensive submission to the draft Policy, touching on all key aspects of the policy that are likely to influence future deployment of broadband infrastructure and services.

ECNS Licence-Universal Access Obligations

Broadband Infraco is expected to have rolled-out PoPs in 37 Under-Serviced Areas over a period of seven years in compliance with the Universal Access Obligations contained in its Individual Electronic Communications Network Service Licence. Phase 1 of this project requires the Company to have rolled-out 18 PoPs by 31 October 2012, phase 2 outlines the roll-out of 11 PoPs by 19 October 2014, and phase 3 makes reference to the roll-out of 8 PoPs by 19 October 2016. The Company has addressed a letter to ICASA attaching reports which indicate that it has substantially complied with the Phases 1and 2 roll-out obligations.

ECS License

The Company, through its majority shareholder, is still pursuing the issuance of an Individual Electronic Communications Service Licence. This licence will enable the Company to fulfil the remaining aspects of its mandate, particularly in relation to the deployment of broadband infrastructure in rural areas.

5.4 SOCIO-ECONOMIC DEVELOPMENT

Introduction

By the nature of its founding mandate, Broadband Infraco's operational footprint is to expand access to communications technology thereby supporting the developmental state's objectives of transforming the nation into a prosperous, high-tech, and advanced society pioneering the art of using technology to address under-development.

Broadband connectivity is generally defined as a high-speed, high capacity transmission medium that can carry signals to and from multiple independent network carriers. It has the power to accelerate the growth and development of a country. It is also regarded as a powerful transformative force able to improve how individuals work, conduct business, access Government information and services and how they socialise with one another.

Broadband connectivity is a key enabler for economic growth and social development. Access to broadband connectivity should be recognised and treated as a basic human utility, equal to water, electricity and housing. By having access to broadband, people and organisations can be empowered through information and knowledge, services and opportunities that are associated with the Internet. In compliance with its Policies, Broadband Infraco's corporate citizenship expresses itself through the execution of its core mandate as outlined beneath:

Contributing to socio-economic development through extended provincial roll-outs

Broadband Infraco will roll-out ICT infrastructure in rural underserviced areas including provinces which do not represent a viable commercial business case; purely universal access roll-out. These include:

Provinces with Socio-Economic Imperative	
North West	Northern Cape
5.9% of total national bandwidth traffic origination; poor infrastructure spread.	2.1% of total national bandwidth traffic origination; sparsely populated (less than a million) with very poor infrastructure.

The Northern Cape Phase 1: the requirements include an access network as there is no national backhaul. The access network will connect 21 of the 27 municipalities deploying over 894km of national backhaul fibre.

The North West Phase 1: the requirements include baseline coverage in 17 municipalities, rolling out over 691 km of national backhaul fibre.

In addition to these two provinces, Broadband Infraco will also undertake similar initiatives in the Eastern Cape; rolling out an access network connecting 37 out of 38 municipalities with access to broadband connectivity. Expanding access to areas that are not addressed by the market and the likelihood of market investment is very low due to poor economic activity. Deploying 487km fibre and wireless backhaul to enable provincial connectivity will translate into 97% coverage in the province.

Lastly, the Northern Ring project covering Mpumalanga and Limpopo Provinces is a requirement which involves an access network connecting 19 of the 25 municipalities with access to broadband connectivity. This means deploying backhaul connectivity of 554km redundancy and Network expansion, connecting Limpopo and Mpumalanga; enabling among other district-level and SADC regional integration.

Broadband Infraco will also undertake roll-outs in the Western Cape; Gauteng; KZN and the Free State.

"Deploying 487km fibre and wireless backhaul to enable provincial connectivity will translate into 97% coverage in the province."

The Benefits of rolling out universal provincial broadband in South Africa

Universal access to broadband has proven to have a direct multiplier effect on a nation's Gross Domestic Product (GDP). New "knowledge" economies are built on leveraging intellectual capital – i.e an economy where information is created and traded and new businesses are formed, resulting in growth in GDP. A World Bank report regarding the impact of broadband growth in 120 countries from 1980 to 2006 showed that each 10 percentage points of broadband penetration results in a 1.21% increase in per capita GDP growth in developed countries, and 1.38% increase in developing countries. Another 2012 study, conducted jointly by Ericsson, Arthur D. Little and Chalmers University of Technology in 33 Organisation for Economic Co-operation and Development (OECD) countries, quantifies the isolated impact of broadband speed, showing that doubling the broadband speed for an economy increases GDP by 0.3%. This corresponds to more than one seventh of the average annual OECD growth rate in the last decade. Other benefits include:

- Broadband can promote economic development and revitalisation through electronic commerce by creating new jobs and attracting and developing new industries and providing access to local, provincial, national, and global markets.
- Broadband provides access to a wide range of educational opportunities and resources. It encourages e-learning experiences throughout a country. It has the ability to provide an educational platform which transcends geographical and financial challenges often experienced in South Africa.
- Broadband can facilitate provision of medical care to marginal and underserved populations through remote diagnosis, treatment, monitoring, and consultations with specialists thereby encouraging tele-health and tele-medicine. Broadband also has the potential to reduce distance between medical institutions because information is readily available when needed.
- Electronic Government can help streamline people's interaction with Government agencies and provide information about Government policies, procedures, benefits, and programmes.
- Investment in broadband, especially in rural and underserviced areas, helps to reduce the digital divide between these and more developed regions. The Digital-divide can be reduced by ensuring that under-served regions enjoy similar levels of broadband connectivity and information to their urban counterparts.
- One hundred per cent broadband coverage to all households by 2020 means the creation of several layers of connectivity across the country by establishing core PoPs in district municipalities, extending fibre and radio networks across provinces to link districts, establishing PoPs, fibre and radio connectivity at local level, and further expanding the network into deep rural areas.

Broadband Infraco continues to avail opportunities in the provision of goods and services in the telecommunication industry, with shortage of suppliers, especially in the area of:

- Fibre manufacturing: Agents.
- Civil works: Service Provider.
- Container manufacturers/ repairs and refurbishment.

In terms of Enterprise Development, there are more than 400 ECNS licence holders, for last mile provision. Broadband Infraco's intention is to approach the open market for the appointment of local provincial based last mile partners to promote local economies, thereby stimulating SMME development in most rural provinces. The Umzinyathi partnership has already yielded connectivity to remote underserviced areas in this regard.

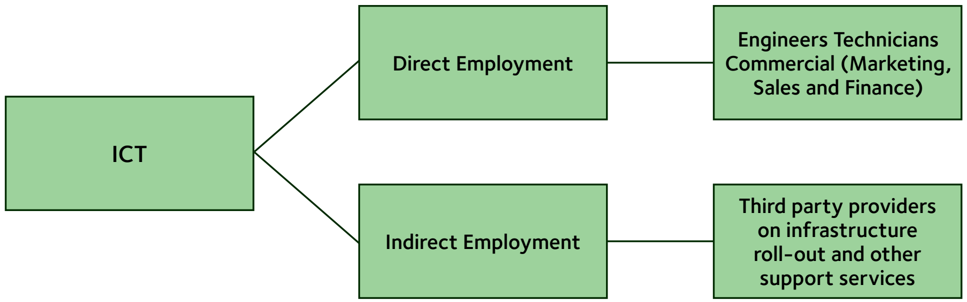
"Broadband Infraco's intention is to approach the open market for the appointment of local provincial based last mile partners to promote local economies..."

In terms of Preferential Procurement, Broadband Infraco has set itself the following targets:

- Procure 70% of eligible procurement from excellent, good and satisfactory BEE contributors;
- Publish and implement favourable payment terms for SMME's of less than or equal to 15 days;
- Implement a robust, independent verification and reporting mechanisms to avoid fronting; and
- A minimum of 30% of the 70% procurement spend should be directed towards black owned, black empowered and black engendered SMME"s that are excellent and good contributors to BEE, this can be done through subcontracting, but such requirement should be part of the strategy before tendering.

Contributing to socio-economic development through employment opportunities

Broadband Infraco offers a wide employment spectrum within the ICT sector and related support functions as indicated beneath:



Broadband Infraco specialises in a Technical Skills Development Programme targeted at engineering graduates only.

- The Internship Programme is directed at graduates who want to pursue a career in ICT industry. The programme runs for 12 to 18 months which provides them with opportunities to gain meaningful workplace experience to complement their studies.
- Since the inception of the programme 7 interns were offered permanent employment on completion.
- Direct entry from secondary education to the Internship programme is not possible and a minimum three-year appropriate qualification within any of the Engineering disciplines (from a recognised institution) is required for application to the Internship Programme. Thus only graduates are eligible.

Creating decent work and developing human capital development are national priorities. Broadband Infraco is deeply committed to contributing its part to achieve such objectives. To that end, Broadband Infraco also offers bursaries and training programmes to its employees to advance their careers.

In the forthcoming Financial Year, Broadband Infraco has budgeted to plan and execute a minimum of two explicit Corporate Social Investment programmes. These programmes will be governed by Broadband Infraco's Corporate Social Investment (CSI) policy which supports overall economic growth and transformation of South Africa. Broadband Infraco is committed to establishing relations with communities in which it rolls out its infrastructure through education, health and other social investment activities.

5.5 STAKEHOLDER ENGAGEMENT

Maintaining co-operative relationships with a broad range of stakeholders is key in identifying issues that have an impact in Broadband Infraco's ability to fulfil its mandate. Broadband Infraco successfully concluded the following stakeholder engagements in the period under review:

- Provincial Engagements:
  - o Broadband Infraco engaged in several visits to all nine provinces and in some instances iniaitited dialogue on provincial broadband backbone connectivity plans.
  - o Broadband Infraco and the Limpopo Province through the Limpopo Economic Development Agency (LEDA) concluded a Memorandum of Undertanding to cooperate on the roll-out of the provincial backbone network.

- Eskom

  Broadband Infraco has fostered a direct relationship with Eskom and a contract has been put in place in terms of infrastructure management. Joint future planning iniatives are ongoing.

- Transnet

  Broadband Infraco has fostered a direct relationship with Transet and a contract has been put in place in terms of infrastructure management. Joint future planning initiatives are ongoing.

Ramasela Magoele (Chief Financial Officer), Mandla Ngcobo (Chairman of the Board) and Meta Maponya (Chairperson of Audit and Risk Committee)

5.6 CORPORATE GOVERNANCE

Good corporate governance is a precursor to a sustainable and a resilient business. Broadband Infraco is continuously looking at improving its enterprise business model and find ways of embedding strong governance, robust business processes, risk, and compliance to ensure resilient business foundation now and into the future.

In driving its corporate governance processes, the Company meets most of the recommendations of King III Code on Corporate Governance, PFMA, Companies Act and Treasury Regulations. The structures, policies and culture of the business are the key in encompassing good corporate governance principles.

In the year under review, the Governance division continued instilling, embedding, advocating and creating awareness on good corporate governance principles throughout the business.

PARLIAMENTARY OVERSIGHT

During the year under review, Broadband Infraco had numerous engagements with the Portfolio Committee on Public Enterprises as well as the Select Committee on Labour and Public Enterprises which play the oversight role for the Department of Public Enterprises (Executive Authority). The engagements that the Company had with the Committee were significant in terms ensuring that Broadband Infraco stays on course on delivering on its legislative mandate of expanding the availability of broadband into the underserved areas as set out in the Broadband Infraco Act No. 33 of 2007 (the "Act").

Interaction with the Portfolio Committee

During the year, Broadband Infraco briefed the Portfolio Committee on Public Enterprises on 15 May 2012 regarding issues pertaining to its license requirements. A Portfolio Committee meeting was again attended on 20 November 2012 to present Broadband Infraco's annual report and financial statements. Broadband Infraco subsequently attended the Portfolio Committee meeting on 12 March 2013 to update the Committee on progress made on issues emanating from the 2012 annual report. The Portfolio Committee also conducted an oversight visit to the head office of Broadband Infraco on 31 October 2012.

Select Committee on Labour and Public Enterprises

Broadband Infraco was invited to brief the Select Committee on Labour and Public Enterprises on 17 October 2012 regarding the Department of Public Enterprises (DPE) and Broadband Infraco's efforts to increase access to broadband.

EXECUTIVE AUTHORITY

The Minister of Public Enterprises is the Executive Authority for the Company and the Board of Directors is the Accounting Authority. The role of the Executive Authority is to define and provide a clear strategic goal for the Company to ensure that it achieves its statutory mandate. The Minister of Public Enterprises, through the Department of Public Enterprises (DPE), monitors the planning, delivery and financing of Broadband Infraco based on the mandate by ensuring proper shareholder management with active involvement of the shareholders around the exercise of the following key levers:

- Logical Planning, Monitoring and Evaluation Process;
- Strategic Intent Statement;
- Shareholder Compact;
- Corporate Plan; and
- Regulatory Compliance.

Corporate Plan

Broadband Infraco is required to submit its Corporate Plan and budgets annually to the Minister, National Treasury and to the IDC of SAin the Company at least one month before the start of each financial year in terms of Section 52 of the Public Finance Management Act, 1 of 1999 (PFMA). Broadband Infraco submitted its Corporate Plan to its shareholders on 28 February 2012, which was subsequently approved and implemented.

The Broadband Infraco Corporate Plan demonstrates the Board's understanding of the Shareholder's strategic intent, the Company's business and how the Company will fulfil the Shareholders expectations.

Regulatory Compliance

The Executive Authority monitors Broadband Infraco's compliance with the PFMA and National Treasury Regulations and other applicable legislation that have a bearing on the Company's business.

ENTERPRISE RISK MANAGEMENT

The Company's risk management efforts are underpinned by management's appreciation of the value proposition risk management. The Company's systems of managing risk are also driven by the observance of sound corporate governance practices, together with the obligation to comply with relevant legislated provisions for risk.

The overall system of risk management has been formalised and put into action through the approved Enterprise Risk Management (ERM) Policy and the ERM Framework. The ERM Policy and ERM Framework define, clarify and provide guidance on ERM with respect to:

- The Company's stance;
- Underlying governing principles and concepts;
- Roles and responsibilities;
- Governing principles and concepts;
- Implementation;
- Monitoring and reporting; and
- Methodologies and techniques.

BUSINESS PROCESS MANAGEMENT

The Business Process Management (BPM) ensures that Company processes are aligned to its strategy and plans by defining and continuously making the workflow more effective. The function facilitates the design, development and evaluation business processes. The BPM also enables and supports risk management processes and embedding of internal controls.

The value proposition of BPM is realised through:

- Promotion of business effectiveness and efficiency;
- Stimulating innovation in processes;
- Flexibility and integration with technology;
- Rapid response to change; and
- Continuous processes improvement.

During the year under review, various business processes across the Company's value chain were developed and revised. These include, among others, defined business processes matrix for the technical environment as the first step toward ISO/IEC 20 000 accreditation. This will be scaled to other business units in the ensuing year.

INTERNAL CONTROL

The Board is ultimately responsible for establishing a framework for internal financial control and regularly reviewing its effectiveness, adequacy and relevance. Broadband Infraco has developed a framework of internal control in order to mitigate the significant risks faced by the organisation to acceptable levels. The framework is based on relevant codes of best practice that are implemented in an integrated manner to ensure that the organisation scarce resources are pooled together in enhancing the control environment thus adopting a system to implementation of the framework. The controls are integrated into all business processes at every level in the organisation. In this system, roles and responsibilities are clearly defined and segregation of duties ensured.

"Broadband Infraco has developed a framework of internal control in order to mitigate the significant risks faced by the organisation to acceptable levels."

INTERNAL AUDIT

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

Broadband Infraco adopts a co-sourced internal audit services model. The Audit and Risk Committee and management have taken a policy decision for the Company to build internal audit capability from within the Company. A co-sourcing partnership, with a suitably qualified and experienced service provider is in place to achieve this objective.

Internal audit function follows a risk-based approach in developing the internal audit plans as required by the PFMA, King III and the Standards for the professional practice of Internal Auditing issued by the Institute of Internal Auditors (IIA), the IIA's Code of Ethics and other codes of conduct that are promulgated by applicable professional bodies, and any other corporate governance requirements.

To ensure independence, the Executive: Governance who fulfills the role of Chief Audit Executive (CAE) reports functionally to the Chairperson of the Audit and Risk Committee and administratively to the Chief Executive Officer. In carrying out its duties, the co-sourced internal audit team has unrestricted access to all Broadband Infraco's functions, records, property and personnel.

During the financial year, the internal audit function conducted a number of compliance, financial, governance and information technology audits. The internal audit reviews conducted, focused on both internal control design and operating effectiveness for specific areas reviewed. Where control inadequacies and/or inefficiencies were identified, these were reported to management. The internal audit team developed recommendations for improvement to the internal controls to management where deficiencies were reported and management actions have been agreed to adequately and address this deficiencies.

COMPLIANCE

Although ultimate responsibility for understanding and overseeing the management of compliance with applicable regulatory requirements resides with Broadband Infraco's Board of Directors, compliance management is similarly recognised within the governance structures of the organisation. Broadband Infraco has also established an independent compliance function, with a view to assisting management in identifying, assessing, monitoring and reporting on the Company-wide compliance risks. The compliance function also plays an integral role in advising management on applicable legislative requirements, as well as highlighting identified compliance breaches within the organisation.

During the year under review, the Company has assessed its compliance with inter alia, the following pieces of legislation:

- PFMA;
- Treasury Regulations;
- Companies Act, 2008; and
- King III.

The above-mentioned reviews indicated that the Company has implemented and maintained sound governance structures and processes in compliance with provisions of the said legislations and King III.

BOARD STRUCTURE

The details of Board of Directors and Executive Directors appear on pages 17 to 24 of the Annual Report.

Broadband Infraco has a unitary Board structure with a majority of non-executive directors. For the period under review, the Board consisted of ten directors. This included eight independent non-executive directors, and two executive directors being the Chief Executive Officer and Chief Financial Officer. The non-executive directors are drawn from diverse backgrounds and reflect a wide range of business leadership experience and professional skills that are viewed as invaluable to the organisation.

During the year under review, Mrs P Kwele was appointed as the Chief Executive Officer of Broadband Infraco with her duties commencing on 1 June 2012.

Mr BMC Ngcobo, Mr SA Essa, Dr A Githiari, Ms X Kakana, Ms M M Maponya, and Ms N Selamolela, Mr SAU Meer and Mr ST Mabalayo serve as Non-Executive Directors of the Board. Mrs P Kwele (CEO) and Ms R Magoele (CFO) were appointed ex-officio members to the Board of Directors.

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

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

Within the powers conferred upon the Board, the Board has determined its main function and responsibility of adding significant value to the Company by:

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

Members of the Broadband Infraco board, 2012 AGM.

Board Meetings

The Company held several Board meetings in the financial year, as well as the AGM. Non-executive directors have access to the executive team and information as required.

Board attendance for the period 01 April 2012 to 31 March 2013

No.	1	2	3	4	5	6		7	8	9		10	11
Meeting Date	**15 May 12 (Special)**	**28 May 12 (Board Meeting)**	**11 July 12 (Board Meeting)**	**2 Aug. 12 (Special)**	**10 Sept. 12 (Strategy Session – Day 1)**	**11 Sept. 12 (Strategy Session – Day 2)**	**11 Sept. 12 (Board Meeting)**	**31 Oct. 12 (Board Meeting)**	**13 Feb. 13 (Strategy Session – Day 1)**	**14. Feb. 13 (Strategy Session – Day 2)**	**14 Feb. 13 (Board Meeting)**	**23 Feb. 13 (Special)**	**28 Feb. 13**
Name of Director													
BMC Ngcobo [1]	√	√	√	√	√	√	√	√	√	√	√	√	√
SA Essa	A	√	√	√	A	√	√	√	√	A	A	√	√
A Githiari	√	√	√	√	√	√	√	√	√	√	√	A	A
X Kakana	√	√	√	√	√	√	√	A	√	√	√	√	A
P Kwele [2]	-	√	√	A	√	√	√	√	√	√	√	√	√
MM Maponya	√	√	√	A	A	√	√	√	√	A	A	√	√
ST Mabalayo	√	√	√	√	√	A	A	√	√	√	A	A	√
SAU Meer	A	√	√	√	√	√	√	√	√	√	√	√	A
N Selamolela	√	√	A	√	√	√	√	√	A	√	√	√	√
A Shaw [3]	√	√	-	-	-	-	-	-	-	-	-	-	-
R Magoele	√	√	√	√	A	A	A	√	√	√	√	√	A

Note: A number of ad hoc Board meetings were called at short notice and members were not always available.

√ Attendance
A Absent with apology
1 Chairman of the Board
2 CEO - commenced duties on 1 June 2012
3 Acting CEO – duties ceased on 30 May 2012
- Refer to 3 above

Board Committees

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

The Committees are tasked with assisting the in carrying out its responsibilities. The recommendations and reports of the committees are submitted to the Board to ensure transparency and full disclosure of Committees and business related activities. Each committee operates within an approved terms of reference that sets out the composition, role, responsibilities, delegated authority and the requirements for convening meetings.

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

Audit and Risk Committee

The Audit and Risk Committee was established in compliance with section 94(2) of the Companies Act 71 of 2008. The Committee comprises three independent non-executive directors namely; Ms MM Maponya (Chairperson), Ms X Kakana, Mr ST Mabalayo, and one non-independent non-executive director, Mr SAU Meer.

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

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

The Committee ensures that an effective internal audit function is in place and that the roles and functions of the external and internal audit are sufficiently clarified and co-ordinated to provide an objective overview of the operational effectiveness of the Company's systems of internal control, risk management, governance and reporting. The committee also has to assess the performance of the internal audit function, the adequacy of available internal audit resources and governs the external audit. The Committee approves the internal audit plan, the external auditor's engagement letter and terms, nature and scope, and the audit fee. The internal audit charter, internal audit plan and internal audit conclusions are similarly reviewed and approved by the Audit and Risk Committee.

The Audit and Risk Committee convened 5 meetings during the year under review.

Attendance of the Audit and Risk Committee members for meetings is highlighted below.

Committee Member	1	2	3	4	5
Meeting Date	**28 May 12**	**10 July 12**	**19 Sept. 12 (Special)**	**9 Nov. 12**	**4 Feb. 13**
MM Maponya 1	√	√	√	√	√
X Kakana	√	A	√	√	√
ST Mabalayo	√	√	√	A	√
SAU Meer	√	A	√	√	√
Kwele 2	√	√	√	√	√
R Magoele 2	√	√	√	√	√

√ Attendance
A Absent with apology
1 Chairperson
2 Executive Directors (CEO and CFO) attend by invitation

Joint Audit and Risk and Investment and Finance Committee

Joint Audit and Risk and Investment and Finance Committee meetings have been convened during the course of the financial year. These committees convene jointly in order to review the Quarterly Report submissions to the shareholders.

Attendance of the Joint Audit and Risk Committee and Investment and Finance Committee members for meetings is highlited below.

Committee Member	1	2
Meeting Date	**15 May 12**	**11 Oct. 12**
M M Maponya [1]	√	√
X Kakana	√	√
ST Mabalayo	√	√
SAU Meer √	A	
N Selamolela	√	A
A Githiari	√	√
P Kwele [2]	√	√
R Magoele [2]	√	√

√ Attendance
A Absent with apology
1 Chairperson
2 Executive Director (CEO an CFO) attend by invitation

Investment and Finance Committee

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

The Investment and Finance Committee convened 3 meetings during the course of the year under review.

The Committee is responsible for formulating and maintaining the Company's investment strategy, which is in line with the investment policy and makes recommendations to the Board for the approval thereof; approving criteria and guidelines for capital budgeting for Broadband Infraco and monitor total capital expenditure, reviewing and recommending the annual capital budget to the Board, monitoring and reviewing Broadband Infraco's investment portfolio and recommend changes as and when required, ensuring that the strategic intent will be realised through these investments and that they fall within the guidelines as defined in the investment strategy, reviewing and approving criteria for investments by Broadband Infraco, evaluating capital project expenditure as per the delegation of authority limits, evaluating and approving business cases for new ventures or projects within the limits of its delegated authority.

From a finance point of view, the Committee oversees the financial sustainability of Broadband Infraco, which includes the capital structure of Broadband Infraco and the extent of compliance with gearing and lending ratios, ensures that financial and investment policies and procedures are in place, reviews the Financial and Business Plans and Budgets for approval by the Board, reviews the investment performance of Broadband Infraco on a quarterly basis; and review the long term and short term funding plan for submission to the Board.

Attendance of the Investment and Finance Committee members for meetings during the year under review is highlited below.

Committee Member	1	2	3
Meeting Date	**12 April 12**	**5 Dec. 12**	**22 Mar. 13**
A Githiari 1	√	√	√
S T Mabalayo	√	√	√
X Kakana	√	A	√
N Selamolela	A	√	A
A Shaw 2	√	-	-
P Kwele 2	√	√	√
R Magoele 2	√	√	√

√ Attendance
A Absent with apology
1 Chairperson
2 Executive Directors (CEO and CFO) by invitation
- Refer to 2 above

Tender And Procurement Committee

The Tender and Procurement Committee comprises of three independent non-executive directors and two executive directors. These are Mr SA Essa (Chairperson), Dr A Githiari, and Ms N Selamolela. The Chief Executive Officer, Chief Financial Officer, and Chief Technical Officer attend meetings by invitation.

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

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

- formulating of and maintaining procurement policies and processes that are fair, equitable, transparent, competitive, cost effective and subject to legislation regulating tender and processes;
- making recommendations to the Board in respect of tenders and contracts exceeding its delegated authority;
- ensuring that the Infraco procurement system, and associated policies and processes, are fair, transparent, competitive and cost effective, and adhered to; and
- promoting the objectives of Broad Based Black Economic Empowerment (B-BBEE).

The Tender and Procurement Committee convened 3 meetings during the year under review.

Attendance of the Tender and Procurement Committee members for meetings during the year under review is highlited below.

Committee Member	1	2	3
Meeting Date	**12 April 12**	**5 Dec. 12**	**22 Mar. 13**
SA Essa 1	√	√	√
A Githiari	A	√	√
N Selamolela	√	√	A
A Shaw 2	√	-	-
P Kwele 3	-	A	√
R Magoele 3	√	√	√

√ Attendance
1 Chairman
2 Acting CEO – Exited 31 May 12
3 Executive Directors (CEO and CFO) attend by invitation
- Refer to 2 above

Human Resource and Remuneration Committee

The Human Resources and Remuneration Committee (HRRC) comprises of four independent non-executive directors namely, Mr BMC Ngcobo (Chairperson), Ms X Kakana, Mr SA Essa, and Mr ST Mabalayo. The Chief Executive Officer, Chief Financial Officer and Executive Human Resources attend meetings by invitation.

The Committee assists the Board to enhance business performance through guiding and influencing key human resources policies and strategies, monitoring compliance with the Employment Equity Act, guiding strategies to achieve equity in Broadband Infraco and approving the principles regarding the reward and incentive schemes. The HRRC further plays the role of the Nominations Committee of the Board.

In consultation with the Board:

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

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

The HRRC convened 4 meetings during the year under review.

Attendance of the HRRC members for meetings during the year under review is highlited below.

Committee Member	1	2	3	4
Meeting Date	29 Aug. 12	17 Oct. 12	23 Nov. 12	23 Feb. 13
BMC Ngcobo 1	√	√	√	√
SA Essa	√	√	√	√
X Kakana	A	A	A	√
ST Mabalayo	√ *	√	√	A
P Kwele 2	√	√	√	√

√ Attendance
A Absent with apology
* Via Teleconference
1 Chairperson
2 Executive Director (CEO)

Social and Ethics Committee

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

The Board of Directors approved the Terms of Reference of the Social and Ethics Committee on 11 July 2012. On inception of the Social and Ethics Committee in November 2011, the Board appointed Mr BMC Ngcobo (Chairman of the Board) as the Chairperson of the committee. However, at the Board meeting held on 11 July 2012, the Board agreed that in line with good corporate governance practices, the Chairman of the Board should not chair the committee and thus appointed Mr S Meer as the Chairperson of the committee.

The members of the committee were provided with training by the Ethics Institute of South Africa facilitated by the Institute of Directors in February 2013 and also convened their first meeting to map out the requirements and to set the agenda going forward.

In consultation with the Board in the next financial year, the committee will:

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

Given that this is a fairly new committee, the Social and Ethics convened 1 meeting during the year under review is highlited below:

Committee Member	1
Meeting Date	**22 Feb. 13**
SAU Meer 1	√
SA Essa	√
X Kakana	√
ST Mabalayo	A
P Kwele 2	√

1 Chairperson
2 Executive Director (CEO)
√ Attendance
A Absent with apology

Remuneration

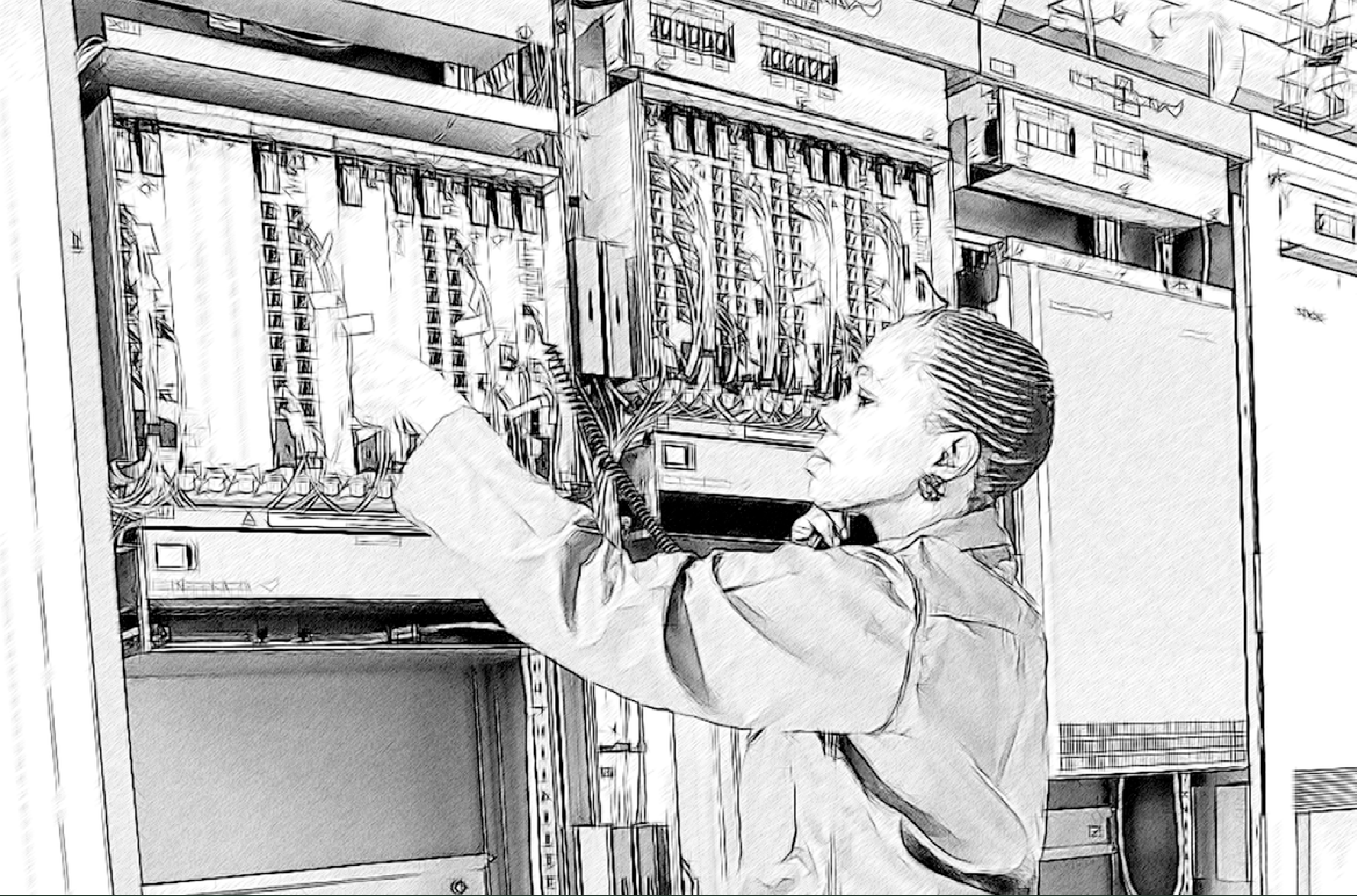
Please refer to note 24 to the annual financial statements on pages 106 to 108 for details of directors' remuneration.

Company Secretarial Function

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

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

The Company Secretary fulfils those roles and responsibilities as set out in section 88(2) of the Companies Act 71 of 2008.



6. Annual Financial Statements

for the year ended 31 March 2013

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

REPORT OF THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee presents its report for the year ended 31 March 2013. The Audit and Risk Committee of Broadband Infraco is constituted as per the requirements of the Companies Act, 2008 (Act No.71) as amended. These responsibilities are incorporated in the Audit and Risk Committee terms of reference which are revised and approved annually by the Board of Directors. The Audit and Risk Committee is satisfied that it has complied with the legal, regulatory and other responsibilities.

Audit and Risk Committee Members, Meeting attendance and Assessment

The members of the Audit and Risk Committee are, Ms MM Maponya CA (SA) (Chairperson), Ms X Kakana, Mr ST Mabalayo and Mr SAU Meer. The qualifications, skills and expertise of the members are reflected on page 12 of this annual report. The attendance of committee members at the meetings are reflected on page 59 of this report. The performance of the Committee has been independently evaluated and the report was submitted to the Shareholders for consideration.

Internal Audit

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

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

The Internal audit function is currently fulfilled by the co-sourcing arrangement. The approved Audit Plan for the year 2012/2013 financial year was executed. All critical and significant findings resulting from the audits for the 2012/2013 financial year are reported to the Audit and Risk Committee. At the end of the financial year, all planned audits as per approved audit plan were executed with the exception of only one audit which was postponed to the next financial year.

The Audit and Risk Committee also ensures a combined assurance model is applied to provide a coordinated approach to all assurance activities and that significant risks facing the Company are adequately addressed. Follow up audits were conducted for each audit performed in the financial year. The ARC has approved the combined assurance for the Company which will ensure assurance from all three levels and addressing previously raised findings in an effort of improving the control environment.

The Internal Audit Function has carried out its activities as per the Institute of Internal Auditors (IIA) Standards. An internal quality assurance program is implemented by the service provider.

Internal Financial Controls

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

Expertise of the Finance Function

Even though the Audit and Risk Committee is satisfied with regard to the general expertise, resources and experience of the finance function, we believe that certain functions, especially those in Corporate Finance could be enhanced. The Company is in the process of filling vital vacancies in the finance function to fill the gaps identified.

Governance of Risk

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

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

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

Compliance with Legislation

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

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

External Audit

The Audit and Risk Committee is satisfied that Nexia SAB&T is independent of the Company and have ensured that their appointment has complied with the Companies Act.

The Committee, in consultation with Executive Management, agreed to the engagement letter, terms, and audit plan and budget fees for the year ended 31 March 2013.

Irregular, Fruitless and Wasteful Expenditure

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

Going Concern

The Audit and Risk Committee has evaluated the financial statements of Broadband Infraco for the year ended 31 March 2013 and based on the information provided to the Audit and Risk Committee, considers that they comply, in all material respects, with the requirements of the Companies Act No. 71 of 2001 as amended, Public Finance Management Act, (Act 1 of 1999), as amended (PFMA) and International Financial Reporting Standards. The Audit and Risk Committee concurs with the Board of Directors and management that the adoption of the going concern premise in the preparation of the financial statement is appropriate.

On behalf of the Broadband Infraco Audit and Risk Committee
Ms MM Maponya
11 July 2013

COMPANY SECRETARY'S STATEMENT

In terms of section 88(2)(e) of the Companies Act, No. 71 of 2008, as amended, I certify that the Company has lodged with the Registrar of Companies all such returns as are required of a public Company in terms of the Act, and that all such returns are true, correct and up to date.

F Mohamed
Company Secretary
8 August 2013

DIRECTORS' REPORT

The Board of directors is pleased to present its report and the audited annual financial statements for the year ended 31 March 2013.

The directors are responsible for the integrity and fair presentation of the annual financial statements of Broadband Infraco SOC Ltd. The annual financial statements presented on pages 78 to 120 have been prepared in accordance with International Financial Reporting Standards (IFRS), the South African Companies Act No. 71 of 2008 and the PFMA No. 1 of 1999. These annual financial statements have been prepared in accordance with appropriate accounting policies and include amounts based on judgements and estimates made by management. The directors had an oversight role on the preparation of information included in the annual report and are responsible for both its accuracy and consistency.

The directors are satisfied that at the time of approving the annual financial statements it is appropriate to use the going concern basis in preparing these financial statements. In arriving at this conclusion, the directors considered the cash position at 31 March 2013 and the cash requirements for at least eighteen months from that date. The going concern is discussed in more detail on pages 73 to 75 of this report.

The external auditors are responsible for independently auditing and reporting on the annual financial statements. The report of the independent auditors appears on pages 75 to 77.

During the year under review, the directors retained full and effective control 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 Infraco SOC Ltd and the results of their operations and cash flows for the year ended 31 March 2013.

"During the year under review, the directors retained full and effective control over the Company and monitored management..."

The annual financial statements of Broadband Infraco SOC Ltd for the year ended 31 March 2013, as set out on pages 78 to 120, have been prepared under the supervision of Ms Ramasela Magoele CA(SA) and were approved by the Board on 11 July 2013 in terms of the Companies Act and the PFMA and are signed on their behalf by:

M Ngcobo
Chairman of the Board

P Kwele
Chief Executive Officer

Directors Report (continued)

FINANCIAL AND OPERATIONS REVIEW

Broadband Infraco's operating loss for the year under review of R181.1 million is R85.8 million below the previous year loss. The main contributors of the operating loss as follows:

- R156.2 million loss of revenue
- Total counter savings of R93.3 million on cost of sales and operating expenses
- A further reduction of R31.7 million on finance income due to lower cash and bank balance and the conclusion of the foreign exchange contract that resulted in a gain in the previous year.

The results of the financial year are analysed below:

Revenue	R'000
2012 Financial year contracts	393 563
Net Revenue Loss	156 189
Revenue loss due to migration from provisioning of links to managed services to Neotel	(173 757)
New contracts concluded during the year	4 751
Additional revenue from existing customers	12 817
2013 Financial year contracts	237 374

The 2012 financial year marks the full one year anniversary of the end of the Rights of Use (RoU) Agreement between the Second Network Operator, Neotel (Pty) Ltd and Broadband Infraco.

In 2013 Broadband Infraco commissioned 110Gbps managed-services to Neotel for the first time. This resulted in a 44.1% reduction of revenue from Neotel year on year. As part of the new agreement Neotel reduced the services utilised under the erstwhile Rights of Use agreement, hence the significant reduction in revenue.

Broadband Infraco has however managed to achieve a 100% retention rate for all its other customers. Expired contracts were either renewed at the same capacity or upgraded to higher capacity.

Broadband Infraco managed to grow its business from both its other existing customers and new customers by 7.4% of the current year revenue.

Going forward, Broadband Infraco will be working on growing the business from existing customers and other markets that has not being serviced by other operators. Furthermore there will be more collaboration with a broader market.

Cost of sales

Cost of sales consists of fibre lease, co-location, maintenance of the network and network operating system.

A saving of 60% year on year on cost of sales was achieved mainly due to in-sourcing of maintenance of the network and operating system. The end of the RoU agreement with Neotel meant that Broadband Infraco could acquire its core services of maintaining its network from Eskom and Transnet Freight Rail ("TFR"). In addition Broadband Infraco manages its own Network Operating Centre.

During the year Broadband Infraco entered into a number of lease agreements to increase its footprint. These include Point of Presences and fibre. The option of leasing is exercised where there is existing infrastructure and in order to avoid duplications however ensuring that benefits outweighs the cost.

Cost of sales	R'000
2012 Financial year contracts	(275 370)
Savings from the in-sourcing of the maintenance of the network and operating system	165 805
Savings due to renegotiation of co-location and fibre lease contracts	6 865
New leases to expand Broadband Infraco footprint	(69 500)
2013 Financial year contracts	(172 200)

Significant Contracts

The contracts discussed below had a significant impact on the reported financial results, or will continue to impact the Company's performance.

MASTER SALES AGREEMENT with NEOTEL (PTY) LTD

Broadband Infraco and Neotel concluded a five year Master Sales Agreement ("MSA") effective 1 April 2012 for the provisioning of 110 Gbps managed services for five years. Broadband Infraco provisioned all the services required by Neotel at the end of the financial year except for three (3) services due to capacity limitations on certain routes. Broadband Infraco is in the process of increasing capacity on the required routes in order to provision the remaining services.

The services that Neotel utilised under the Rights of Use ("RoU") agreement, that were not part of the MSA, were all decommissioned by Broadband Infraco on 26 November 2012. Payment for the decommissioned services during the period of transition to the MSA are however the subject of an arbitration between Broadband Infraco and Neotel.

ESKOM

Network maintenance contract

Broadband Infraco signed a new three year contract with Eskom for the maintenance of the network with the effective date 1 June 2012. Fibre is attached to the utility infrastructure which covers major parts of the country. It also traverses the very remote parts of the country. Broadband Infraco has servitudes rights, which are maintained by Eskom.

Fibre lease contract

The fibre lease agreement with Eskom was originally concluded on 01 September 2008 and expires on 31 March 2015.

TRANSNET FREIGHT RAIL (TFR)

Network maintenance contract

Broadband Infraco signed a three year contract with TFR for the maintenance of the network effective from 1 April 2012. This contract enables Broadband Infraco to access the transport infrastructure which covers major parts of the country. Broadband Infraco has servitudes rights, which are maintained by the TFR.

Fibre lease contract

The contract was fibre lease contract with TFR was concluded on 01 September 2008 and is expiring on 31 March 2015.

> *"Broadband Infraco acquired 42.9 million Minimum Assignable Units ("MAU") capacity in the West Africa Cable System ("WACS")"*

Going Concern

Broadband Infraco acquired 42.9 million Minimum Assignable Units ("MAU") capacity in the West Africa Cable System ("WACS"). These were acquired for its own business as well as to enable project of national importance. Broadband Infraco is in the process of finalising the sale of 30.0 million MAU to the South African National Research Network. The sale of capacity improves Broadband Infraco liquidity. This added to the Company cash and short-term deposit as at 31 March 2013 of R342.9 million is adequate to fund the Company operating and capital requirements for eighteen months after the end of the financial year.

Broadband Infraco engages with its shareholders on an on-going basis regarding the requirements for shareholder funding to recapitalise its network. The recapitalisation is driven by the need to replace aging infrastructure in instances where technology has reached its end of life and strengthen the network in parts where required.

Broadband Infraco is cognisant of the fact that a complete turnaround depends on:

- Adequate funding.
- Increasing revenue from existing customers and gaining new customers.
- Government as an anchor customer.
- Improve collaboration with other operators.
- Including improvements in operational excellence and efficiency.

The directors, in evaluating the appropriateness of the going concern assumptions used in the preparation of the annual financial statements, took the above priorities, the cash requirements for eighteen months from reporting date, the solvency and cash position at year-end. Based on these, the directors are satisfied that Broadband Infraco has adequate reserves and cash resources to continue operating as a going concern for the eighteen month period to 31 September 2014. The annual financial statements were, therefore, prepared on this basis.

Should the interventions referred to above be unable to address the profitability and liquidity issues, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Compliance with Laws and Regulations

The Company has implemented a compliance process to meet applicable legal and regulatory requirements. The Board is satisfied that the Company has in all material respects complied with the provisions of the PFMA, the Companies Act and other applicable legislations.

Capital Expenditure

The total capital expenditure for the year of R143.7 million is lower than the budget of R780.0 million. The lower than budgeted expenditure is mainly due to the process of improving governance dealing with capital projects and addressing capacity constraints in design and planning departments. As part of addressing the design and planning challenges, Broadband Infraco embarked on the process of resourcing its engineering department with scarce skills.

Share Capital and Share Premium

The authority to issue ordinary shares vests in the Accounting Authority. The current issued share capital is 100 (one hundred) par value shares. There has been no change in the authorised share capital of the Company for the financial year under review.

Dividends

No dividend was recommended for the 2013 year (2012 Nil).

Compliance with Accounting Standards

The annual financial statements comply with International Financial Reporting Standards (IFRS).

Auditors

The annual financial statements are audited by Nexia SAB&T auditors. This is Nexia SAB&T first year of auditing Broadband Infraco. The statutory auditors for the forthcoming year will be confirmed at the AGM scheduled for 08 August 2013.

Company Secretary

The Company secretary for the period under review was Mr Fahim Mohamed and the business and postal address during the year are stated below, which is also the address of the registered office of the Company.

Broadband Infraco Head Office
Country Club Estate,
Building No.9
21 Woodlands Drive
Woodmead, Sandton.

Postnet Suite 321
Private Bag X26
Sunninghill
2157

Events After Reporting Period

In order to identify events after the reporting period, all material matters affecting Broadband Infraco between the approval of the annual financial statements and the publication of this report were taken into account.

No matters arose between 31 March 2013 and 8th August 2013.

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT AND THE SHAREHOLDERS THE DEPARTMENT OF PUBLIC ENTERPRISES AND THE INDUSTRIAL DEVELOPMENT CORPORATION OF SOUTH AFRICA ON BROADBAND INFRACO SOC LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Introduction

We have audited the financial statements of Broadband Infraco SOC Limited as set out on pages 78 to 120, which comprise the statement of financial position as at 31 March 2013, the statement of comprehensive income, statement of changes in net assets and the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Authority's responsibility for the financial statements

The Board of Directors which constitutes the accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa (Act No. 71 of 2008), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Broadband Infraco SOC Limited as at 31 March 2013, and its financial performance and cash flows for the year then ended in accordance with IFRS and the requirements of the PFMA and the Companies Act of South Africa.

Other Reports Required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2013, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between the reports and the audited financial. We have not audited the reports and accordingly do not express an opinion on them.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 27 to 31 of the annual report.

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete). There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matter

We draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

Of the total number of 24 targets planned for the year, 6 of the targets were not achieved during the year under review. This represents 25% (>20%) of total planned targets that were not achieved during the year under review. This was mainly due to the factors outlined on page 27 in the annual report.

Compliance with laws and regulations

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

Annual financial statements

The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1) ((a) and) (b) of the PFMA and section 29(1)(a) of the Companies Act. A reclassification of current liabilities and adjustments to property, plant and equipment identified in conjunction with the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

The procurement system/ processes did not comply with the requirements of a fair SCM system as per section 51(1) (a)(iii) of the PFMA, in that two contracts were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

Internal control

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

Leadership

Although leadership did implement controls to ensure compliance with laws, regulations and internally designed policies and procedures, a significant non-compliance issue was noted due to:

- The supply chain policy of the Company has not been amended to comply with the Preferential Procurement Policy Framework Act which became effective during the current year as a result of a letter received from the Minister instructing the Company to continue with current procurement processes.

OTHER REPORTS

Investigations

In the preceding financial years, the Acting Chief Executive Officer commissioned investigations to assess compliance with procurement and contract management based on findings from internal audit report relating to procurement and contract management. All awarded contract/ tenders exceeding R10 million were included in the scope of this investigation. The portion of the investigation relating to the non-compliance with policies and procedures has been concluded and the Accounting Authority has taken all relevant disciplinary action against employees. The investigation relating to the possible criminal misconduct has been handed over to National Treasury and is still ongoing at the date of this report.

Nexia SAB&T

Nexia SAB&T
Per: Bashier Adam
Director
Registered Auditor
11 July 2013

STATEMENT OF FINANCIAL POSITION

at 31 March 2013

	Note	**2013**	2012
		R'000	R'000
Assets			
Equipment	3	1 201 149	1 178 983
Intangible assets	4	10 730	10 942
Total non-current assets		**1 211 879**	**1 189 925**
Trade and other receivables	6	48 397	64 383
Cash and cash equivalents	7	342 944	442 201
Total current assets		**391 341**	**506 584**
Total assets		**1 603 220**	**1 696 509**
Equity and liabilities			
Equity			
Share capital	8	*	*
Accumulated deficit		(484 427)	(303 356)
Shareholder loans	9	1 825 851	1 825 851
Total equity		**1 341 424**	**1 522 495**

	Note	**2013**	2012
		R'000	R'000
Liabilities			
Deferred income	10	**81 698**	90 676
Total non-current liabilities		**81 698**	90 676
Short term loans	9.1	34 279	-
Deferred income	10	12 853	12 472
Trade and other payables	11	64 630	70 448
Provisions	12	68 336	-
Derivatives held for risk management	13	-	418
Total current liabilities		**180 098**	**83 338**
Total liabilities		**261 796**	**174 014**
Total equity and liabilities		**1 603 220**	**1 696 509**

* Amount less than R1 000.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2013

	Note	**2013**	2012
		R'000	R'000
Revenue	14	**237 374**	393 563
Cost of sales	15	**(172 200)**	(275 370)
Gross profit		**65 174**	118 193
Operating expenses	16	**(268 425)**	(258 585)
Employees expenses		(86 802)	(80 230)
Directors emoluments		(6 096)	(5 136)
Service fees		(8 811)	(21 336)
Selling, general and administrative expenses		(37 728)	(29 098)
Operating leases		(7 207)	(9 023)
Depreciation, amortisation, impairment and write-off		(121 781)	(113 762)
Results from operations		**(203 251)**	(140 391)
Finance income	17	22 194	53 877
Finance costs	18	(14)	(8 707)
Loss before taxation		**(181 071)**	(95 222)
Income tax expense	19	-	-
Loss for the year		**(181 071)**	(95 222)
Loss for the period attributable to the parent		**(181 071)**	(95 222)
Total comprehensive income attributable to the parent		**(181 071)**	(95 222)

STATEMENT OF CHANGES IN EQUITY

at 31 March 2013

	Share capital	Accumulated deficit	Shareholder loans	Total equity
	R'000	R'000	R'000	R'000
Balance at 31 March 2011	*	(208 134)	1 825 851	1 617 717
Loss for the year	–	(95 222)	–	(95 222)
Total comprehensive loss for the year	*	(95 222)	–	(95 222)
Balance at 31 March 2012	*	(303 356)	1 825 851	1 522 495
Loss for the year	–	(181 071)	–	(181 071)
Total comprehensive loss for the year	–	(181 077)	–	(181 077)
Total changes	–	**(181 077)**	**–**	**(181 077)**
Transactions with owners, recorded directly in equity	–	–	–	–
Balance at 31 March 2013	*	**(484 427)**	**1 825 851**	**1 341 424**

*Amount less than R1 000.

STATEMENT OF CASH FLOWS

at 31 March 2013

	Note	2013	2012
		R'000	R'000
Cash flows from operating activities			
Cash receipts from customers		244 061	428 591
Cash payments to suppliers and employees		(255 919)	(376 397)
Cash generated from/(used in) from operations	20	(11 858)	52 194
Finance income received	21	22 072	54 289
Finance costs paid	21	(14)	(37 906)
Net cash from operating activities		**10 200**	68 577
Cash flows from investing activities			
Purchase of equipment	3	(142 070)	(154 423)
Purchase of intangible assets	4	(1 666)	(1 055)
Net cash from investing activities		**(143 736)**	(155 478)
Cash flows from financing activities			
Shareholder loan received	9.1	34 279	-
Net cash from financing activities		**34 279**	-
Total cash movement for the year		**(99 257)**	(86 901)
Cash and cash equivalents at the beginning of the year		442 201	529 102
Total cash and cash equivalents at end of the year	7	**342 944**	442 201

1. Presentation of financial statements

1.1 Reporting entity

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

"The Company is primarily involved in the establishment of a national long distance fibre optic network..."

1.2 Basis of preparation

1.2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act 71 of 2008 of South Africa and the Public Finance Management Act 1 of 1999 of South Africa.

The financial statements were approved by the Accounting Authority on 11 July 2013.

1.2.2 Basis of measurement

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

- Derivative financial instruments measured at fair value.

1.2.3 Functional and presentation currency

These financial statements are presented in South African Rands, which is the Company's functional currency. Financial information presented is in South African Rands, rounded to the nearest thousand.

1.2.4 Use of estimates and judgments

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

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

Residual values and useful lives of equipment

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

"The Company is primarily involved in the establishment of a national long distance fibre optic network..."

Provisions

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

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

Impairment of trade receivables

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

- Age;
- Credit terms;
- Customers' current and anticipated future financial status;
- Estimated future cash flow;
- Disputes with customers; and
- Credit insurance.

Income tax

Judgement is required in determining the provision for income tax due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Company recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future.

"The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due."

Assessing the recoverability of deferred income tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the year end date could be impacted. Deferred tax is provided for on a basis that is reflective of the expected manner of recovery of the carrying amount of the asset, i.e. sale or use. This manner of recovery affects the rate used to determine the deferred tax liability.

"Estimates of future taxable income are based on forecast cash flows."

2. Significant accounting policies

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

2.1 Foreign currencies

Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currencies of entity at exchange rates applicable at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items measured at historical cost in a foreign currency are not retranslated.

2. Significant accounting policies (continued)

2.1 Foreign currencies (continued)

When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

2.2 Equipment

Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised to the specific assets until the asset is brought into use.

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

Subsequent costs

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

Depreciation

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

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

Item	Average useful life
Optical transmission equipment	
• Site Infrastructure	10 - 20 years
• Long distance and operation centre equipment	10 - 15 years
• Operational and network management equipment	5 years
Fibre optic cables	15 years
Mobile equipment	5 years
Office equipment	10 years
IT equipment	3 - 6 years
WACS Jointly controlled asset	15 years

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

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

2. Significant accounting policies (continued)

2.2 Equipment (continued)

Work-in-progress

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

2.3 Jointly controlled assets

West Africa Cable System (WACS)

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

The jointly controlled asset is classified as work in progress and will be depreciated in line with the useful life once when is ready for use.

2.4 Intangible assets

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

Item	Useful life
Computer software	2 years
Servitudes	20 years

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

2.5 Financial instruments

2.5.1 Non-derivative financial instruments

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

Loans and receivables

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

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents

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

"The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire,..."

2. Significant accounting policies (continued)

2.5 Financial instruments (continued)

2.5.2 Non-derivative financial liabilities

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

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

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

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

Derivative financial instruments

The Company will from time to time hold derivative financial instruments specifically, foreign exchange forward contracts in order to cover its foreign currency exposures for payments on maintenance services on the West Africa Cable System.

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

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

Share capital

Ordinary shares

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

Shareholder loans

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

2.6. Impairment of assets

2.6.1 Financial assets

Non-derivative financial assets

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

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

2. Significant accounting policies (continued)

2.6. Impairment of assets (continued)

2.6.1 Financial assets (continued)

Loans and receivables

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

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g., repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

"Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables."

2.6.2 Non-financial assets

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

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

"The recoverable amount of an asset or cash generating unit is the greater of its value in use and its."

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

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

2. Significant accounting policies (continued)

2.7 Income tax

Current tax assets and liabilities

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

“Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.”

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

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised. The Company withholds and pay these taxes on behalf of the shareholders to the South African Revenue Services.

2.8 Leases

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

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

2.9 Employee benefits

Defined contribution plans

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

Short-term employee benefits

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

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

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

2. Significant accounting policies (continued)

2.10 Provisions and Contingent Liabilities

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

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

> *"Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date."*

2.11 Revenue

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

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

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

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

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

Contract revenue comprises:

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

Sale of Broadband services includes a sale of services on the national backhaul network facilities in the range of STM 1 to STM 64 products. Revenue from rendering of services is based on usage for the month and is billed at the beginning of each month in advance and recognised when services are provided.

Deferred income relates to revenue received under Indefeasible Right of Use agreements of which services are prepaid by the customer on commission of the services. The revenue will be recognised on a monthly basis when the service is provided over the period of the agreement.

2. Significant accounting policies (continued)

2.12 Finance income and costs

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

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and fair value losses on financial assets at fair value through profit or loss.

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

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

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

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

"Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and fair value losses on financial assets at fair value through profit or loss."

2.13 Offset

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

2.14 Operating segments

Segment accounting policies are consistent with those adopted for the preparation of the financial statements. Segment information is determined on the same basis as the information used by the chief operating decision maker for the purposes of allocating resources to segments and assessing segments' performance. All inter-segment transactions are eliminated.

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments, which are operating segments or aggregations of operating segments that meet specific criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker.

The Company does not have different operating segments. The business is conducted in South Africa and is managed centrally and has no branches. The Company is managed as one operating unit.

All revenues from external customers originate in South Africa.

A breakdown of the Company's revenues from external customers is set out in note 14.

"The Company does not have different operating segments. The business is conducted in South Africa and is managed centrally and has no branches. The Company is managed as one operating unit."

2. Significant accounting policies (continued)

2.15 Standards and interpretation issued but not yet effective

The Company has considered and adopted all new standards, interpretations and amendments to existing standards that are effective as at year-end. There has been no material impact of these amendments on the financial statements. New accounting standards or amendments thereto and interpretations of accounting standards effective after the financial year ended March 2013.

In the current year, the Company has adopted the following standards, amendments and interpretations that are effective for the current financial year and that are relevant to its operations and are (unless stated otherwise) not considered to have a material impact on the financial statements:

IFRS 1, First-time Adoption of International Financial Reporting Standards

Amendment clarifies those changes in accounting policies in the year of adoption which fall outside of the scope of IAS 8. Amendment permits the use of revaluation carried out after the date of transition as a basis for deemed cost. Amendment permits the use of carrying amount under previous GAAP as deemed cost for operations subject to rate regulation. The standard was amended to provide guidance for entities emerging from severe hyperinflation and resuming presentation of IFRS compliant financial statements, or presenting IFRS complaint financial statements for the first time. The standard was amended to remove the fixed date of 1 January 2004 relating to the retrospective application of the derecognition requirements of IAS 39, and relief for first-time adopters from calculating day 1 gains on transactions that. As the Company has previously adopted IFRS, the amendments will have no impact on the Company.

IFRS 3, Business Combinations

The amendments provides for transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS. Further clarification is provided on the measurement of non-controlling interests. Additional guidance provided on un-replaced and voluntarily replaced share-based payment awards. The amendment is applicable to periods beginning on or after 1 January 2011. The Company had no business combinations during the year, therefore the adoption of these amendments had no impact on the Company.

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies the intended interaction between qualitative and quantitative disclosures of the nature and extent of risks arising from financial instruments and removed some disclosure items which were seen to be superfluous or misleading. Further amendments require additional disclosure on transfer transactions of financial assets, including the possible effects of any residual risks that the transferring entity retains. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The adoption had no impact on the Company.

"The Company had no business combinations during the year, therefore the adoption of these amendments had no impact on the Company."

IAS 24 – Related parties

The amendments provide simplification of the disclosure requirements for Government-related entities and further clarification of the definition of a related party. The adoption had no impact on the Company.

IAS 34 – Interim Financial Reporting

The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and requires additional disclosures on the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between different levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets.

Standards, interpretation and amendments issued but not yet effective nor adopted

The Company has chosen not to early adopt the following standards, amendments and interpretations, which have been published and are mandatory for the Company's accounting periods beginning on or after 1 October 2012 or later periods. Unless stated otherwise, these standards are not considered to have a material impact on the financial statements:

2. Significant accounting policies (continued)

IFRS 1, First-time Adoption of International Financial Reporting Standards

Amendments add an exception to the retrospective application of IFRSs to require that first-time adopters apply the requirements in IFRS 9 Financial Instruments and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance prospectively to Government loans existing at the date of transition to IFRSs.

The annual improvements 2009–2011 cycle amendments and clarify the options available to users when repeated application of IFRS 1 is required and to add relevant disclosure requirements.

These amendments are effective for annual periods beginning on or after 1 January 2013.

"These amendments are effective for annual periods beginning on or after 1 January 2013."

IFRS 7 – Financial Instruments: Disclosures

Amendments require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its balance sheet and the effects of rights of set-off on the entity's rights and obligations. The amendment is effective for annual periods beginning on or after 1 January 2013.

IFRS 9 – Financial Instruments

This standard forms part of the first phase of the three phase project to replace IAS 39 Financial Instruments: Recognition and measurement and introduces new requirements relating to the classification and measurement of financial assets and liabilities. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The ISAB currently has an active project to make limited amendments to the classification and measurement under IFRS 9. This standard is effective for annual periods beginning on or after 1 January 2015.

IFRS 10 – Financial Statements

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for financial statements. It also addresses the issues raised in SIC-12 Consolidation - Special Purpose Entities resulting in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements. IFRS 10 introduces a single control model to determine whether an entity should be. Management is of the opinion that the adoption of this standard will not have a significant impact on the financial statements. This standard is effective for annual periods beginning on or after 1 January 2013. The Company does not intend to adopt this standard early.

IFRS 11 Joint Arrangements

IFRS 11 is a new standard that deals with the accounting for joint arrangements and focuses on the rights and obligations of the arrangement, rather than its legal form. The standard requires a single method for accounting for interests in jointly controlled entities. Further amendments to the transition guidance of IFRS 10 Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities limit the requirements to provide adjusted comparative information. The Company expects to adopt the standard for the first time in the 2014 financial statements.

"The standard requires a single method for accounting for interests in jointly controlled entities."

2. Significant accounting policies (continued)

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 applies to an entity that has an interest in subsidiaries, joint arrangements, associates and/or structured entities. IFRS 12 brings together into one into one standard all the disclosure requirements relating the Company's subsidiaries, joint agreement's and associates. Many of the disclosure requirements of IFRS 12 were previously included in IAS 27, IAS 31, and IAS 28, while others are new. This standard is effective for annual periods beginning on or after 1 January 2013. The Company does not intend to adopt this standard early. Management is of the opinion that the adoption of this standard will not have a significant impact on the financial statements. The Company expects to adopt the standard for the first time in the 2014 financial statements.

IFRS 13 – Fair Value Measurement

IFRS 13 does not affect when fair value is used, but rather describes how to measure fair value where fair value is required or permitted by IFRS. This standard is effective for annual periods beginning on or after 1 January 2013. Management is of the opinion that the adoption of this standard will not have a significant impact on the financial statements. The Company does not expect to adopt this standard early. The Company expects to adopt the standard for the first time in the 2014 financial statements.

"The Company expects to adopt the standard for the first time in the 2014 financial statements."

IAS 1 – Presentation of Items of Other Comprehensive Income — Amendments to IAS 1

The amendments to IAS 1 change the Companying of items presented in OCI. Items that would be reclassified (or recycled) to profit or loss at a future point in time (e.g., upon de-recognition or settlement) would be presented separately from items that will never be reclassified. This amendment is effective for annual periods beginning on or after 1 July 2012. Further amendments to the Annual improvements 2009-2011 cycles clarify the requirements for comparative information including minimum and additional comparative information required. This amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 12 - Income Taxes

Rebuttable presumption introduced that an investment property will be recovered in its entirety through sale. This amendment is effective for annual periods beginning on or after 1 January 2013. Management is of the opinion that the adoption of this standard will not have a significant impact on the financial statements.

3. Equipment

	Cost	Accumulated depreciation	Carrying value
	R'000	R'000	R'000
2013			
Mobile equipment	3 961	(1 859)	2 102
Work-in-progress	80 944	-	80 944
Office equipment	7 977	(2 138)	5 839
IT equipment	15 501	(11 507)	3 994
Fibre optic cables	479 069	(181 111)	297 958
Optical transmission equipment*	470 112	(168 849)	301 263
WACS	540 964	(31 915)	509 049
	1 598 528	**(397 379)**	**1 201 149**
2012			
Mobile equipment	3 954	(1 069)	2 885
Work-in-progress	152 905	-	152 905
Office equipment	7 866	(1 349)	6 517
IT equipment	14 920	(7 195)	7 725
Fibre optic cables	446 871	(138 849)	308 022
Optical transmission equipment	521 100	(260 705)	260 395
WACS	440 534	-	440 534
	1 588 150	**(409 167)**	**1 178 983**

*Includes assets of zero value with a cost of R131.4 million and accumulated depreciation of R131.4 million.

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2013

3. Equipment (continued)

Reconciliation of equipment

	Opening carrying value	Additions	Write – off and impairments	Transfers	Depreciation	Closing carrying value
2013	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Mobile equipment	2 885	8	-	-	(790)	2 103
Work-in-progress	152 905	37 065	-	(109 026)	-	80 944
Office equipment	6 517	117	(3)	(1)	(792)	5 838
IT equipment	7 725	818	(8)	1	(4 542)	3 994
Fibre optic cables	308 022	-	-	32 198	(42 262)	297 958
Optical transmission equipment	260 395	3 632	-	76 827	(39 591)	301 263
WACS	440 534	100 430	-		(31 915)	509 049
	1 178 983	**142 070**	**(11)**	**(1)***	**(119 892)**	**1 201 149**
* Amount less than R1000						
2012						
Mobile equipment	3 440	-	-	240	(795)	2 885
Work-in-progress	115 601	69 720	-	(32 416)	-	152 905
Office equipment	7 513	38	(8)	(240)	(786)	6 517
IT equipment	12 767	435	(284)	-	(5 193)	7 725
Fibre optic cables	338 148	-	(154)	10 513	(40 485)	308 022
Optical transmission equipment	302 400	32	(3 683)	21 903	(60 257)	260 395
WACS	356 336	84 198	-	-	-	440 534
	1 136 205	**154 423**	**(4 129)**	**-**	**(107 516)**	**1 178 983**

4. Intangible Assets

	Cost	Accumulated amortisation	Carrying value
2013	**R'000**	**R'000**	**R'000**
Computer software	2 720	(1 147)	1 573
Servitudes	12 486	(3 329)	9 157
	15 208	**(4 477)**	**10 730**
2012			
Computer software	4 496	(3 336)	1 160
Servitudes	12 487	(2 705)	9 782
	16 983	**(6 041)**	**10 942**

Reconciliation of intangible assets

	Opening carrying value	Additions	Amortisation	Write-off and impairments	Closing carrying value
2013	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Computer software	1 160	1 666	(1 253)	-	1 573
Servitudes	9 782	-	(625)	-	9 157
	10 942	**1 666**	**(1 878)**	**-**	**10 730**
2012					
Computer software	1 598	1 055	(1 467)	(26)	1 160
Servitudes	10 406	-	(624)	-	9 782
	12 004	**1 055**	**(2 091)**	**(26)**	**10 942**

5. Deferred Tax Asset

	2013 R'000	2012 R'000
Deferred tax asset	–	–
Reconciliation of deferred tax asset		
At beginning of the year	–	–
Movement in temporary differences	(13 714)	28 352
Prior year under provision	–	–
Deferred tax assets not recognised	(13 714)	(28 352)
At the end of the year	–	–

Deferred tax rates

The deferred tax rate applied was 28% (2012 – 28%).

Recognised deferred tax assets/(liabilities)

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

	2013 R'000	2012 R'000
Straight lining of lease liabilities	650	912
Capital allowances	(18 812)	(8 820)
Prepayments	(343)	(529)
Leave pay accrual	1 223	1 147
Deferred income	26 424	28 543
Unrealised foreign exchange differences	–	117
Tax losses recognised	–	–
Deferred tax assets not recognised	**(9 142)**	(21 370)

The estimated accumulated tax loss is R421 665 million (2012: R214.9 million). The Corporate plan indicates that the Company will not generate enough profit within the next 18 months that can be utilised against the deferred tax assets. The Company does not have a history of taxable profits. The ability of the Company to resolve its liquidity is based on the interventions as set out in the Directors report. Due to the uncertainty as to when the Company will return to future taxable profits, no deferred assets have been recognised.

6. Trade and other Receivables

	2013 R'000	2012 R'000
Trade and other receivables consists of:		
Loans and receivables		
– trade receivables	31 398	52 264
– deposits	1 654	1 629
– income accrued	1 286	-
– interest accrued	1 304	764
	35 642	**54 657**
Other receivables		
– prepayments	1 225	1 566
– VAT	11 530	8 160
	12 755	**9 726**
	48 397	**64 383**

7. Cash and Cash Equivalents

	2013 R'000	2012 R'000
Cash and cash equivalents consist of:		
Current accounts - The Standard Bank of South Africa Limited	1 082	12 966
Short-term deposits - The Standard Bank of South Africa Limited (bearing interest at 4.9% p.a)	157 328	190 388
Short-term deposits - Nedbank Limited (bearing interest at 4.9% p.a)	92 260	119 398
Short-term deposits - First National Bank, a division of FirstRand Bank Limited (bearing interest at 4.9% p.a)	92 274	119 449
	342 944	**442 201**

The Standard Bank of South Africa Limited has secured a maximum of R65 million cash under a pledge and cession in the entering into the forward exchange contracts which are specifically taken out to cover the forward exchange exposure relating the West Africa Cable System capital commitments, refer to note 13 and 27.

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

8. Share Capital

	2013	2012
	R'000	R'000
Authorised		
1 000 ordinary shares of R1 (2011 – R1) each	1	1
Issued		
100 ordinary shares of R1 (2011 – R1) each	*	*

Shares are held as follows:

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

Unissued shares are controlled by the Accounting Authority.

*Amount less than R1 000.

9. Shareholder Loans

	2013	2012
	R'000	R'000
Subordinated loans		
Department of P ublic Enterprises (DPE)	1 351 130	1 351 130
The loan has no fixed terms of repayment and no interest was charged on the balance outstanding.		
Industrial Development Corporation of South Africa (IDC)	474 721	474 721
The loan has no fixed terms of repayment and no interest was charged on the balance outstanding.		
	1 825 851	**1 825 851**

The Shareholder loans agreement states that the loan may be repaid subject to the availability of funds from time to time, however this is based on a mutual agreement between the shareholders and the Company. Consequently, the loans are classified as equity.

9.1 Short term loans received

Industrial Development Corporation of South Africa (IDC)	34 279	–

The short term loan was received in the current financial year; no conditions were attached to this loan and repayable when recalled by the shareholder. Subsequent to year end an amount of R30.6 million was recalled by the shareholder.

10. Deferred Income

	2013 R'000	2012 R'000
The income received in advance relates to irrefutable Right of Use (RoU) contracts over various year periods.		
Non-current liabilities	81 698	90 676
Current liabilities	12 853	12 472
	94 551	**103 148**
Cumulative effect		
Total income received in advance	103 148	121 906
Less: amount recognised in revenue	(8 597)	(18 758)
	94 551	**103 148**

11. Trade and other Payables

Trade and other payables consists of:

	2013 R'000	2012 R'000
Financial liabilities	**60 333**	**65 093**
– trade payables	37 456	55 902
– other accruals		
– services not commissioned	15 251	–
– pension fund and trade union	231	386
– accrued leave	4 365	4 097
– audit fees internal	1 019	1 010
– audit fees external	1 060	1 704
– retentions	951	1 994
Other liabilities	**4 297**	**5 355**
– South African Revenue Services – PAYE	1 974	2 096
– Accrual: Straight lining of leases	2 323	3 259
	64 630	**70 448**

NOTES TO THE FINANCIAL STATEMENTS

at 31 March 2013

12. Provisions

	2013 R'000	2012 R'000
Metro fibre lease services*	68 336	–
	68 336	**–**

*This provision for metro fibre services is still under technical verification by both the Broadband Infraco and Neotel team. The amount has been provided based on claim made by Neotel.

13. Derivatives held for risk management

	2013 R'000	2012 R'000
Derivatives (liabilities)/assets held for risk management.		

Fair value of foreign currency risk

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

The open forward exchange contracts held at year end amounted to US $0 (2012: US $8.4 million). These contracts had a commitment value of R0 (2012: R65 million) at year end, giving rise to unrealised foreign exchange gains/(losses) as follows:

Instrument type		
Foreign exchange contracts		
– liabilities	–	(418)
– assets	–	–
	–	**(418)**

14. Revenue

	2013 R'000	2012 R'000
Sale of broadband services	221 222	379 953
Irrefutable right of use income	11 261	11 506
Other services	1 286	-
Operations and maintenance income	3 605	2 104
	237 374	**393 563**

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

Sale of broadband services	221 222	379 953
Irrefutable right of use income	11 261	11 506
Other services	1 286	
Operations and maintenance income	3 992	2 794
Rental income (straight lining of operating lease income)	(387)	(690)
	237 374	**393 563**

15. Cost of Sales

	2013 R'000	2012 R'000
Cost of sales consists of:		
Managed service contract	(4 005)	(68 340)
Co-location costs	(13 519)	(16 769)
Fibre lease costs	(87 410)	(21 525)
Fibre maintenance costs	(67 266)	(168 736)
	(172 200)	**(275 370)**

	2013 R'000	2012 R'000
16. Operating Expenses	**(268 425)**	**(258 585)**
Operating expenses consists of:		
16.1 Employee expenses	**(86 140)**	**(80 230)**
Salaries	(79 173)	(78 789)
Other benefits*	(6 967)	(1 441)
* Other benefits include cell phone allowance and annual leave.		
16.2 Directors emoluments	**(6 758)**	**(5 136)**
Executive directors	(4 134)	(2 876)
Non- executive directors*	(2 624)	(2 260)
* Refer to note 24 for details		
16.3 Service fees	**(8 811)**	**(21 336)**
Auditors remuneration	(2 588)	(5 821)
Internal audit services	(2 000)	(3 621)
External audit services	(588)	(2 200)
- current year	(1 188)	(1 534)
- prior year	600	(650)
- other services	-	(16)
Consultancy services	(4 066)	(12 817)
Legal fees	(2 157)	(2 698)

	2013 R'000	2012 R'000
16.4 Selling, general and administrative expenses	**(37 728)**	**(29 098)**
Repairs and maintenance	(4 931)	(2 023)
Marketing	(10 946)	(3 286)
Travelling costs	(9 223)	(9 713)
Recoveries – travel reimbursement (WACS)	3 983	7 093
Insurance	(1 293)	(1 714)
Recruitment costs	(703)	(2 126)
Telephone costs	(1 201)	(1 307)
Training costs	(612)	(1 553)
IT Charges	(1 485)	(2 046)
Licence fee	(708)	(1 134)
Commission paid	(35)	(4 172)
Other expenses	(10 574)	(7 117)
16.5 Operating leases	**(7 207)**	**(9 023)**
Land and building	(6 110)	(7 875)
Equipment	(1 097)	(1 148)
16.6 Depreciation, amortisation, impairment and write-off	**(121 781)**	**(113 762)**
Depreciation of equipment	(119 892)	(107 516)
Amortisation of intangible assets	(1 878)	(2 091)
Write-off and impairment of equipment	(11)	(4 129)
Scrapping of intangible assets	–	(26)

17. Finance Income

	2013 R'000	2012 R'000
Finance income consists of the following:		
Interest received on bank deposits	19 453	24 124
Interest received on receivables	116	–
Foreign exchange gains	2 625	29 753
	22 194	**53 877**

18. Finance Costs

	2013 R'000	2012 R'000
Finance costs consists of the following:		
Foreign exchange losses	(6)	(8 677)
Suppliers – interest	(8)	(30)
	(14)	**(8 707)**

19. Income Tax Expense

	2013 R'000	2012 R'000
Major components of the tax (expense)/credit		
Deferred		
Deferred tax expense		
– current year	–	–
– prior year under provision	–	–
	–	–
Reconciliation of the tax expense		
Reconciliation between accounting profit and tax expense:		
Accounting loss	181 071	95 222
Tax at the applicable tax rate of 28%	50 700	26 662
Tax effect on adjustment on taxable income:		
Permanent differences	3 717	1 690
Prior year under provision	–	–
Deferred tax assets not recognised	(54 418)	(28 352)
	–	–

20. Cash Generated/(used in) from Operations

	2013 **R'000**	2012 R'000
Loss before taxation	(181 071)	(95 222)
Adjustments for:		
Depreciation and amortisation	121 781	109 607
Derecognition and scrapping of equipment		4 155
Finance income	(22 194)	(53 877)
Finance costs	14	8 707
Movement in provision of credit notes		
Movement in straight lining of operating lease accrual	(935)	1 882
Unrealised foreign exchange gain	61	
Deferred income	(8 597)	69 959
Changes in working capital:		
Trade and other receivables, excluding straight lining of lease	16 046	(34 930)
Trade and other payables, excluding straight lining of leases	63 455	41 913
Unrealised foreign exchange losses included in trade and other payables	(418)	–
	(11 858)	**52 194**

21. Finance Income Received/(costs paid)

	2013 **R'000**	2012 R'000
21.1 Finance income received		
Finance income per statement of comprehensive income	22 194	53 877
Decrease (increase) in interest receivable	(540)	352
Unrealised foreign exchange gains – derivative held for risk management	418	60
	22 072	**54 289**
21.2 Finance costs paid		
Finance expense per statement of comprehensive income	(14)	(8 707)
Unrealised foreign exchange losses – derivative held for risk management	–	(29 199)
	(14)	**(37 906)**

22. Related Parties

Relationships	
Ultimate holding Company	The State, represented by the Department of Public Enterprises
Shareholders with significant influence	Department of Public Enterprises and Industrial Development Corporation of South Africa
Related parties that have the same shareholder (DPE)	Eskom SOC Limited and Transnet SOC Limited

	2013 R'000	2012 R'000
Related party balances		
Loan accounts - Owing to related parties		
Department of Public Enterprises	(1 351 130)	(1 351 130)
Industrial Development Corporation of South Africa	(474 721)	(474 721)
Short-term Loans		
Industrial Development Corporation of South Africa	(34 259)	–
Related party transactions		
Lease of fibre optic cables		
Eskom Holdings SOC Limited	4 276	3 538
Transnet SOC Limited	5 808	5 996
Other service contracts		
Eskom Holdings SOC Limited	1 799	1 290
Co-location Lease agreement		
Transnet SOC Limited	2 957	3 025
Maintenance service		
Eskom Holdings SOC Limited	56 205	33 504
Transnet SOC Limited	10 951	1 540

23. Lease Commitments

	2013 R'000	2012 R'000
Operating leases		
- payable within one year	22 082	25 031
- payable within two to five years	15 045	30 205
	37 127	**55 236**

The operating leases refer mainly to rental of office premises. The escalation rates from 6% to 10% and other are linked to the inflation rates (CPI). The leases agreements do not carry option to purchase the assets at the end of lease terms.

24. Directors' and Key Management Personnel Compensation

2013	Services as	Service period in months	Basic salary	Bonuses and commissions paid	Expenses, other allowances	Total
			R'000	R'000	R'000	R'000
Non-executive directors						
BMC Ngcobo	Board chairperson	12	746	–	–	746
SAU Meer*	Board member	12	205	–	–	205
SD Mabalayo	Board member	12	320	–	–	320
SA Essa	Board member	12	277	–	–	277
N Selamolela	Board member	12	240	–	–	240
A Githiari	Board member	12	265	–	–	265
MM Maponya	Board member	12	251	–	–	251
X Kakana	Board member	12	320	–	–	320
Executive directors						
P Kwele	Chief Executive Officer	10	1 833	–	9	1 842
A Shaw	Acting Chief Executive Officer	2	343	–	38	381
RJ Magoele	Chief Financial Officer	12	1 900	–	11	1 911
Total directors emoluments			**6 700**	**–**	**58**	**6 758**
Key management personnel						
P Kwele	Chief Marketing and Sales Officer	2	300	–	3	303
V Maharaj	Executive Special Projects/ Capital Programme	12	1 411	–	14	1 425
M Mopeli	Executive Human Resources	11	989	–	10	999
G Zowa	Chief Technical Officer	1	150	–	1	151
K Pillay	Chief Technical Officer	5	883	–	58	941
F Msiza	Executive Governance	12	1 484	–	13	1 497
K Motlhabane	Executive Legal	8	928	–	7	935
R Hamilton	Chief Marketing and Sales Officer	2	200	–	2	202
Total key management personnel			**6 345**	**–**	**108**	**6 453**
Total			**13 045**	**–**	**166**	**13 211**

* Paid to the Industrial Development Corporation of South Africa.

24. Directors' and Key Management Personnel Compensation

2012	Services as	Service period in months	Basic salary	Bonuses and commissions paid	Expenses, other allowances	Total
			R'000	R'000	R'000	R'000
Non-executive directors						
AFB Mthembu	Board chairperson	6	372	–	–	372
BMC Ngcobo	Board chairperson	6	361	–	–	361
LN Letele	Board member	6	151	–	–	151
M Singer Saul	Board member	6	180	–	–	180
C Groesbeek	Board member	6	149	–	–	149
I Kajee	Board member	6	33	–	–	33
N Bulbulia	Board member	3	34	–	–	34
SAU Meer*	Board member	12	211	–	–	211
SD Mabalayo	Board member	12	249	–	–	249
SA Essa	Board member	6	110	–	–	110
N Selamolela	Board member	6	93	–	–	93
A Githiari	Board member	6	99	–	–	99
MM Maponya	Board member	6	96	–	–	96
X Kakana	Board member	6	121	–	–	121
Executive directors						
S Maharaj	Chief Financial Officer	1	113	–	157	667
A Shaw **	Acting Chief Executive Officer	12	1 425	–	7	1 432
RJ Magoele	Chief Financial Officer	9	1 338	–	9	1 347
Total directors emoluments			**5 136**	**–**	**173**	**5 705**

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

2012	Services as	Service period in months	Basic salary	Bonuses and commissions paid	Expenses, other allowances	Total
			R'000	R'000	R'000	R'000
Key management						
K Pillay	Chief Technical Officer	6	1 000	–	5	1 005
V Maharaj	Executive Special projects	12	1 238	–	11	1 249
F Msiza	Executive Governance	6	700	–	5	705
P Sejanamane	Chief Marketing Officer	4	600	–	**301	901
M Letsoalo	Executive Business Support	2	202	–	62	264
R Pillay	Executive Capital Programme	3	298	–	124	422
Total key management personnel			**4 038**	**–**	**508**	**4 546**
Total			**9 174**	**–**	**681**	**10 251**

* Paid to the Industrial Development Corporation of South Africa.

** A further amount of R807 000 was paid to the Acting Chief Executive Officer, by the Department of Public Enterprises for performing services for the Company.

25. Financial Risk Management

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

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

The directors are of the opinion that the carrying amount of all current financial assets and financial liabilities approximate their fair values due to the short-term maturities of these financial instruments. The fair value of other financial liabilities and financial assets are determined in accordance with generally accepted pricing models comprising discounted cash flow analysis. Where the effects of discounting are immaterial, short term receivables and short term payables are measured at the original invoice amount.

Accounting classification and fair values:

2013	**Loans and receivables**	**Other financial liabilities**	**Total**	**Fair value**
	R'000	R'000	R'000	R'000
Trade and receivables	35 642	–	35 642	35 642
Cash and cash equivalents	342 944	–	342 944	342 944
Trade and other payables	–	(55 968)	(55 968)	(55 968)
	378 586	**(55 968)**	**356 423**	**356 423**
2012				
Trade and receivables	54 657	–	54 657	54 657
Cash and cash equivalents	442 201	–	442 201	442 201
Trade and other payables	–	(65 093)	(65 093)	(65 093)
	496 858	**(65 093)**	**431 765**	**431 765**

Fair value hierarchy

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

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

25. Financial Risk Management (continued)

2013	Level 1	Total
	R'000	R'000
Foreign exchange contracts (liabilities)	–	–
2012		
Foreign exchange contracts (liabilities)	(418)	(418)

25.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade receivables and cash and cash equivalents.

The Company manages credit risk from cash and cash equivalents by only investing in reputable financial institutions. Furthermore, the Company allows for investments to be spread across various financial institutions to limit its exposure to one entity.

The credit quality of customers is assessed by taking into account their financial position, past experience and other factors. Individual risk limits are set internally and are regularly monitored. It is the Company's policy that all customers be subjected to a credit verification procedure before agreements are entered into. In addition, the trade debtors' age analysis is reviewed weekly with the intention of minimising the Company's exposure to bad debts. None of the Company's debtors has been pledged as collateral.

When a customer is identified as having cash flow problems, the finance manager will take the following steps:

- Confirm the situation with the customer;
- Advise the CFO of the situation during the monthly meeting at which outstanding debtors balances are reviewed;
- Place the customer on hold to mitigate further risks; and
- Issue letters of demand and decide whether to proceed with further legal action.

The Company does not provide for impairment losses on a general basis. Debts that are past due are impaired based on evidence of the factors cited above and in the accounting policy.

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

	2013	2012
	R'000	R'000
By geographical area		
Domestic	27 415	52 264
International	3 983	–
By customer type		
Telecom service provider companies	31 398	52 264

25. Financial Risk Management (continued)

25.1 Credit risk (continued)

Impairment losses

None of the trade receivables past due, are considered to be impaired. The ageing of trade receivables at the reporting date was:

	2013		2012	
	Gross R'000	Impairment R'000	Gross R'000	Impairment R'000
Not past due	31 716	–	42 995	–
60 days	638	–	4 236	–
90 days	3 331	–	5 033	–
	31 398	**–**	**52 264**	**–**

Exposure to credit risk:

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

Loans and receivables	35 642	54 657
Cash and cash equivalents	342 944	442 201
	378 586	**496 858**

The maximum exposure to credit risk on trade receivables at the reporting date includes foreign debtors relating to recovery of travel expenses on WACS.

25.2 Market risk

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

25. Financial Risk Management (continued)

25.2 Market risk (continued)

Foreign exchange risk

In the prior financial year, the Company had taken out fixed forward exchange contracts to the value of R0 (2012: $8.4 million) to manage foreign exchange exposure to the Company based on future capital commitments to the West Africa Cable System. (Refer to note 27).

Sensitivity analysis

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

Foreign debtors

	2013		2012	
	1% strengthening of the rand R'000	**1% depreciation of the rand** R'000	1% strengthening of the rand R'000	1% depreciation of the rand R'000
USD	**40**	(40)	(672)	672

Forward exchange contracts

	2013		2012	
	1% **strengthening of the rand R'000**	**1% depreciation of the rand** R'000	1% strengthening of the rand R'000	1% depreciation of the rand R'000
USD	–	–	(672)	672

25. Financial Risk Management (continued)

25.3 Interest rate risk

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

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

	2013	2012
	R'000	**R'000**
Current accounts: The Standard Bank of South Africa Limited	1 082	12 966
Investments		
- The Standard Bank of South Africa Limited	157 328	190 388
- Nedbank Limited	92 260	119 398
- First National Bank, a division of FirstRand Bank Limited	92 274	119 449
	342 944	**442 201**

Interest rate risk – sensitivity analysis

An increase of 50 basis points (bp) in interest rate or decrease of 50 bp at the reporting date would have increased (decreased) profit or loss by the amounts shown below. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2011.

Cash and cash equivalents

	50 bp increase	50 bp decrease
	R'000	**R'000**
2013		
Recognised in profit/(loss)	1 715	(1 715)
Cash and cash equivalents		
2012		
Recognised in profit/(loss)	2 211	(2 211)

25. Financial Risk Management (continued)

25.4 Foreign currency risk

Foreign currency risk

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

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. The Company did not hold any foreign denominated monetary commitments at year end. Therefore there was no impact on the sensitivity analysis for the current year.

	Recognised in profit/(loss)	
	2013	2012
	R'000	R'000
Weakening of ZAR against USD	–	8 834
Strengthening of ZAR to USD	–	**(8 834)**

25. Financial Risk Management (continued)

25.5 Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient financial resources to meet its obligations when they fall due. The Company's risk to liquidity is a result of the funds available to cover future commitments. The Company manages liquidity risk through the ongoing review of future commitments and credit facilities and by continuously monitoring and forecasting cash flows. Management of liquidity risk in regard to financial liabilities includes a daily review of the group's bank accounts and transfer of excess funds from the main current account to other facilities in order to increase the Company's interest earnings. There have been no defaults or breaches on Trade payables during the course of the financial year. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its obligations when they fall due. To achieve this it seeks to maintain cash balances and agreed facilities with reputable financial institutions. Furthermore, as outlined in the Directors Report, Broadband Infraco engages with its shareholders on an on-going basis regarding the requirement for a recapitalisation due to the Company's financial position.

The following are the contractual maturities of financial liabilities:

	Carrying amount	Contractual cash flows	6 months or less	6 – 12 months
2013	R'000	R'000	R'000	R'000
Trade and other payables	(124 073)	(124 073)	(108 730)	(15 345)
2012				
Trade and other payables	65 093	(65 093)	(61 828)	(3 265)

26. Licence agreements

The Company was granted an Individual Electronic Communications Network Service Licence by Independent Communications Authority of South Africa ("ICASA") for the provision of Electronic Communications Network Services on 19 October 2009.

The licence area for all of the licences above is the Republic of South Africa. The licence was granted at no consideration and the Company is required to comply with the applicable licence obligations. The Company is required to pay Annual Licence Fees in addition to paying Frequency Spectrum Fees and making contribution to the Universal Service and Access Fund. Expenditure has been incurred in relation to Frequency Spectrum Fees and contribution to the Universal Service and Access Fund and has been recognised in statement of comprehensive income for the year.

27. Capital Commitment

Capital commitments		
– approved, but not contracted	719 695	17 217
– approved, and contracted	131 288	126 407
	850 983	**143 624**

The Company has entered into the West Africa Cable System (WACS) as a participant to share in 11.4% of the capacity. The revised contract value is $72.8 million. The cable has been commissioned and the Company will be paying maintenance services fees from time to time.

28. Contingent Assets and Contingent Liabilities

The Company has instituted a claim against Neotel (Pty) Ltd in respect of services rendered which were part of the RoU but were not taken as part of the MSA, and which the customer requested that they should not be discontinued immediately upon commencement of the MSA but should be provided until migrated off the Company's network. The directors are optimistic about the results of the current arbitration process. The amount of the Company's claim cannot be disclosed pending the conclusion of the arbitration process.

29. Irregular and 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 determined as being irregular expenditure, in terms of section 55(2)(b)(i) of the Public Finance Management Act, No. 1 of 1999, as amended. No losses have been incurred as a result of the irregular expenditure identified:

The irregular expenditure incidents were 11 of which 10 relate to the current year and 1 to prior year.

Irregular Expenditure	2013	2012
	R'000	R'000
Opening balance	203 462	158 835
Incurred in the current year	346	3 925
Identified in the current year relating to previous year	377	69 529
Condoned during the year	(73 454)	(28 827)
Amount not condoned	–	(130 008)
	130 731	**203 462**

2013	Action taken	Expenditure identified	Amounts ratified/condoned	Remaining irregular expenditure
Expenditure incurred in the current year		R'000	R'000	R'000
Expenditure incurred in transgression of commercial processes, policies.	Matters are in the process of being ratified.	346		346
Identified in the current year relating to previous financial years				
Expenditure incurred in transgression of commercial processes, policies.	Matters are in the process of being ratified.	377		377
		723	–	**723**

29. Irregular and Fruitless and Wasteful Expenditure (continued)

Irregular Expenditure (continued)

2012	Action taken	Expenditure identified	Amounts ratified/condoned	Remaining irregular expenditure
Expenditure incurred in the current year		R'000	R'000	R'000
Amount paid in excess of contract value due to non-adherence to contract rates	Engaging the service provider to obtain credit note for amounts in excess of contract rates	1 925	–	**1 925**
Expenditure incurred in transgression of commercial processes, policies and procedures	Matters are in the process of being ratified	2 000	–	**2 000**
		3 925	**–**	**3 925**
Identified in the current year relating to previous financial years				
Expenditure incurred in transgression of commercial processes, policies.	Matters are in the process of being ratified.	52 694	–	52 694
Additional services incurred not provided for in the initial contract.	Matter is in the process of being ratified.	4 271	–	4 271
Expenditure incurred without correct authorisation/level of authorisation.	Matter is being referred to correct level of authority for ratification.	12 564	–	12 564
		69 529	**–**	**69 529**
Total		**73 454**	**–**	**73 454**

29. Irregular and Fruitless and Wasteful Expenditure (continued)

Fruitless and Wasteful Expenditure

Losses through criminal conduct, irregular, fruitless and wasteful expenditure.

Material losses through fruitless and wasteful expenditures

Section 1 of the Public Finance Management Act, No. 1 of 1999, as amended, defines fruitless and wasteful expenditure as expenditure which was made in vain and would have been avoided had reasonable care been exercised.

The following material losses, through fruitless and wasteful expenditure have been identified as being reportable in terms of Section 55(2)(b)(i) of the Public Finance Management Act, No. 1 of 1999, as amended, for the year under review:

Fruitless and wasteful expenditure	2013	2012
	R'000	R'000
Opening balance	54	457
Identified in the current year	17	1 112
Recovered	–	(175)
Losses written off	(55)	(1 340)
	16	**54**

Fruitless and wasteful expenditure	Action taken	Losses identified	Losses recovered year to date	Losses written-off	Recovery outstanding
		R'000	R'000	R'000	R'000
2013					
Interest incurred from suppliers	Losses written off	4	–	(4)	–
Cancelation fees charged request for postponement	Losses written off	13	–	(13)	–
		17		**(17)**	**–**

29. Irregular and Fruitless and Wasteful Expenditure (continued)

Fruitless and wasteful expenditures (continued)

Fruitless and wasteful expenditure	Action taken	Losses identified	Losses recovered year to date	Losses written-off	Recovery outstanding
		R'000	R'000	R'000	R'000
2012					
Environmental Penalty	Penalty recovered from the contractor.	175	(175)	–	–
Interest incurred from suppliers	Matter under investigation.	22	–	–	**22**
Double payments to service provider	Amount is being recovered from the supplier.	16	–	–	**16**
Breach of supplier contract	Matter settled out of court.	883	–	(883)	–
Costs incurred for training courses subsequently cancelled	Employee currently in a disciplinary process - awaiting outcome.	16	–	–	**16**
		1 112	**(175)**	**(883)**	**54**


BATTERY INSTALLATION DATE
STRING 1
12 FIT180
FIAMM

7. Information Service

Abbreviations and Acronyms

AGM	Annual General Meeting
AFS	Annual Financial Statement
ARC	Audit and Risk Committee
B-BBEE	Broad Based Black Economic Empowerment
BEE	Black Economic Empowerment
BPM	Business Process Management
CAE	Chief Audit Executive
CCMA	Council for Conciliation Mediation and Arbitration
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIPC	Companies Intellectual Properties Commission
CISC	Capital Investment Steering Committee
CPI	Consumer Price Index
CSI	Corporate Social Investment
CSIR	Council for Scientific and Industrial Research
DoC	Department of Communications
DPE	Department of Public Enterprises
DRC	Design Review Committee
DST	Department of Science and Technology
EAP	Employee Assistance Program
EBITDA	Earnings before Interest Taxes Depreciation and Armotisation
ECA	Electronic Communications Amendment Bill
ECNS	Communications Network Services

ESS	Employee Self Service
ERM	Enterprise Risk Management
ER	Employee Relations
EXCO	Executive Committee
FOC	Fibre Optic Cable
FY	Financial Year
GCIS	Government Communications and Information Services
GDP	Gross Domestic Product
HR	Human Resources
HRIIS	Human Resources Intergrated Information Systems
HRRC	Human Resources and Remuneration Committee
I-ECNS	Individual Electronic Communications Network Services
I-ECS	Individual Electronic Communications Services
IAS	International Auditing Standards
ICAS	Independent Care Assistance Services
ICASA	Independent Communications Authority of South Africa
ICT	Information Communication Technology
IDC	Industrial Development Corporation
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
IP	Internet Protocol
ISAB	International Standards Accounting Board
ISO	International Standards Organisation

Abbreviations and Acronyms

ITU	International Telecommunications Union
KPA	Key Performance Area
KPI	Key Performance Indicator
LEDA	Limpopo Economic Development Agency
MAU	Minimum Assignable Unit
MoU	Memorandum of Understanding
MSA	Master Services Agreement
MTTR	Mean Time to Repair
MTEF	Medium Term Expenditure Framework
NDP	National Development Plan
NOC	Network Operations Centre
OCI	Other Comprehensive Income
OECD	Organisation for Economic Co-operation and Development
OHS	Occupational Health and Safety
PAA	Public Auditor's Act
PAYE	Pay As You Earn
PFMA	Public Finance Management Act
PoP	Point of Presence
PPP	Public Private Partnership
PPPFA	Preferential Procurement Policy Framework Act
PwD	Person with Disabilities
QoS	Quality of Service
RoU	Rights of Use

RSA	Republic of South Africa
SADC	Southern African Development Community
SATA	Southern African Telecommunication Association
SCM	Supply Chain Management
SDH	Synchronous Digital Hierarchy
SITA	State Information Technology Agency
SKA	Square Kilometre Array
SLA's	Service Level Agreements
SMMEs	Small, Medium and Micro sized Enterprises
SNO	Second Network Operator
SOC	State Owned Company
TFR	Transnet Freight Rail
TCTC	Total Cost to Company
USD	United States Dollars
USF	Universal Service Fund
VAT	Value Added Tax
WACS	West Africa Cable System
WIP	Work in Progress
ZAR	South African Rand

GENERAL COMPANY INFORMATION

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Standard Bank

EXTERNAL AUDITORS
Nexia SAB&T (on behalf of the Auditor General of South Africa)
Registered Auditors
Chartered Accountants (SA)

NOTES