

2014

Broadband **Infraco**



INTEGRATED REPORT



BACKHAUL PROVIDER OF CHOICE



Contributing to changing the National Economic Agenda, through service to previously underserved areas.



2007

Broadband Infraco Act, No 33 of 2007 established

2008

Company registered with Companies and Intellectual Property Commission (CIPC)

2009

Issued with i-ECNS Licence by Independent Communications Authority of South Africa (ICASA)

2010

Official launch by Minister M Gigaba; Acquisition of commercial clients



 **2011**

Network Operations Centre (NOC) insourced; aggressive business development

 **2012**

- West Africa Cable System launched: first above marketing campaign
- End of the Rights of Use with Neotel

 **2013**

Company registered with Companies and Intellectual Property Commission (CIPC) as a “State Owned Company” in terms of the Companies Act, No 71 of 2008 (as amended)

 **2014**

Second anchor client acquired; five Open Access PoPs completed, National Broadband Policy Gazetted



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1. ABOUT THIS INTEGRATED REPORT

The Board and Executive Management of Broadband Infraco SOC Limited (Broadband Infraco) are pleased to present the sixth Annual Report and its very first Integrated Report for the year ended 31 March 2014.

The Company's sustainability reporting is based on the G3 Guidelines of the Global Reporting Initiative (GRI) and Principles of the United Nations Global Compact, King III Code of Governance Principles of South Africa 2009, Employment Equity Act, No 55 of 1998, National Environmental Management Act, No 107 of 1998 as well as the discussion paper of the Integrated Reporting Committee of South Africa. Broadband Infraco reports on its activities and performance to the shareholders, namely the Minister of Public Enterprises in her capacity as Shareholder Representative on behalf of the Government of South Africa, and to the Industrial Development Corporation (IDC) of South Africa.

The Company's main accountability instruments are the Corporate Plan, Annual Report, Quarterly Reports, Annual Financial Statements and any other information that may be requested by the shareholders from time to time. The Integrated Report is tabled annually in the National Assembly in compliance with the requirements of the Public Finance Management Act, No 1 of 1999 as amended (the PFMA), the National Treasury Regulations issued in terms of the Public Finance Management Act and the Companies Act, No 71 of 2008.

The aim of this Integrated Report is to provide insight to Broadband Infraco, its value proposition and strategy, opportunities and risks, the business model and governance. Sustainability reports provide stakeholders with a reflection on past performance and a view to the future in respect of environmental, social, economic, health and safety initiatives. Furthermore, it provides details of the current year performance against its strategic objectives in a way that gives stakeholders a holistic view of the Company and its future activities. This report allows us to report to our stakeholders the financial and non-financial performance of Broadband Infraco for the year ended 31 March 2014. The adoption of integrated reporting principles is a development and evolutionary process and it may take a number of years to fully implement these principles and achieve the desired level of reporting.

Forward-looking Statements

Certain statements contained in this Integrated Report are forward-looking statements which Broadband Infraco believes are reasonable and take into account information available up to the date of the Integrated Report. Results could, however, differ materially from those set out in the forward-looking statements as a result of, amongst other factors, changes in economic and market conditions, changes in the regulatory environment and fluctuations in commodity prices and exchange rates. As a result, these forward-looking statements are not guarantees of future performance and are based on numerous assumptions regarding Broadband Infraco's present and future business model, strategy and the environment in which it operates.

SECTION ONE

Increased percentage of use of recyclable materials.


2. HIGHLIGHTS


This Integrated Report is tabled against the background of a decisive turnaround in the Company, manifested, amongst others, by the following watershed variables:


Economic and Strategy Performance Indicators


96% achievement of Key Performance Indicators as per Shareholders' Compact. 


An increase in revenue compared to prior year. 


Positive cash flow generated from internal operations. 


Training up to 95% of employees on Safety, Health, Environment and Quality (SHEQ). 


Upgraded network infrastructure and transmission equipment for **modern, world-class connectivity**. 

Consistently exceeding its network Service Level Agreement (SLA) targets against contracted values. 

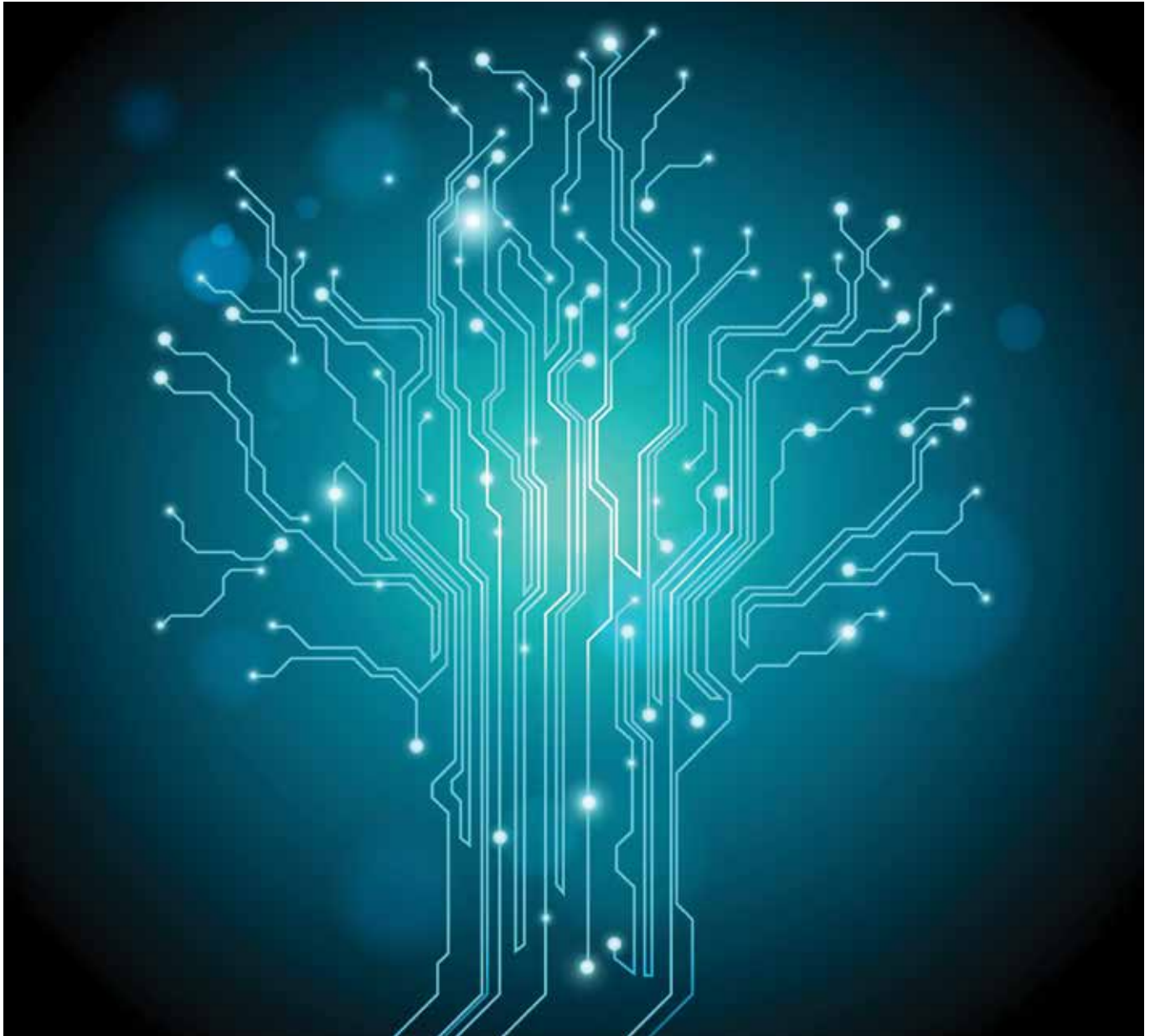
Significant capital expenditure to roll-out to enable connectivity to private and public customers. 

Significant growth in active customers from 11 to 14, including signing on a second anchor customer. 

79% participation in Employee Satisfaction Survey with 70% results indicating overall satisfaction. 

Plans to get full accreditation on the three SHEQ systems (OSHAS 18001, ISO 14001 and ISO 9001) are in implementation phase. 

2. HIGHLIGHTS CONTINUED



Environmental Performance Indicators

- Environmental-friendly materials were used during the implementation of various projects of Broadband Infraco.
- Reduction in direct energy consumption per energy source.
- Increased percentage use of recyclable materials.
- Indirect energy consumption reduced by primary source and energy saved due to conservation and efficiency improvement.
- Reduction in water consumption in project implementation programmes.

Social Performance Indicators

- The implementation of the first Corporate Social Investment (CSI) Programme benefiting two rural schools in the endeavour of promoting Information Communication Technology (ICT) skills among the youth.
- Increased utilisation of its network capacity for wider socio-economic benefit.
- A stable workforce as a direct result of operational performance with representation across the target demographic segments.
- Establishing an above-average benchmark for the first fully-fledged Customer Satisfaction Survey as well as the Employee Perception Survey.
- Marketing communications: industry appropriate participation.
- Reduction of incidents of non-compliance with regulations.
- Consolidation of all its internal governance controls.

These specific integrated reporting indicators are contained in the subsequent sections, in particular sections 8 to 13. The two essential concepts of integrated reporting of capital formation and the value creation process permeate this Integrated Report.

SECTION ONE

The Company's purpose is in line with the National Development Plan (NDP) of establishing national, regional and municipal fibre-optic networks to provide the backbone for broadband access.

3. WHO WE ARE

3.1 Overview

Broadband Infraco is a national asset that must be leveraged to drive national growth and industrialisation. Its extensive fixed national and international infrastructure is open to all competitive and public ICT operators engaged in national development through ICT.

Broadband Infraco's legislative mandate is set out in the Broadband Infraco Act, No 33 of 2007 (the Act). The main objectives in terms of the Act are to expand the availability and affordability of access to electronic communications, including but not limited to underdeveloped and underserved areas, in accordance with the Electronic Communications Act, No 36 of 2005, as amended, and commensurate with international best practice and pricing, through the provision of electronic communications network services and electronic communications services. The Company is a schedule 2 public entity in terms of the Public Finance Management Act (PFMA) and has the Department of Public Enterprises and the Industrial Development Corporation as its shareholders or executive authority in terms of the PFMA.

Broadband Infraco's mandate also resonates with Strategic Infrastructure Project (SIP) 15 which focuses on expanding

access to Information Communication Technology (ICT), SIP 16 which focuses on the Square Kilometre Array and Meerkat and SIP 17 which is focusing on regional integration for African cooperation and development. Availing the capacity of the West Africa Cable System (WACS) to the Department of Science and Technology (DST) is at the core of SIP 17, whilst the Company has an obligation to connecting neighbouring countries addressing ICT infrastructure requirements for SIP 17.

The Company's purpose is in line with the National Development Plan (NDP) of establishing national, regional and municipal fibre-optic networks to provide the backbone for broadband access. Broadband Infraco operates on the premise that the national backhaul, provincial backhaul and districts backhaul require state intervention, thus allowing private investments to lead the way in the access market.

Broadband Infraco operates within a specific focus area of the telecommunications sector in South Africa and was established to participate in those segments of the telecommunications market and value chain that act as an impediment to private sector development in the telecoms industry. The Company was strategically formed as an alternative backhaul and broadband service provider as a way of lowering telecommunications costs, thus enabling the provisioning of broadband connectivity to underserved areas where other operators have no presence.

SECTION ONE

3. WHO WE ARE CONTINUED



Broadband Infraco head office. Building 9, Country Club Estate, 21 Woodlands Drive, Woodmead, Sandton.

Broadband Infraco has a national long distance fibre network. The national long distance fibre-optic network currently utilises Dense Wavelength Division Multiplexing (DWDM) equipment, providing a number of 2.5 Gigabits, 10 Gigabits and 40 Gigabits lambdas along the majority of fibre routes. The Company plans to broaden its footprint in order to fulfil its mandate of providing broadband connectivity to all by the year 2020.

3.2 Vision Statement

Broadband Infraco's vision is:

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

The Company's critical success factors are to:

- Enable 100% high-speed broadband connectivity for all provinces, districts and municipalities in South Africa (SA).
- Connect to all six neighbouring countries of South Africa.
- Connect countries on the west coast of Africa to the West Africa Cable System (WACS).

3.3 Mission Statement

Broadband Infraco's mission is to:

- Enable national and regional private and public collaboration on infrastructure development.
- Expand the availability and affordability of access to electronic communications networks and services, including but not limited to underdeveloped and underserved areas.

- Ensure that the high capacity connectivity and bandwidth requirements for specific projects of national interests are met.

3.4 Values

• Engage stakeholders

Broadband Infraco proactively engages its stakeholders to understand their requirements.

• Broadband Infraco prides itself for excellence in service delivery

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

• Broadband Infraco executes in a simple and flexible manner

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

• Broadband Infraco acts with integrity in all we do

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

SECTION ONE

3. WHO WE ARE CONTINUED

3.5 Opportunity Overview

The approved South African National Broadband Policy considers broadband as an ecosystem of high-capacity, high-speed and high-quality electronic networks, service applications and content that enhances the variety, uses and value of information and communications for different types of users.

Broadband Infraco currently operates the second largest commercial national long distance fibre-optic network in South Africa with nearly 14 000 km or 28% of the current total.

During the period under review, Broadband Infraco's activities were directed at:

- Repositioning its operations from a pure broadband network provider to an enabler of solutions that improve the quality of life of the citizens of South Africa.
- Creating opportunity to use partnerships to enable the use of networks of potential partners.
- Developing organisational capability through people, systems, and an ongoing improvement to the network.
- Government departments are ready to leverage the Broadband Infraco service delivery through the use of broadband applications.
- Cooperating with different partners to harvest broadband networks that will grow the use of broadband services.

3.6 Organisational Development

Broadband Infraco has successfully transitioned from a limited customer base to a more open market player model with a legislated mandate. This change in operational model has provided unique challenges and requires resources to address them, including:

- the complexity around raising funds;
- market price declines which impact revenues negatively; and
- aging infrastructure and a high maintenance network stretched to meet customer service level requirements.

In terms of the development lifecycle and the historical evolution, Broadband Infraco was issued with an i-ECNS Licence in 2009 and acquired commercial clients from 2010; Broadband Infraco continues to be within the initial stages of developing the required capability and capacity to perform its business effectively and efficiently. The chosen operating model is customer-centric and mandate-based, with the major strategic issues highlighted as follows:

- Affordability and the national "Cost to Communicate" agenda;
- Broadband speeds which determine the quality and quantity of information and knowledge accessed by South African citizens;
- The level of duplication driven by infrastructure competition that continues to contribute towards high capital costs of broadband development;
- South Africa's continuing decline in ICT competitiveness, in spite of the significant intellectual and operational resource base available;
- Diverse and viable funding models; and
- Working within the framework of the National Broadband Policy in partnership with private and public collaborators.



4. WHAT WE DO

Our Core Business

Broadband Infraco is a licensed telecommunications services provider, providing wholesale services to the industry. Our services are based upon the provision of high-capacity managed bandwidth from Point of Presence (PoP) to PoP within our National Long Distance fibre-optic network.

The business of Broadband Infraco is comprised of three elements, namely:

4.1 National Connectivity

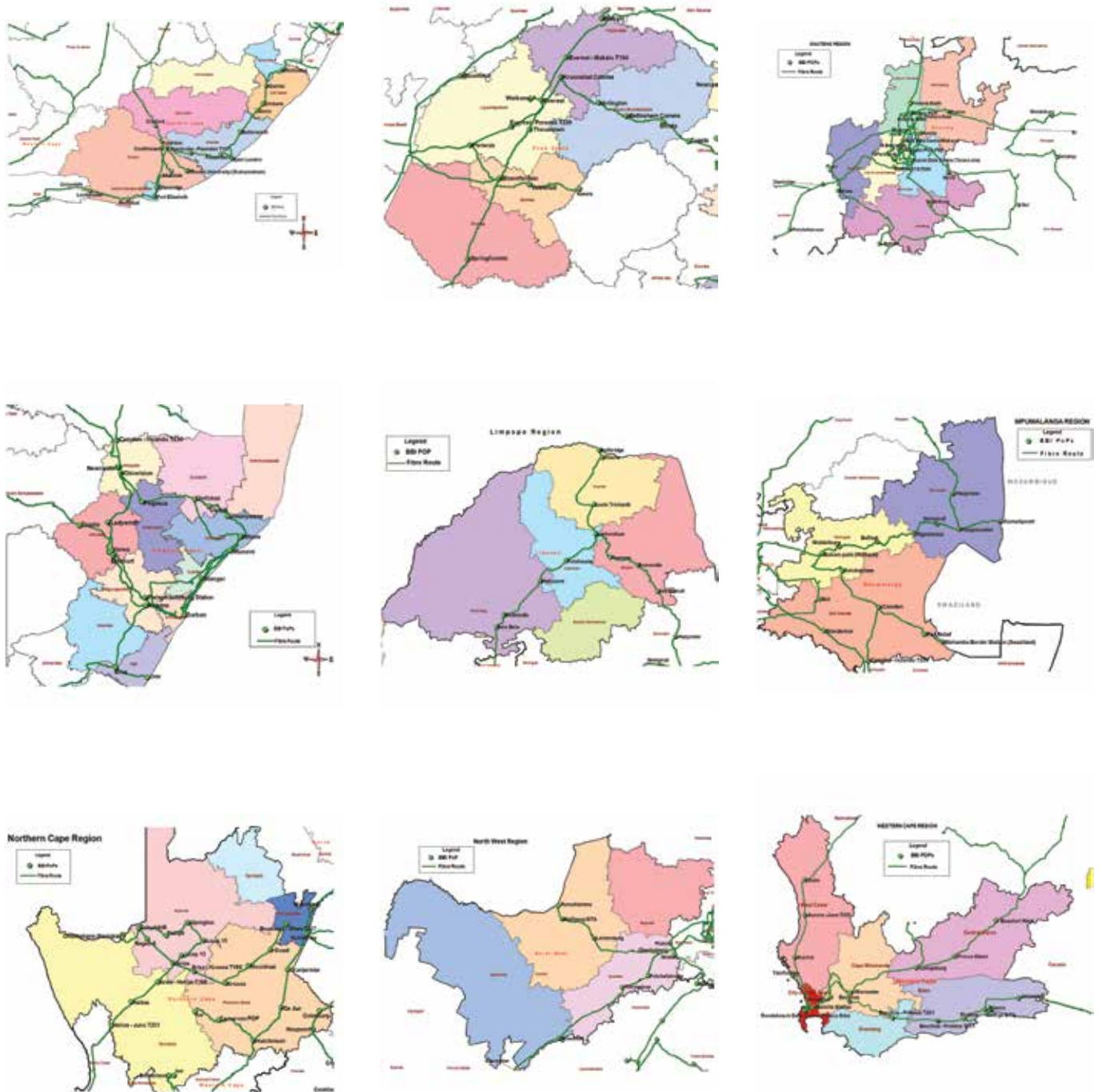
In line with the vision for “broadband to all”, the Broadband Infraco fibre-optic network currently comprises of approximately 14 000 km fibre and 158 Points of Presence (PoPs) countrywide. The capacity on the network is currently on 46 903 Gbps. There has been a move from Synchronous Digital Hierarchy (SDH) to Internet Protocol (IP) technology, which is the latest technology.

SECTION ONE

4. WHAT WE DO CONTINUED

Economic Hubs

Broadband Infraco's National Long Distance Network covers all nine provinces and most major cities and towns. The Network Masterplan has been approved by the Board and shareholders 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 capital investment programme will extend the reach of the network and improve accessibility to both urban and rural communities.



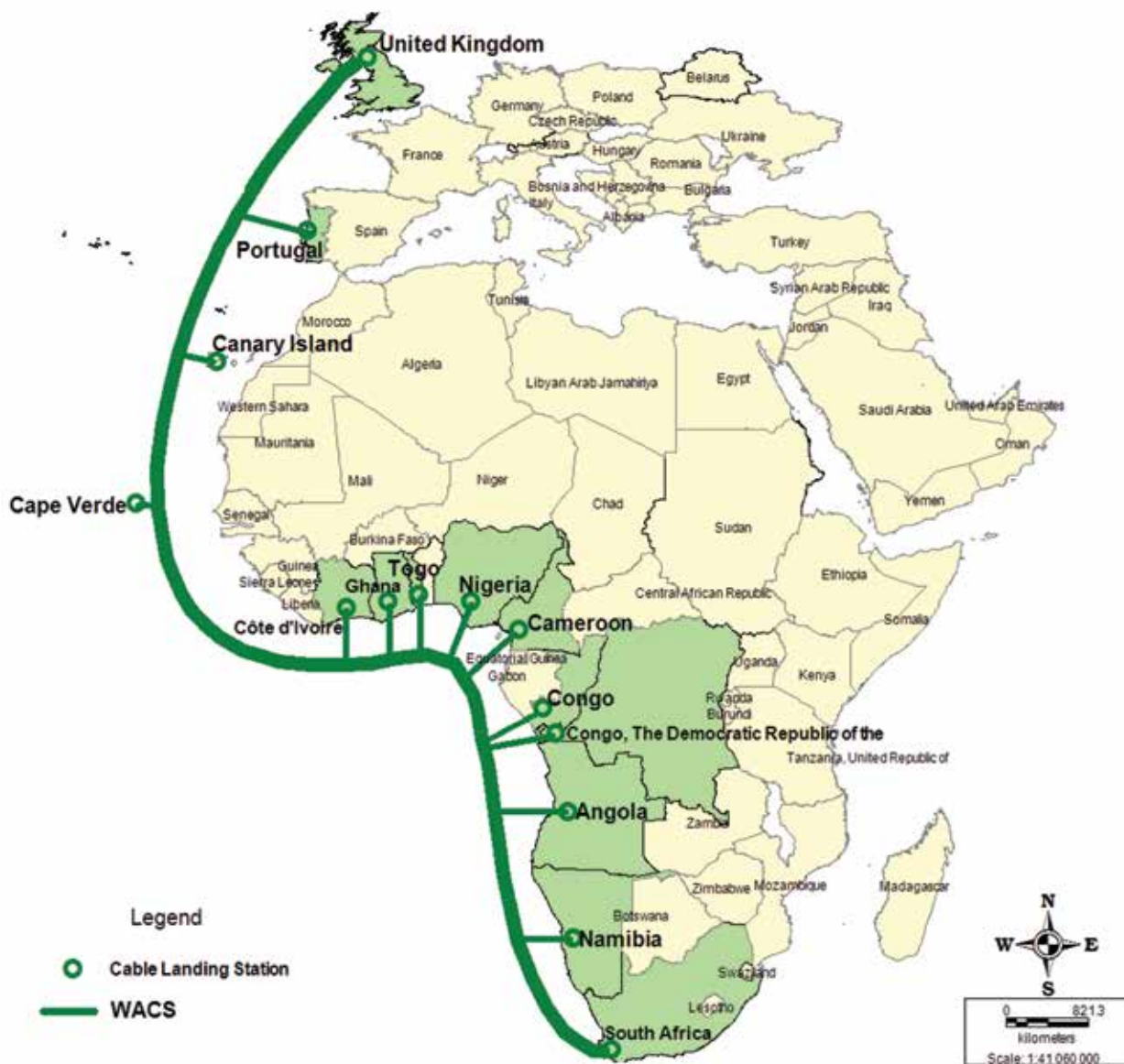
SECTION ONE

4. WHAT WE DO CONTINUED

4.2 Regional Connectivity

Network extensions have also been implemented to provide fibre connectivity to the neighbouring countries of Lesotho, Mozambique, Namibia, Swaziland, and Zimbabwe. Botswana was completed in the current financial year, thereby fully connecting to all borders. Broadband Infraco can also link west coast and east coast international cable systems.

In line with South African Development Community (SADC) Protocol alignment, Broadband Infraco has connected these SADC Points of Presence.



4.3 International Connectivity

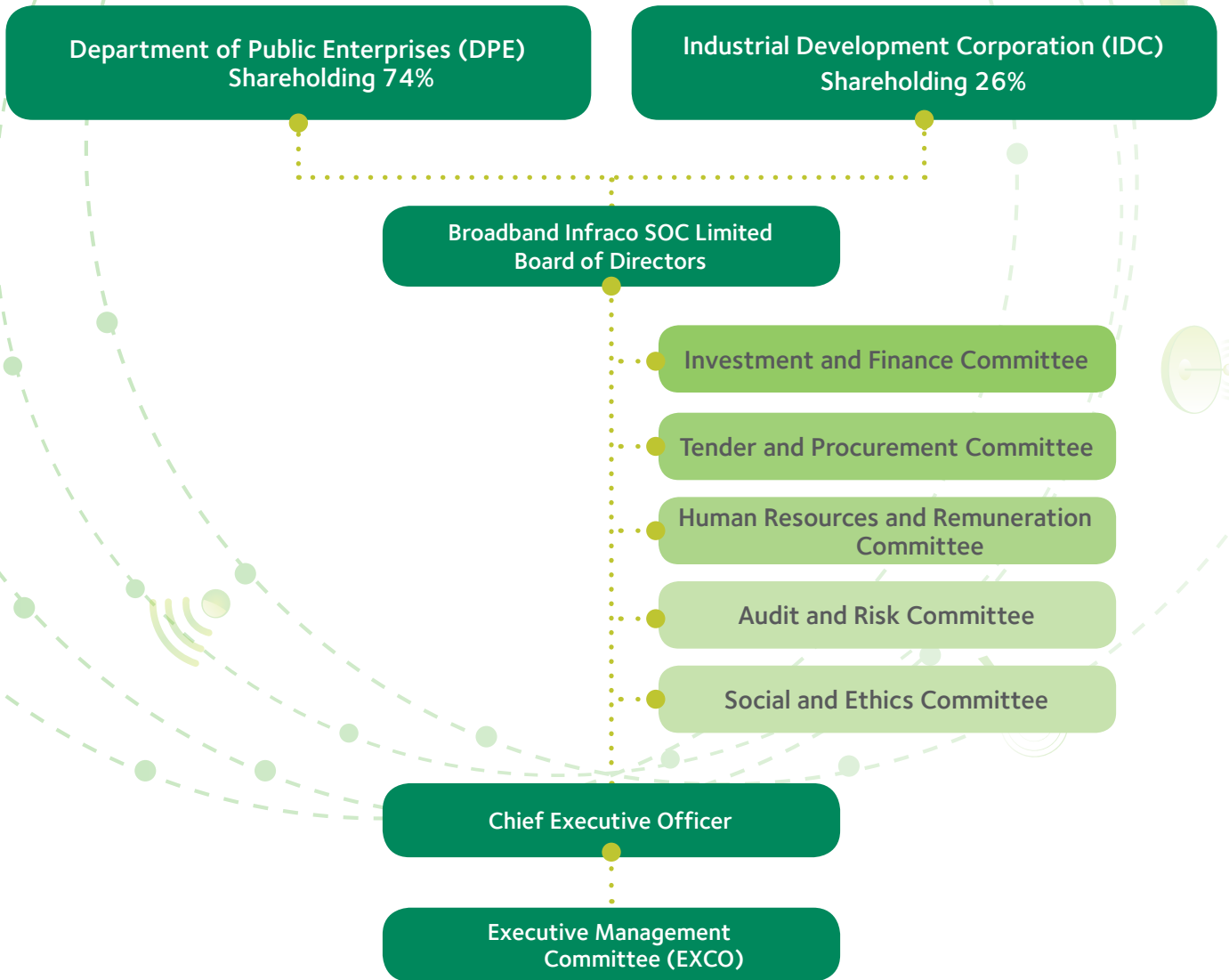
Broadband Infraco is a tier-1 core investor of the West Africa Cable System (WACS) cable initiative which brought various parties together to address the need for international connectivity. Through Broadband Infraco, the South African Government has international connectivity, which:

- Provides lower cost, sustainable and efficient international bandwidth; and
- Positions South Africa for future economic growth as it will be able to connect to key global knowledge economies, including North America and Europe.

SECTION ONE

5. OUR LEADERSHIP

The structure and composition of the Broadband Infraco Board of Directors and the committees of the Board is indicated in the diagram below.



SECTION ONE

5. OUR LEADERSHIP CONTINUED

Board of Directors



BMC Ngcobo (54)
Chairperson of the Board
Independent Non-executive Director
Chairperson: HR and Remuneration Committee
Qualifications:
LLB (Natal), LLM in Company Law (WITS), Business Management Programme (UCT)
Expertise:
Telecommunications and Business Management



S Essa (36)
Independent Non-executive Director
Chairperson: Tender and Procurement Committee
Qualifications:
BCom (Economics and Management) (WITS)
Expertise:
Financial and Business Management



A Githiari (46)
Independent Non-executive Director
Chairperson: Investment and Finance Committee
Qualifications:
PhD (Electrical Engineering) (Cambridge University), BSc (Electrical Engineering) (University of Nairobi)
Expertise:
Telecommunications



X Kakana (49)
Independent Non-executive Director
Qualifications:
Master of Public Administration (MPA) (Harvard - USA), Masters in Technology (MIT), MSc (Electrical Engineering) (F-H Giessen - Germany)
Expertise:
Telecommunications, Engineering and Business Management



SAU Meer (52)
Non-independent Non-executive Director
Chairperson: Social and Ethics Committee
Qualifications:
BSc (Engineering) (UKZN), MBA (UNISA), Advanced Management Programme (Insead Business School - France)
Expertise:
Finance, Strategy and General Management



M Maponya (35)
Independent Non-executive Director
Chairperson: Audit and Risk Committee
Qualifications:
CA(SA), BCom (Accounting) (WITS), BCom (Honours) (Natal)
Expertise:
Auditing, Corporate Finance, and General Management



S Mabalayo (50)
Independent Non-executive Director
Qualifications:
BSc (Electrical Engineering) (UCT), MBA (WITS)
Expertise:
Project and General Management



N Selamolela (38)
Independent Non-executive Director
Qualifications:
BCom (Accounting) (North West University), BCom (Honours) (UKZN)
Expertise:
Telecommunications, Finance and General Management



P Kwele (46)
Chief Executive Officer
Qualifications:
BSc Honours (WITS), Postgraduate Diploma in Management (WITS), Certificate in Financial Management (UJ)
Expertise:
Telecommunications and Business Management



I Hassen (57)
Chief Financial Officer (Interim)
Qualifications:
CA(SA)
Expertise:
Financial Management

SECTION ONE



Left: BMC Ngcobo – Chairperson, right: Puleng Kwele – Chief Executive Officer

6. REPORT FROM THE CHAIRPERSON AND THE CHIEF EXECUTIVE OFFICER

The Chairperson and Chief Executive Officer, on behalf of the Board of Directors, present the first Integrated Report for the year ended 31 March 2014, marking another milestone in the Company's ongoing evolution. This Integrated Report reflects the significant year-on-year improvement in the overall performance of the Company, its financial and other resources, and preparation to participate at a magnified scale in South Africa's quest for universal provision of broadband services to the nation.

Strategy Review

Broadband Infraco's strategy is to provide national wholesale broadband connectivity products and related value added services to public and private customers, across all industries in South Africa, other selected African and international markets, and to continue to support projects of national importance. In the year under review, the Company has:

- Positioned itself to segment markets and responded to customers with the right value proposition timeously and at the right price in response to market demand for wholesale broadband connectivity and related value added services;
- Ensured that its products are fit for purpose, flexible, reliable and competitively priced without compromising service to be the choice provider of wholesale broadband connectivity;
- Developed appropriate and effective marketing and sales strategies that positioned products into customer and industry segments to build long-term relationships;
- Developed, maintained and operated a cost-effective national

network infrastructure and capacity (including Points of Presence), whilst leveraging its legislated access to Eskom and Transnet servitudes, ensured that the business has the right capabilities, operational infrastructure, sound governance, internal controls and risk management in order to facilitate a sustainable business; and

- Managed to attract, develop, deploy, retain and appropriately reward people with the right skills, experience, commitment and energy who will proactively implement a strategy and continuously manage performance through our defined performance management system.

Ongoing implementation of this strategy will enable Broadband Infraco to capture and grow market share, stimulate private sector development, enable innovation in telecommunications services and provide connectivity to underserved areas, making it the supplier of choice for wholesale broadband connectivity and enhancing overall stakeholder value.

Results of the Year Under Review

Financial Results

- A positive cash flow of R328,7 million was generated from operations during the year compared to R10,2 million in the previous year.
- Improvement of EBITDA by R45,3 million to negative R36,1 million compared to negative R81,4 million in the previous year.

6. REPORT FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER CONTINUED

- Revenue for the year ended 31 March 2014 amounts to R302,4 million which is R65 million (27,4%) higher than the prior year of R237,4 million.
- The R263,2 million cash inflow generated from the part payment of the sale of WACS capacity is the most significant cash inflow from revenue since inception.
- Reduced cost of sales for the year to R153 million, R19,2 million (11,1%) lower than the previous year of R172,2 million.
- Gross profit for the year was positive at R149,3 million as compared to the previous year at R65,1 million, an improvement of R84,2 million.
- In support of providing connectivity to projects of national interests, operating expenditure for the year was R312,4 million, an increase of R50,7 million (19%) on the prior year of R261,7 million. This is attributable to increased depreciation, service fees and an increase in employees complements.
- Made significant progress with developing a comprehensive Funding Strategy which has been socialised with selected strategic funding partners.

Business Development

- Finalised the sale of 69,9% of WACS capacity to the Council for Scientific and Industrial Research (CSIR).
- Broadband Infraco concluded a major backhaul contract with Cell C presenting the largest foray into the private telecommunications market after the Master Services Agreement (MSA) with Neotel.
- Awarded international connectivity from the newly established Bofinet (Broadband Infraco equivalent of Botswana) at a strategic PoP of Ramatlabama.
- Conducted a comprehensive customer satisfaction survey on current customers, including comparative competitor insights using industrial-based methodology as well as strategic insights (current and prospective customers). The survey indicates that Broadband Infraco scores consistently above average on Pricing; Account Management; Network Performance and most other survey attributes.

Social and Economic Transformation

- Successfully delivered two Corporate Social Investment projects deploying the Long Distance Telematics Platform in rural schools located in the Limpopo and Mpumalanga Provinces.
- Comprehensive stakeholder management engagements with and without the shareholder took place, traversing several provinces and other stakeholders to position the Company positively.
- Achieved 96% of Key Performance Indicators as per Shareholders' Compact.
- Enterprise Development strategy to create a platform from which the Company can procure from companies owned by People with Disabilities (PWD), as well as Youth Owned Entities (YOE) has been developed.

Network Infrastructure Design and Project Implementation

The Infrastructure Delivery Capability Cluster delivered the following salient milestones in the year under review:

- Northern Ring upgraded to a capacity of 180 Gbps.
- The capital expenditure for the 2013/2014 financial year is R216,2 million consisting of R199,2 million for infrastructure and transmission equipment and R17 million for fibre connectivity.
- Designed a comprehensive Network Engineering Masterplan for all nine provinces.
- Consistently exceeded the average network SLA targets against contracted values of 99,5%.
- Safety Health, Environment and Quality (SHEQ) – completed; training for more than 95% of employees.
- Advanced preparation for implementing all three SHEQ systems (OSHAS 18001, ISO 14001 and ISO 9001) with the required documents drafted and approved in the Company's governance structures.
- Completion of SHEQ compliance standard audits at all regional offices.
- Successfully completed regional office connectivity with the extension of office MPLS services (telephony and network data access) to regional offices for Durban and Port Elizabeth.
- Establishment and completion of five priority PoPs; Durban, Pretoria East, Pretoria West, Parklands and Bryanston.
- Completion of the Mafikeng PoP providing route capacity upgrade, including equipment installed, soak tested and commissioned.
- Completion of the strategic gateway to the South African Development Community (SADC) provided by the Ramatlabama PoP and presenting an advantage for traffic aggregation.
- Organisational re-alignment and resourcing of the Supply Chain Management (SCM) division implemented together with forward-planning initiatives (divisional demand management).

Strategic Support/Governance Cluster Achievements

In terms of the Strategic Support cluster, the following salient milestones were achieved in the period under review:

- A total number of 51 vacancies were filled during the period under review.
- Implementation of the Enterprise Resource Planning (ERP) System: Payroll system, Employee Self-service (ESS) and other HR modules are currently underway and will be ready for live implementation in the next financial year.
- The total cost of training amounting to R3,1 million for the period under review complied with industrial standards.
- A well-received Employee Satisfaction Survey was conducted to which about 80% of the total employee complement responded and the outcome was presented and communicated to the various structures within the organisation.
- Ten interns are continuing with the internship programme.

SECTION ONE

6. REPORT FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER CONTINUED

Forward-looking: Market Demand

The use of broadband services depends heavily on availability of broadband enabled devices, such as smartphones, tablets, computers and game consoles, amongst others. The technology (features and designs) used on these devices has increased consumption of broadband services provided by the high adoption rate of these devices by consumers. Increased levels of smartphone devices are being shipped quarterly where South Africa has over ten million smartphone devices active on mobile networks which gives opportunity for localisation and industrialisation.

Local mobile networks continue to match developed markets technologically with all mobile operators in the country having launched Long Term Evolution (LTE) mobile technology that provides broadband speeds in excess of 100 Mbps. Realistically speeds are much lower due to a number of factors such as signal strength and number of active users connected simultaneously. The deployment of LTE is in line with the global mobile technology standards evolution. However, lack of spectrum and sizeable investments required to roll it out, have limited this technology's footprint with 3G/HSDPA only having 30% geographical coverage.

The metro and national backhaul transport networks have seen technological developments such as metro Ethernet, Dense Wavelength Division Multiplexing (DWDM), and next generation Synchronous Digital Hierarchy (SDH) in line with global standards which have increased network capacity and improved transport efficiency. The current DWDM technology (40 Gbps) has a potential capacity increase of 160 Gbps. The advent of all IP networks is gaining momentum, where all traffic traversing networks will be IP. South Africa is, however, characterised by a concentration of these networks in urban areas where there is high economic value thereby limiting broadband accessibility with many rural areas remaining underserved.

Despite signs of positive improvement in broadband technology, lack of infrastructure development and investment has severely impacted broadband quality in the country. A number of broadband speed benchmarks conducted in 2013 continued to show South Africa trailing below global average broadband speeds.

The facts outlined points to an exponentially increased private and public demand for Broadband Infraco's services as can be seen in its business development work undertaken in the year under review. Broadband demand can be calculated as a combination of individual (consumer) and organisational (Government, private sector) demand. South Africa's broadband coverage is approximately 30% geographic coverage and 75% population coverage, and less than ten million of South Africans have access to the internet. This is mainly due to a lack of ICT infrastructure and unaffordability.

Broadband Infraco is therefore perfectly poised to respond to demand which is expected to grow annually by 39% between 2015 and 2020.

End-user applications will continue to drive the need for ICT infrastructure. The access level traffic demand indicates growth across provinces, thus Broadband Infraco will focus on retaining its current traffic within the Golden Triangle and drive expansion of "self-funding" projects. The higher end-user traffic projections for the provinces of Mpumalanga, Limpopo and Eastern Cape have to be complemented by high-capacity backhaul infrastructure. Broadband Infraco will pursue customer-driven roll-out in these provinces.

Broadband Infraco's strategy is to provide national wholesale broadband connectivity products and related value added services to public and private licensed or licence-exempt customers, across all industries in South Africa, other selected African and international markets, whilst at the same time continue to support projects of national importance. In so doing, the Company will:

- Understand market demand for wholesale broadband connectivity and related value added services in order to segment markets and respond to customers with the right value timeously and at the right price;
- Ensure that its products are fit for purpose, flexible, quality, reliable and competitively priced so that Broadband Infraco is seen as the choice provider of wholesale broadband connectivity;
- Develop appropriate, effective marketing and sales strategies, which will ensure that we push and pull its products into customer and industry segments to build long-term relationships;
- Develop, maintain and operate cost-effective national network infrastructure and capacity (including Points of Presence), leveraging its legislated access to Eskom and Transnet servitudes, through appropriate partnerships where required;
- Ensure that the business has the right capabilities, operational infrastructure, sound governance, internal controls and risk management in order to facilitate business continuity and compliance; and
- Attract, retain, develop, deploy and appropriately reward people with the right skills, experience, commitment and energy who will proactively implement this strategy and continuously manage performance through our defined performance management system.

The effective implementation of this strategy will enable Broadband Infraco to capture and grow market share, stimulate private sector development, enable innovation in telecommunications services and provide connectivity to underserved areas, making it the supplier of choice for wholesale broadband connectivity and enhancing overall stakeholder value.

6. REPORT FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER CONTINUED

The National Broadband Policy (the Policy)

On 4 December 2013, Cabinet approved South Africa's National Broadband Policy. The National Broadband Policy referred to as "South Africa Connect" has redefined broadband to mean an ecosystem of high-capacity, high-speed and high-quality electronic networks, services, applications and content that enhances the variety, uses and value of information and communications for different types of users.

The Policy proposes that, in order to improve services-based competition, market and sectoral institutions be restructured to create an environment conducive to public and private investments needed to achieve the required levels of broadband network extension. It suggests that existing State Owned Companies (SOCs) should be rationalised to contribute to national objectives more efficiently and effectively. National Departments residing in the Infrastructure Cluster (led by the DoC, DPE) will, in terms of the Policy, develop a transition plan (which will feed into the broadband roadmap and implementation plan) aimed at positioning and strengthening the relevant SOC's to optimally support and contribute towards the delivery of a robust and cost-effective open access broadband network. The Policy further recognises the importance of spectrum in providing high-capacity broadband services. It prioritises the urgent re-allocation and assignment of the high-demand spectrum (800 MHz and 2.6 GHz spectrum).

The Policy also proposes that public sector demand be aggregated (Government as an anchor tenant) to facilitate the competitive procurement of discounted, high-quality services required to meet the communication needs in critical areas of public service delivery (such as health, education and safety and security), and to enable network extension in areas that are unconnected by reducing the associated investment risk. It prioritises dedicated connectivity to all schools and public health facilities. National broadband initiatives would, in terms of the Policy, be coordinated with similar initiatives undertaken at Provincial and Local Government level.

The Policy suggests that additional investment in the National Broadband Network be achieved through public and private investment in a manner which will initiate long-term collaboration of existing infrastructure providers.

The implementation of the Policy is expected to cost R65 billion, and would create more than 400 000 jobs, with over R130 billion contributed to the country's GDP over a ten-year period. The Policy implementation would be funded by Government through reprioritisation and rationalisation of existing budget allocations, and private funding sources (including funds from development finance institutions).

Broadband Infraco welcomes the promulgation of the Policy. The Company is, in this regard, gearing itself to cooperate and complement other ICT SOC's in the deployment of the National Broadband Network.

Broadband Infraco shares the view that Government should be the primary occupier of the National Broadband Network to fulfil a socio-economic objective (of achieving universal access to broadband). That is, Government should become an anchor tenant on the National Broadband Network to ensure sustainable business cases for operators providing broadband infrastructure and services, particularly in underserved areas.

The Board of Directors is satisfied with the progress made in the first integrated reporting for the period 1 April 2013 to 31 March 2014 which allows for reporting on financial results, governance, sustainability and other relevant material factors.

Appreciation

A special thanks and appreciation to our shareholders, our new Minister of Public Enterprises, Ms Lynne Brown, the former Minister of Public Enterprises, Mr Malusi Gigaba and his department, as well as the Chairperson of the Industrial Development Corporation (IDC) of South Africa, Ms Monhla Hlahla, and her executive team for their ongoing support.

We wish to thank our colleagues on the Board and Executive who have provided valuable and tireless guidance and we would like to thank them for their commitment in assisting to reposition and turnaround the Company into the future.

Gratitude is expressed to the many employees who have worked tirelessly to reposition the Company, and organised labour for their partnership in transforming this sector.

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



M Ngcobo

Chairman of the Board



P Kwele

Chief Executive Officer

SECTION ONE

7. PERFORMANCE AGAINST SHAREHOLDERS' COMPACT – 2013/2014

The National Treasury Regulations 29.2.1 issued in terms of the Public Finance Management Act, No 1 of 1999, as amended (PFMA), requires that the public entity, in consultation with its executive authority, must conclude a Shareholders' Compact. In line with this regulation, Broadband Infraco together with the shareholders developed a Shareholders' Compact agreement which stipulated a number of strategic objectives, mandatory and outcome-oriented key performance indicators and targets to monitor and measure performance of the Company during the 2013/2014 financial year.

Strategic Objective	Weight %	Key Performance Area	Key Performance Indicator
Financial sustainability	20	Increase network capacity utilisation	Volume growth in capacity utilisation
		Developed Funding Plan	Approved Funding Plan
		EBIDTA based on budget	Measure of EBIDTA based on budget
Expand broadband access	30	Network expansion	Upgraded capacity on the Northern Ring
			Number of access PoPs increased
			Collaboration with DPE SOCs
Build good reputation that leads to end-user satisfaction and ensuring an increase in service delivery to exceed customer expectations	5	Customer engagement	Measurement of customer service performance
Effective people management	10	Improved organisational culture	Measurement of staff satisfaction
		Talent management	Developed modules for Leadership Development Programme
Economic transformation	35	Controlled training spend	Training spend as percentage of payroll
		ICT skills development	Number of engineers in training per annum
		Employment creation	Number of direct jobs created
			Number of indirect jobs created
		Maximise socio-economic contributions	% of B-BBEE discretionary spend
			Percentage spend on Black Owned Entities
			Percentage spend on Youth Owned Entities
			Percentage spend on Women Owned Entities
Advocating the positive socio-economic impact of increased broadband penetration and encourage wider societal broadband utilisation	Amount spend on People with Disabilities Owned Entities		
	Number of CSI projects completed		

SECTION ONE

7. PERFORMANCE AGAINST SHAREHOLDERS' COMPACT – 2013/2014 CONTINUED

For the year under review, Broadband Infraco has achieved an overall 96% of all targets contained within its Shareholders' Compact. This is the highest achievement of the Company's pre-determined objectives since the establishment of the Company, and this bears fruit from interventions introduced in the preceding years.

In terms of the actual performance against the set targets, the table below summarises the Company's performance.

Baseline	Target 2013/2014 Financial Year	Target Achieved	Actual 2013/2014 Financial Year
922 (STM1 equivalent)	+10%	✓	33,8% ¹
–	Achievement of year one Milestones of the Funding Plan	✓	Developed strategic funding models, including Vendor Financing, Joint Financing with SOC and MTEF application
(R81,5) million	(R181,5) million	✓	(R36,14) million ²
160 Gbps	480 Gbps	✓	480 Gbps
152 PoPs	5 PoPs	✓	5 PoPs were built
Collaboration agreement with Eskom	Approval of Fibre Infrastructure Co-ownership Agreement by Dec 2013	✓	Fibre Infrastructure Co-ownership Agreement concluded with Eskom
TFR original contract	Amended TFR contract to allow Broadband Infraco site access by Dec 2013	✓	Agreement amended and signed with TFR
–	Conduct a customer survey to set baseline	✓	Customer survey completed successfully
–	Conduct an employee survey to set baseline	✓	Employee survey completed successfully
–	Programme modules developed and approved	✓	Programme modules developed and approved by the Accounting Authority
1,08%	3% of total payroll	✓	3,2%
–	10	✓	10 interns in the programme
144 employees	19	✓	22 appointments made
–	Establish capability to measure and determine baseline	✓	Enterprise Development Strategy Plan concluded
60%	70%	✓	102,5%
–	40% spend of discretionary	✓	42%
–	10% spend of the 40% spend on Black Owned Entities	✗	0,25% ¹
–	10% spend of the 40% spend on Black Owned Entities	✓	27,75%
–	R250 000	✗	R0,0 ¹
–	2 CSI projects completed	✓	2 CSI projects completed successfully

1 Successfully broadened the revenue base and selling more services to other customers.

2 Improvement due to increased customers; revenue from WACS and reduction in costs overall.

3 During the year under review, Broadband Infraco completed the B-BBEE and Enterprise Development Strategy. Vendors are now requested to disclose information beyond the B-BBEE certificates.

SECTION ONE

8. OPERATIONS

Network Engineering

The highlights from a technical perspective encompass the following environments and functions: Network Engineering; Facilities; Network Maintenance; the Network Operations Centre; and Information Technology. The key business support systems in the technical environment include the Information Systems and the Safety, Health, Environment and Quality areas.

Technical design solutions were developed in support of business development and efforts, which included the following:

- SANReN (Extension of SANReN, a Department of Science and Technology initiative);
- Western Cape (Provisioning of Broadband Network Services

- to all Provincial Government buildings and other facilities across the Western Cape for a period of ten years);
- International search engine company (Requirement for an Ethernet Service terminating at Teraco Isando (Johannesburg) and at Yzerfontein (Western Cape) at the West Africa Cable System (WACS) landing station;
- Cell C RFP (Request for Proposal for Broadband Provisioning);
- SANReN SKA Connectivity (Upgrading the existing 10 Gbps for MeerKAT);
- The "SKA-1 Requirement" requiring 2 Tbit/s and 27 Tbit/s of capacity by 2016;
- CSIR (Request for Quotation - Managed Bandwidth Solution for WACS Backhaul Capacity for SANReN and TENET);
- Microsoft (Connectivity Capacity - South Africa RFP);
- Transnet Tender (Core Capacity Provisioning); and
- Western Cape (Government Communication Tender).

The following projects were successfully designed, planned and implemented within the period under review:

Project	Project Description	Project Progress Status
Pretoria West and East	Establishing PoP for anticipated increased revenue.	Installation completed and acceptance confirmed.
Durban metro	Establishing PoP for anticipated increased revenue.	Equipment installation completed and acceptance testing and handover done.
Mafikeng	Establishing PoP for anticipated increased revenue/USAL.	Equipment installation completed and acceptance testing and handover done.
Ramatlabama	Establishing PoP at the Botswana border.	Equipment installation completed and acceptance testing and handover done.

After the upgrade, Broadband Infraco now has 158 PoPs countrywide, an increase of five additional PoPs as follows:

Site Description	Number
Infraco Owned LD Sites	58
SOC Co-location Sites	14
SOC Site Sharing Sites	43
SOC Microwave Sites	12
Netel PoPs	12
Open Access PoPs	10
Private Lease	7
Private Co-location	2
Total Sites	158

Substantial effort by employees ensured Broadband Infraco compliance with the statutes of the country. The major operational highlights of the year are the following items:

- More than 95% of all employees were trained in the Safety, Health, Environment and Quality systems;
- 100% completion of systems required documents being drafted and approved;
- All three key SHEQ systems are in implementation phase. These are OSHAS 18001, ISO 14001 as well as ISO 9001;
- All the Broadband Infraco regional offices were audited for compliance to the SABS system requirements and, where required, deficiencies are being addressed; and
- 40% of the transmission network were upgraded as part of the revenue protection strategy.

SECTION ONE

8. OPERATIONS CONTINUED

Network Operations Centre

The main objective of the Network Operations Centre (NOC) is to provide high network availability and reliability. This ensures that Broadband Infraco delivers an acceptable quality of service (QoS) and complies with the performance metrics specified in service-level agreements (SLAs). The target for protected customer service was 99,5% in 2013/2014. The achievement was 99,74%, which exceeds the target as well as that of the previous year.

Another major achievement was the completion and commissioning of a permanent off-site Disaster Recovery NOC site.

Spur links on the network are the main contributors as they cause long restoration times. Efforts to mesh the network need to be supported.

Network Maintenance

Mean Time to Repair

The Mean Time to Repair (MTTR) means the time taken to repair a failure on the network, which includes: admin delay, travelling time, logistic delay and actual time to repair. The MTTR improved slightly with an overall MTTR for the 2013/2014 financial year of 06:15. This is below the target of 08:00 (hh:mm), which is a good achievement.

Average Network/Route Availability

The overall network availability for the 2013/2014 financial year was 98,78%, well below the target of 99%. Investments have to be made to address the single point of failures and critical sections of the network.

Information Technology

The Information Technology (IT) Unit operates and manages the IT systems and infrastructure network of Broadband Infraco, in compliance to Company governance and standard operating procedure.

The IT system and network infrastructure have been stable and no unscheduled downtime has been experienced during the year under review.

Major Highlights/Achievements

The following activities have been completed in the year under review:

- **Bulk SMS Solution:** The Network Operations Centre (NOC) has been using a 3G card to send out SMS' to customers. This has now been replaced with a Bulk SMS solution which is more efficient and cost-effective.
- **Document and Content Management:** The design, development and testing of a new document management Intranet system was completed. This solution enables various business units to store and manage different types of content and documents while maintaining strict control through governance policies to ensure compliance.
- **ERP System:** The implementation of payroll systems, ESS and other Human Resources (HR) modules was completed. This has enabled employees to access services electronically and thus help to save costs and the environment.
- **Regional Office Connectivity:** The objective of this project is to extend Broadband Infraco head office MPLS services (telephony and network data access) to regional offices. Configurations and installations for the Durban and Port Elizabeth offices were completed successfully. Plans are underway to implement the same solution for five more regional offices/sites (Bloemfontein, Cape Town, Polokwane, Newcastle and Nelspruit).

SECTION ONE



9. CAPITAL PROGRAMME MANAGEMENT

The capital expenditure for the 2013/2014 financial year was R216,2 million, consisting of R199,2 million for infrastructure and transmission equipment and R17 million for fibre connectivity on an Indefeasible Rights of Use (IRU) basis. The main achievements for the year were the completion of planned projects. The Company anticipated capital expenditure of R269 million to be spent during the 2013/2014 financial year. The actual spend of R216,2 million equates to almost 81% of the forecasted capital spend during the financial year.

The infrastructure improvements completed during the financial year are:

- The Northern Ring was upgraded to a capacity of 480 Gbps which is a national first for, and represents a first mover advantage for, the Company, in terms of providing DWDM services in the northern part of South Africa.
- The number of open access core Points of Presence (PoPs) increased by five during the financial year with the establishment of new PoPs in Durban, Pretoria West, Pretoria East, Parklands and Bryanston allowing improved connection of services to customers.
- The Ramatlabama project which entailed the extension of the

network from Mafikeng to a new PoP in Ramatlabama close to the border with Botswana was completed and commissioned during the financial year. Broadband Infraco now has facilities for connecting traffic to and from Botswana.

- The Eros Oribi project, establishment of a PoP in Port Shepstone was completed. The new PoP is now located in an optimal position to meet customer requirements in the area.
- The Mafikeng route was upgraded to allow for more capacity to be available in order to meet customer demands.
- The main transmission system core network upgrade project was initiated and implementation began during the financial year. All transmission equipment was delivered and implementation has begun. Implementation and commissioning is expected to be completed during the next financial year. This project is aimed at upgrading the transport network infrastructure. The equipment to be upgraded has reached its end of life and is thus obsolete; this upgrade will enable Broadband Infraco to provide high-speed and high-capacity services as required by industry. The routes that are being upgraded are:
 - Durban Terraco – East London – Port Elizabeth/Grassridge
 - Port Elizabeth/Grassridge – Rondebosch (Via Bellville)
 - Yzerfontein – Aries – Kimberley – Bloemfontein
 - Johannesburg Interconnection to close “Golden Triangle”

10. GOVERNANCE

Secretariat Report

Broadband Infraco's systems of sound corporate governance principles are continually evolving as it strives for best practice and as the needs and expectations of stakeholders develop.

Broadband Infraco maintains a strong culture of corporate governance, which is an important consideration in its day-to-day operations. Its Directors and Executive Management are fully committed to the highest standards of corporate governance in the conduct of the business.

Equally, Broadband Infraco is fully committed to the ethical principles of fairness, accountability, transparency and social responsibility underpinning good corporate governance.

Broadband Infraco has complied with King III in all material respects and also complies with the additional governance requirements as per the Protocol on Corporate Governance in the Public Sector, the Public Finance Management Act (No 1 of 1999), and all relevant aspects of the Companies Act (No 71 of 2008). Broadband Infraco is committed, as recommended by King III, to continue the process of integrating our reporting to stakeholders in a more meaningful and transparent manner.

In terms of non-financial aspects, Broadband Infraco continues to be guided by the Global Reporting Initiative's (GRI) sustainability reporting guidelines on economic, environmental and social responsibility aspects.

The financial highlights, as well as Chairman's and Chief Executive Officer's (CEO) reports from page 12 to 15, detail the Company's reviews. The Board believes these reports, along with the financial statements, reasonably reflect the Company's position and prospects. The Directors' Responsibility for the financial statements is described on page 64.

Board members serve for a period of three years. The Board members retire by rotation each year and make themselves eligible for re-election by the shareholders at the Annual General Meeting.

The Board is responsible for governance and its duties include the recommendation for the appointment and dismissal of the Chief Financial Officer in consultation with the shareholders. The Board's primary responsibility is to provide effective strategic leadership and direction over the Company's affairs for the benefit of its shareholders, creating sustainable stakeholder value by balancing the interests of all constituencies, including customers, employees, suppliers and local communities. The Board is guided by a formal charter setting out its duties and responsibilities.

The Board has formally reserved the following functions for itself:

- Setting, recommending and monitoring implementation of the strategic plan, setting objectives and reviewing key implementation risks and performance areas;
- Formulation and monitoring of the Company's IT strategy;
- Recommending the appointment of the CFO and maintaining a succession plan;
- Quarterly review of the Company's management of risks and risk policy;
- Approving annual financial statements, interim reports and related financial matters;
- Recommending appointments to and removals from the Board;
- Delegation of authority to the CEO;
- Shareholder meeting notices, circulars to shareholders and dissemination of Company's announcements through the issuer;
- The segregation of roles, responsibilities, functions and powers of the Board, 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
- Significant Company policies and practices of the Board for such matters as corporate governance, declarations of conflicts of interests, Board meeting documentation and procedures, and the nomination, induction, training and evaluation of Directors and members of the Board and its sub-committees.

All new Directors receive appropriate orientation and induction training and Director development training, focusing on Broadband Infraco's business, its environment, key risks, fiduciary duties and sustainability issues.

While the Board retains overall accountability and full and effective control of the Company, it has delegated the day-to-day affairs of the Company to the CEO.

Non-executive Directors meet and communicate independently without Executive Directors present throughout the year. Additional meetings are convened should any matter arise that requires consideration by the Board outside of scheduled meetings.

All Directors have access to the advice and services of the Chairman, CEO, CFO and Company Secretary. The Company Secretary is responsible to the Board for ensuring Board and governance procedures are followed and applicable regulations are adhered to.

Board Structure

The details of the Board of Directors, including the Executive Directors, appear on pages 10, 11, 29 and 30 of the Integrated Report.

SECTION ONE

10. GOVERNANCE CONTINUED

Broadband Infraco has a unitary Board structure with a majority of Non-executive Directors. For the review period, the Board consisted of ten Directors. This included seven independent Non-executive Directors, one non-independent Non-executive Director and two Executive Directors, being the Chief Executive Officer and Chief Financial Officer. Mr I Hassen, the interim Chief Financial Officer, was appointed as an Executive Director effective 21 January 2014.

The Non-executive Directors are drawn from diverse backgrounds and reflect a wide range of business leadership experience and professional skills. The Non-executive Directors also bring independent and balanced judgement to the Company's business. The aim is to have a Board with an appropriate balance of skills and experience to support Broadband Infraco's strategy and meet the requirements to lead the Company effectively.

Board Operation

The Board is responsible to shareholders for conducting the business of the Company. It provides leadership and vision to the Company so that shareholder value is enhanced and the

Company's long-term sustainable development and growth is achieved. The Board approves the Company's strategy, reviews the Company's performance, approves interim and annual financial statements, determines internal treasury policies and risk management policies, and approves major investments or disinvestments.

Non-executive Directors are timeously provided with sufficient information to enable them to formulate independent conclusions on all matters brought to their attention at Board meetings.

The Board is ultimately accountable for Broadband Infraco's performance and affairs.

Board Meetings

Board meetings are held at least quarterly or as and when required. All Directors are invited to add items to agendas for Board meetings. These meetings were either scheduled or special meetings. The members' attendance at meetings is reflected in the table below.

Table A – Board Meetings

No	1	2	3	4	5	6	7	8	9	10	Total
Meeting Date	29/4/13	22/5/13	29/5/13	11/7/13	2/8/13	29/8/13	9/9/13	7/11/13 - 8/11/13	21/1/14 - 22/1/14	21/2/14	
Name of Director											
BMC Ngcobo ¹	√	√	√	√	√	√	√	√	√	√	10/10
SA Essa	√	√	A	√	√	√	A	√	√	√	8/10
A Githiari	A	√	A	A	√	A	√	√	√	√	8/10
X Kakana	A	√	A	A	√	√	A	√	√	√	6/10
P Kwele ²	√	√	√	√	√	√	A	√	√	√	8/10
MM Maponya	√	A	A	√	√	√	A	√	√	√	7/10
ST Mabalayo	√	√	√	√	√	√	√	√	√	√	10/10
SAU Meer	A	A	√	A	√	A	√	A	A	√	5/10
N Selamolela	√	A	√	√	A	A	√	A	A	√	5/10
I Hassen ^{**}	-	-	-	-	-	-	-	-	-	√	3/3
R Magoele	A	√	√	√	A	√	√	Resigned 1/11/13			5/7

¹ Chairperson of the Board

√ Attendance

A Absent with apology

^{**} Mr I Hassen joined as interim CFO on 3 January 2014

Special Meeting

Strategic Meeting

Scheduled Meeting

10. GOVERNANCE CONTINUED

Annual Strategic Review

In accordance with Broadband Infraco's annual meeting plan, the Board reviewed the Company's Strategic Plan and principal issues it expects the Company may face in future. The Strategic Plan was subsequently approved by the shareholders. The Board held strategic meetings on 7 and 8 November 2013, and on 21 and 22 January 2014.

Conflicts of Interest

Directors are required to inform the Board timeously of conflicts or potential conflicts of interest on any matters on the agenda for discussion. Directors are obliged to recuse themselves from discussions or decisions on matters in which they may have an interest. Directors are further required to disclose all other directorships at the beginning of the year by way of a declaration of interest, and changes are tabled when they occur. The Declaration of Interest Register is circulated at every Board meeting for review by members.

Evaluating the Board's Performance

In compliance with the Shareholders' Compact signed between the shareholders and the Board, an Independent Board Evaluation and formal self-assessment was carried out during the review period. This was conducted by way of individual questionnaires and one-on-one interviews with each Board member. The results and recommendations were presented to the Board on 11 July 2014 and to the shareholders at the Annual General Meeting on 8 August 2013. The Independent Report concluded that the Board continues to operate efficiently and effectively. This annual assessment ensures the Board remains effective and relevant to the business objectives of the Company.

Board Committees

Specific responsibilities have been delegated to various committees of the Board. The Audit and Risk, Human Resources and Remuneration (also plays the role of the Nominations Committee), Social and Ethics, Investment and Finance, and Tender and Procurement Committees assist the Board in discharging its duties and report to the Board regularly on their activities. Each committee acts in accordance with its own written Terms of Reference, under which certain functions of the Board are delegated for clearly defined purposes. The Board, however, recognises that delegating various functions and authorities to committees does not absolve the Board of its duties and responsibilities. The chairpersons of the various committees are required to attend the Annual General Meeting to respond to questions raised by shareholders. The Board is empowered to form or disband committees, as it may deem appropriate. The Board evaluates the performance and effectiveness of each of the committees every year. Details of the committees are presented in this Integrated Report.

Committee Reports

AUDIT AND RISK COMMITTEE REPORT FOR THE 2013/2014 FINANCIAL YEAR

The Audit and Risk Committee is an independent statutory committee appointed by the shareholders in terms of Section 94(2) of the Companies Act. Further duties are delegated to the committee by the Board of Directors of the Company.

The committee remains independent and for 2013/2014 comprised of Meta Maponya (Chairperson and Independent Non-executive Director), Shakeel Meer (Non-independent Non-executive Director), Xoliswa Kakana (Independent Non-executive Director) and Sydney Mabalayo (Independent Non-executive Director).

The Audit and Risk Committee has adopted formal Terms of Reference as approved by the Board of Directors. The committee has conducted its affairs in compliance with its Terms of Reference and has discharged its associated responsibilities.

Audit Committee Meetings and Attendance

The committee has complied with the requirements of King III with regard to Audit Committees.

The CEO, CFO, External Auditors and other assurance providers attend meetings by invitation only. All invitees have unlimited access to the Audit Committee Chairperson.

During the year, three Audit and Risk Committee meetings were held. The members' attendance at meetings is reflected in the table below:

Table B – Audit and Risk Committee

Committee Member	1	2	3	Total
Meeting Date	29/4/13	8/11/13	24/1/14	
M Maponya ¹	√	√	√	3/3
X Kakana	√	√	√	3/3
ST Mabalayo	√	√	√	3/3
SAU Meer	A	A	A	0/3
Executives				
P Kwele*	√	√	√	3/3
R Magoele*	√	Resigned 1/11/13		1/3
I Hassen*	–	–	√	1/1
F Msiza	√	Resigned 1/11/13		1/1

¹ Chairperson
 * Ex officio
 √ Present
 A Absent with Apology

SECTION ONE

10. GOVERNANCE CONTINUED

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

- Confirmed that the combined assurance model is applied.
- Monitored the appropriateness and significant risks facing the Company.
- Reviewed and satisfied itself that financial reporting risks, internal financial controls, fraud risks (as it relates to financial reporting), and IT (as it relates to financial reporting) are appropriately addressed.
- Oversaw financial risk management and controls.
- Reviewed the overall audit functions and roles.
- Obtained assurance from the External Auditors that adequate accounting records were being maintained.
- Examined and reviewed the annual financial statements, the interim reports, and the accompanying reports to the shareholders.
- Oversaw financial risk management and controls.
- Reviewed legal matters (including the status of pending litigation) that may have a material impact on the Company and any material reports or inquiries from regulatory or governmental agencies.
- Reviewed the Company's procedures to ensure compliance with its legal and regulatory responsibilities. The committee shall also review the legal and compliance function's organisation, responsibilities, plans, results, budget and staffing.
- Obtained reports from management regarding compliance with all applicable legal and regulatory requirements.

It is my view that the Audit and Risk Committee has satisfied its responsibilities for the year under review in compliance with its Terms of Reference.



M Maponya

Chairperson: Audit and Risk Committee

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT FOR THE 2013/2014 FINANCIAL YEAR

The Human Resources and Remuneration Committee (HRRC) comprises four independent Non-executive Directors, namely BMC Ngcobo (Chairperson), X Kakana, SA Essa, and ST Mabalayo. The Chief Executive Officer attends the meetings ex officio and the Executive: Human Resources attends 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 line with King III.

Remuneration Philosophy

Our employees are recognised by the Board as stakeholders and are key to achieving our objectives. Our remuneration policy is accordingly overseen by the Board in conjunction with the Remuneration Committee. The policy is implemented and administered by Executive Management.

In terms of this policy, remuneration must be equitable between all employees, and the overall quantum of remuneration directly related to the value added to our products and services by our employees.

As a general principle, above-average rewards will only accrue to those employees who accept the challenge of achieving our strategic objectives and who excel in achieving these.

Board Fees

Non-executive Directors are remunerated for their membership of the Board and its committees. These fees are in line with the DPE Remuneration Guidelines and more recently with the DPE Remuneration Standards and Incentives. The Executive Directors, CEO and CFO of Broadband Infraco are not entitled to Board fees. The Executive Rewards and Remuneration Policy has been updated to align with the DPE Remuneration Standards and Incentives Guidelines.

Fees payable to Non-executive Directors for their services as Directors are to be ratified and approved by shareholders at the Annual General Meeting.

SECTION ONE

10. GOVERNANCE CONTINUED

For each Director, remuneration details are provided in note 23 to the Company's annual financial statements.

Nominations Committee

As mentioned above, the HRRC plays the role of the Nominations Committee. Although the committee meets as and when required, factors that are required to be taken into account when considering a prospective Board candidate include:

- Leadership and ability to act as a role model;
- Transformational requirements;
- Wisdom and experience in Broadband Infraco's field;
- Good governance;
- Personality fit and complementary skills to existing Board members; and
- Energy and commitment.

For Executive Directors, proven ability to manage and lead in the designated portfolio as a member of EXCO. The committee is responsible for overseeing the process of considering and recommending appointments of new Executives and Executive Directors to the Board. Recommendations for Executive Directors (CEO and CFO) are submitted to the Executive Authority for approval.

In its role as the Nominations Committee, the search process for the appointment of a new CFO and Executive: Compliance, Risk and Audit were executed during the period under review.

Human Resources and Remuneration Committee Meetings and Attendance

The activities of the Remuneration Committee are reported to the Board. During the year, the committee met for four meetings. The attendance of members is reflected in the table below:

Table C – Remuneration Committee

Committee Member	1	2	3	4	Total
Meeting Date	28/6/13	08/10/13	19/2/14	21/2/14	
BMC Ngcobo	√	√	√	√	4/4
SA Essa	√	√	√	√	4/4
X Kakana	√	A	√	√	3/4
ST Mabalayo	A	√	√	√	3/4
Executives					
P Kwele*	√	√	–	–	2/4
M Mopeli**	√	√	√	√	4/4

- √ Present
- A Absent with Apology
- * CEO
- ** HR Executive

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

- Annual review of the Human Resources and Remuneration Committee Terms of Reference;
- Policies: Talent Acquisition Policy, Performance Management Policy, Reward and Remuneration Policy, Talent Development Policy, Internship Programme Policy and Framework, Cellphone Allowance Policy, Leave Policy, Study Assistance Policy, Termination Policy and Procedure, Career Pathing Policy, Succession Planning Policy, Performance Management Policy, Grievance Policy and Procedure, Disciplinary Code and Procedure Policy; Relocation Policy and Secondment Policy; and
- 2013/2014 Substantive Negotiation Mandate;
- Remuneration Structure Benchmarks;
- Medical Aid Proposal;
- Pension Fund Scheme Review;
- Annual Employee Performance Incentives;
- CEO's Performance Appraisal;
- Organisational Capacity Review;
- Organisational Structure Realignment;
- CFO Cost of Living Adjustment;
- DPE Executive and Non-executive Director Remuneration Standards and Incentives;
- Employment Equity Three-year Plan;
- Leadership Development Strategy;
- Human Resources Quarterly Reports;
- Office Space Optimisation;
- Recruitment Process for the Appointment of the Chief Financial Officer; and
- Employee Satisfaction Survey.

During the period under review, Executives were remunerated using the DPE's Remuneration Guidelines. The HRRC has also conceptualised a remuneration model that is based on the new DPE new guidelines and this will be finalised in the second quarter of the next financial year.

It is my view that the Human Resources and Remuneration Committee has satisfied its responsibilities for the year under review in compliance with its Terms of Reference.



M Ngcobo

Chairperson: HR and Remuneration Committee

SECTION ONE

10. GOVERNANCE CONTINUED

SOCIAL AND ETHICS COMMITTEE REPORT FOR THE 2013/2014 FINANCIAL YEAR

The committee is relatively new and has been established as prescribed by the Companies Act, No 71 of 2008 (the Act). The committee comprises the following Non-executive Directors: Mr S Meer (Chairperson), Mr S Essa, Ms X Kakana, and Mr ST Mabalayo.

In line with accepted practice, the committee operates in terms of a written Terms of Reference approved by the Board. During the period under review, the committee met twice. The members' attendance is reflected in the table below:

Table D – Social and Ethics Committee

Committee Member	1	2	Total
Meeting Date	29/1/14	19/2/14	
SAU Meer	√	√	2/2
SA Essa	√	√	2/2
X Kakana	√	√	2/2
ST Mabalayo	√	√	2/2
Executive			
P Kwele*	√	√	2/2

√ Present
* CEO

The committee's responsibilities are in accordance with Regulation 43 of the Companies Act, No 71 of 2008, monitoring the Company's activities in compliance with relevant legislation, rules, best practice, codes and standards, in matters relating to:

- Social and Economic Development, as well as the Company's standing in terms of the objectives of:
 - United Nations Global Compact Principles;
 - The Organisation for Economic Co-operation and Development (OECD) recommendations on corruption;
 - The Employment Equity Act; and
 - The Broad-Based Black Economic Empowerment Act.
- Good corporate citizenship in respect of the Company's:
 - Contributions and development of communities in which it predominantly operates;
 - Record of charitable payments, sponsorships and donations; and
 - Promotion of equality, prevention of unfair discrimination and corruption measures.

- Labour and employment and matters relating to:
 - Our standing in terms of the International Labour Organisation Protocol on decent work and working conditions; and
 - The Company's employment relationships and its contribution towards educational development of employees.
- Environmental, health and public safety issues, including the impact of the Company's activities and of its products and services.
- Consumer relationships, including advertising, public relations and compliance with competition and consumer protection laws.

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

- Development/drafting of the Social and Ethics Committee Terms of Reference;
- Policy Development Framework;
- Social and Ethics Committee RACI Matrix;
- Enterprise-wide Policy RACI Matrix;
- Ethics Survey;
- Compliance/Legislative Framework; and
- SHEQ Year Plan.

The Chairman of the Social and Ethics Committee reports at the Company's Annual General Meeting on all activities within the committee's mandate.

It is my view that the Social and Ethics Committee has satisfied its responsibilities for the year under review in compliance with its Terms of Reference.



S Meer

Chairperson: Social and Ethics Committee

SECTION ONE

10. GOVERNANCE CONTINUED

INVESTMENT AND FINANCE COMMITTEE REPORT FOR THE 2013/2014 FINANCIAL YEAR

The committee comprises of the following Non-executive Directors: Dr A Githiari (Chairperson), Ms X Kakana, Mr ST Mabalayo, and Ms N Selamolela.

The overall objective of the committee is to assist the Board in relation to investment strategies, new projects, criteria and guidelines for investments, budgets and financial business plans.

The meeting attendance for the 2013/2014 financial year is reflected in the table below:

Table E – Investment and Finance Committee

No	1	2	3	Total
Meeting Date	29/4/13	14/11/13	22/1/14	
Committee Member				
A Githiari*	√	√	√	3/3
X Kakana	√	A	√	2/3
ST Mabalayo	√	√	√	3/3
N Selamolela	√	√	A	2/3
Executive				
P Kwele**	√	√	√	3/3

√ Present
 A Absent with Apology
 * Chairperson
 ** CEO

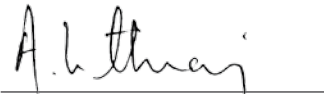
During the year under review, the committee considered, reviewed and approved various matters delegated to it by the Board. These included the following:

- Revised the Investment and Finance Committee Terms of Reference;
- West Africa Cable System (WACS) Business Case;
- Multi-Vendor Strategy;

- Capital Programme Management Methodology and Processes;
- SITA Network Expansion – Cost Approval;
- Upgrade the Capacity of the Northern Ring and Beitbridge network;
- Short-term Fibre Lease Replacements;
- Procurement of NSN Equipment;
- 24-month Cash Flows;
- Capital Project Status Update;
- Long-term Funding Discussion;
- Policy Development Framework;
- Transnet/T-Systems Tender Update;
- Grant Funding: African Development Bank;
- Corporate Plan Review;
- Management Accounts;
- Capital Programme Policy;
- Cash, Bank, Investment Management Policy; and
- Implementation of the Cell C Backhaul Contract.

Further to the above, the committee monitors the capital investments and the capital expansion programme, and feedback is provided to the Board on an ongoing basis.

It is my view that the Investment and Finance Committee has satisfied its responsibilities for the year under review in compliance with its Terms of Reference.



Dr A Githiari
 Chairperson: Investment and Finance Committee

SECTION ONE

10. GOVERNANCE CONTINUED

TENDER AND PROCUREMENT COMMITTEE REPORT FOR THE 2013/2014 FINANCIAL YEAR

The committee comprises of the following Non-executive Directors: Mr SA Essa (Chairperson), Dr A Githiari, and Ms N Selamolela. The overall objectives of the committee are to assist the Board with procurement decisions as delegated to it by the Board of Directors and to approve procurement policies within its delegated authority.

The committee met four times during the year under review and the attendance for the 2013/2014 financial year is reflected in the table below:

Table F

Committee Member	1	2	3	4	Total
Meeting Date	4/7/13	14/11/13	10/01/14	04/03/14	
S Essa*	√	√	√	√	4/4
A Githiari	√	√	√	√	4/4
N Selamolela	√	√	√**	√	4/4
Executive					
P Kwele***	√	√	A	√	3/4

- √ Present
- A Absent with Apology
- * Chairperson
- ** Via teleconference
- *** CEO
- Special Meeting

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

- Review of the Tender and Procurement Committee Terms of Reference;
- Procurement Plan;

- Transmission Equipment Tender Update;
- Preferential Procurement Policy Framework Act (PPPFA) Implications: Cancellation of Tenders;
- Supply Chain Management Policy (Revised);
- Supply Chain Management Interventions;
- Supply Chain Management Strategic Update;
- Policy Development Framework;
- Forensic Reports;
- National Treasury Report;
- Head Office Lease;
- Appointment of a Supplier for the Provision of Services for Fibre-optic Routes in all the Metros;
- Supply Chain Restructuring Update;
- Lease – Fibre-optic Cable for Pretoria and Johannesburg PoPs; and
- Core Network Upgrade.

It is my view that the Tender and Procurement Committee has satisfied its responsibilities for the year under review in compliance with its Terms of Reference.



SA Essa

Chairperson: Tender and Procurement Committee

10. GOVERNANCE CONTINUED

Executive Management Structures

The Board has delegated specific authorities to the CEO, Ms Puleng Kwele, to ensure the effective day-to-day management of the Company. The CEO has established an Executive Management Committee (EXCO) to assist with this task. She is accountable to the Board for managing the Company and reports to the Board of Directors on an ongoing basis.

Executive Committee

The Executive Management Committee (EXCO) comprises of the following members:

Puleng Kwele – Chief Executive Officer/Chairperson
Iemrahn Hassen – Interim Chief Financial Officer
Gift Zowa – Chief Technical Officer
Vishen Maharaj – Executive: Capital Programmes
Montseng Mopeli – Executive: Human Resources
Klaas Motlhabane – Executive: Legal and Regulatory
Sammy Mafu – Acting Chief Sales and Marketing Officer
Fahim Mohamed – Company Secretary (ex officio)

The main purpose of the committee is to assist the CEO with:

- The responsibility for day-to-day management of the Company and its divisions, which report directly to the CEO;
- Ensuring that the Company complies with all applicable laws, regulations and supervisory and/or operational requirements.
- Reviewing Company risks and providing assurance to the CEO that risk management policies are operating effectively;
- Reviewing Company performance as well as commercial and strategic issues affecting the Company; and
- Providing assurance to the CEO that the business strategy set by the Board is operating effectively.

The EXCO meets weekly. Additional ad hoc meetings are convened as and when necessary.

The EXCO has also established the following sub-committees: EXCO Procurement Committee, Pricing Committee, Capital Investment Steering Committee and Product Development Committee. These committees convene on an ongoing basis and make approvals within their delegated authority as per their Terms of Reference, or make recommendations to the EXCO for approval.

Ethical Governance

The Board of Directors of Broadband Infraco has established a Social and Ethics Committee as required by section 72(4) of the Companies Act, No 71 of 2008 (as amended in 2011) and the Companies Regulations of 2011. (Refer to page 26 on overall activities of the Social and Ethics Committee.)

The Board has further delegated to management the task of ensuring ethical leadership and corporate citizenship thereby establishing and implementing an ethics management process/programme. To this end, management is committed to having the Company adopt an ethical and responsible culture.

The Company values, one of which is trust, guide our behaviour. In order to succeed, the Company recognises that there must be trust amongst all employees, our customers, suppliers, other industry players, business partners, regulators, Government authorities and many other stakeholders.

The Company's Code of Ethics and Business Conduct, which sets out our business principles and policies, gives guidance on how to apply them. It also guides the Company's interactions through its employees, with all its suppliers and customers it comes into contact with in its business dealings.

The organisation's Code of Ethics and Business Conduct outlines the following:

- Complying with Laws, Codes, Rules and Standards and, as such, maintaining clear policies, procedures and processes in line with applicable legislation;
- As a good corporate citizen, the Company contributes to communities within which it operates and encourages employee involvement in worthwhile causes;
- In all areas of its operations, Broadband Infraco strives to avoid any actual and perceived conflicts of interest. As such, all employees, management and Directors of the Company are required to disclose any interests that might cause a conflict;
- Maintaining a business environment that takes action to prevent corruption, fraud and maintain high levels of corporate governance. Normal reporting channels are in place to promptly communicate any suspected violations, as well as through an anonymous fraud hotline maintained by an external service provider. The Company protects whistle-blowers in terms of the Protected Disclosures Act, No 26 of 2000; and
- Continuing to maintain integrity, transparency, fairness, non-discrimination and reliability in all business activities.

Broadband Infraco fosters an environment where violation of the Code of Ethics and Business Conduct is a matter that could damage the reputation of the Company. Employees and Directors violating the Code and other similar policies are subjected to disciplinary processes.

Key developments achieved in terms of the Company's ethics programme, for the period under review are as follows:

- Establishment of the Social and Ethics Committee;
- Conducted organisational culture, ethics and reputation surveys to assess and manage ethics risks;
- All new employees attended the induction programme which sought to ensure that the principles of the Code are reinforced with all employees as and when required;
- Development of a Social and Ethics Committee RACI Matrix outlining responsibility, accountability, consultation and information in terms of the committee's roles/functions;
- Board approval of the Policy Development Framework; and
- Development of an Enterprise-wide Policy RACI Matrix outlining consultation responsibility, accountability and information for the Board sub-committees.

SECTION ONE

10. GOVERNANCE CONTINUED

Executive Committee



Puleng Kwele (46)
Chief Executive Officer



Iemrahn Hassen (57)
Interim Chief Financial Officer



Gift Zowa (44)
Chief Technical Officer



Vishen Maharaj (46)
Executive: Capital Programmes



Montseng Mopeli (58)
Executive: Human Resources



Klaas Motlhabane (43)
Executive: Legal and Regulatory



Sammy Mafu (40)
Acting Chief Sales and Marketing Officer



Fahim Mohamed (38)
Company Secretary (ex officio)

Note: The position of Executive: Compliance, Risk and Audit was vacant and the recruitment process was finalised and the incumbent will commence his duties on 1 August 2014.

SECTION ONE

10. GOVERNANCE CONTINUED

Compliance with Laws, Rules, Codes and Standards

During the period under review, Broadband Infraco has emphasised corporate values in every operation of the Company and assisted in creating a culture of compliance. The organisation recognises that the greatest risk of non-compliance stems from ignorance of the law and could result in hefty fines/penalties, as well as in reputational risk.

Key developments:

- Broadband Infraco has identified all applicable regulatory requirements falling within the scope of compliance risk for the organisation as a whole and has ensured that a Company-wide Regulatory Universe has been developed. In recognising that each functional area is subject to laws and regulations, the Regulatory Universe has been rolled out and presented to the respective business units.
- As at 31 March 2014, 69 applicable regulatory requirements (Acts) had been identified as applicable to Broadband Infraco. These have been classified as core, secondary or pertinent to the each functional area in order to prioritise the Company's compliance obligations.
- Compliance reviews have been conducted on various pieces of legislation, including the Public Finance Management Act, No 1 of 1999 (as amended), Treasury Regulations, the Companies Act, No 71 of 2008 (as amended), Companies Regulations of 2011, Competition Act, No 89 of 1998 (as amended), King III Code on Corporate Governance and all other critical and pertinent legislation during the financial year.
- During the period under review, a gap-analysis as well as training in respect of the Protection of Personal Information (PoPI) Act, No 4 of 2013 had been conducted. PoPI essentially regulates how the organisation, when processing personal information, must handle, keep and secure that information.

A review of the Compliance Management Policy, Compliance Management Framework and Compliance Manual has been conducted by EXCO all of which are due for approval by the Audit and Risk Committee and Board of Directors.

In the Company's endeavours to enhance appropriate compliance activities, a Compliance Annual Plan has been put in place during the financial year, enabling the organisation to have a compliance programme with a view to effectively managing, monitoring and reporting on compliance with relevant and applicable legislation as well as policies and procedures (operational compliance).

The Company has not been subjected to any non-compliance fines, penalties, or compliance transgressions, during the period under review.

IT Governance

Broadband Infraco views Information Technology as a vital part of its business operation. Access to critical business and IT systems enables the business to deliver on its mandate and to ensure operational efficiency and effectiveness.

Strengthening IT governance was also a primary objective during the past year in view of the systems and general IT controls needed to be put in place. Control Objectives for Information Technology (COBIT) and Information Technology Infrastructure Library (ITIL) have been adopted as governance frameworks within the Information Technology environment. COBIT focuses on IT processes and controls that support effective service while ITIL focuses on methods that IT will employ to achieve the goals outlined in COBIT.

Looking forward, strategically, a number of technology initiatives will be considered to provide for long-term business requirements and to take advantage of advances in technology.

Business Process Management

The Business Process Management (BPM) continuously ensures that Company operational efficiency and effectiveness is achieved by establishing operation controls. The function facilitates the promotion of business effectiveness and efficiency thereby stimulating innovation in business process modelling and management. There is a significant impact of BPM in driving the improvement of internal controls, on the iterations of processes that will bring value over time. This has ensured that the Company has the ability to process more of its operational requirements within the required period.

During the year under review, Broadband Infraco has seen a significant improvement in ensuring that operational controls are identified and implemented; this includes continuously communicating those controls across the Company.

SECTION ONE

10. GOVERNANCE CONTINUED

Enterprise Operating Model

Broadband Infraco established a business process management capability maturity journey which has seen the review of the Enterprise Operating Model to drive operation efficiency, consisting of four layers to support the vision, mission and value of the Company. Such layers are as follows:

- Corporate Ethos, informs what drives the other three layers.
- The Enterprise's Core Processes support the Corporate Ethos.
- Enterprise Management and Support, acts as the foundation for the Core Processes.
- Information Systems and Business Applications.

Internal Audit

The Internal Audit function provides management with an independent, objective assurance service that reviews matters relating to control, risk management, corporate governance and operational efficiencies. Broadband Infraco adopts a co-sourced internal audit services model. Our mandate is to give an independent assessment of reliability of financial reporting, validate control systems and give an oversight of management and overall business activities, bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of Enterprise Risk Management, internal control and corporate governance processes.

Internal Audit responsibilities are clearly defined and approved as stated in the internal audit charter which is reviewed annually by the Audit and Risk Committee. The role of Internal Audit is also stated in the Terms of Reference of the Audit and Risk Committee. Internal Audit continued to function throughout the Company during the year.

The Internal Audit Manager independently oversees the functioning of the co-sourced Internal Audit function and reports directly to the Chief Executive Officer (CEO) on day-to-day administrative matters. The Internal Audit function reports functionally to the Audit Committee on its findings and has unrestricted access to the Chairperson. The Audit and Risk Committee meets regularly with Internal and External Auditors to discuss the audit matters without the presence of management.

Internal Audit activities principally address the following key issues at each of the business units:

- Appraising systems, procedures and management controls;
- Assessing the effectiveness of risk management processes;
- Assessing the control over assets;
- Reviewing compliance with policies and procedures, and evaluating the integrity of management and financial information;
- Recommending improvements in procedures and systems to enhance efficiencies and prevent fraud; and
- Alignment of the IT strategy and the implementation of the single ERP platform.

Internal Audit plans are drawn up annually and take account of changing business needs and risk assessment. The Board's Audit and Risk Committee approves the annual Internal Audit plan. Cognisance is taken of issues highlighted by the Audit and Risk Committee, External Auditors and Management. At the end of the financial year, all planned internal audits as per the approved Internal Audit plan were executed with the exception of only one audit which was postponed to the next financial year. Progress against the annual Internal Audit plan is consistently monitored quarterly and reported to the Audit and Risk Committee.

The Internal Audit function follows a risk-based approach in developing the Internal Audit plans as required by the Constitution of the Republic of South Africa; PFMA, King III, Standards for the professional practice of Internal Auditing issued by the Institute of Internal Auditors (IIA), the IIA's Code of Ethics, Committee of Sponsoring Organisations (COSO) and any other corporate governance requirements.

During the period under review, no major breakdowns in internal controls were identified. The Internal Audit function conducted a number of compliance, financial, governance and Information Technology audits. The project assurance project was introduced in 2013/2014 to track implementation of the previous year findings. As at 31 March 2014, 62% of the previous year findings were resolved, 36% were in the process of being resolved and 2% remain unresolved.

The Internal Audit function also forms part of an integral part of the combined assurance as internal assurance provider and provides an annual written assessment to the Board on the effectiveness of internal control, risk management and internal financial controls.

Internal Control

The Audit and Risk Committee reviewed the process by which Internal Audit performs the assessment of the adequacy and effectiveness of the Company's system on internal control including the internal financial controls. The committee, together with Internal Audit, are continuously assessing the effectiveness of the internal control environment to ensure all critical and significant findings are addressed and corrective action is undertaken by management.

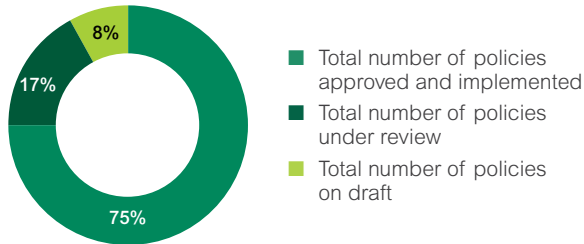
During the year under review, Broadband Infraco has seen a significant improvement in ensuring that operational controls are identified and implemented; this includes continuous communication of those controls across the Company. The Company established a Company Policy Framework and Enterprise-wide Policy Register in an endeavour to drive institutionalising of Company policies and procedures.

SECTION ONE

10. GOVERNANCE CONTINUED

The Company Enterprise-wide Policy Register has recorded a total number of 52 policies; identified, approved and implemented 39 policies, reviewing nine policies and four new policies on draft.

Enterprise-wide policy register



Enterprise Risk Management

Enterprise Risk Management provides a framework for managing risks, which typically involves identifying particular events or circumstances relevant to Broadband Infraco's objectives (risks and opportunities), assessing them in terms of likelihood and magnitude of impact, determining a response strategy where necessary and monitoring progress.

The Risk Management Function aims to assist the Board of Directors, various committees and senior management in carrying out their respective responsibilities by co-ordinating risk management activities across Broadband Infraco. Broadband Infraco's Risk Management Unit aims to identify the risks the entity faces and evaluate the internal and external risk environment on an ongoing basis in order to assess potential risks as well as emerging risks as early as possible.

This may include looking at risks from different perspectives, such as by line of operation or territory:

- Assess, challenge, aggregate, monitor, and help manage identified risks effectively;
- Gain and maintain an aggregate view of the risk profile of Broadband Infraco and its individual operations;
- Set standards and guidelines relating to risk management methodology and techniques of quantification;
- Conduct regular assessments of the risk management system and ensure that all necessary improvements are implemented; and
- Document and report material adverse changes affecting Broadband Infraco's risk management system to the Board and ensuring that the framework is maintained and improved.

Broadband Infraco's Risk Management Process

The Enterprise Risk Management Process at Broadband Infraco aims to contribute to the economic value, the protection of our customers and shareholder assets.

Broadband Infraco's Risk Management Process involves the following:

• Risk Identification

The risk identification process seeks to determine those risks that would prevent Broadband Infraco from meeting its business objectives and therefore addresses all categories of risks.

• Risk Analysis

- Control Evaluation: Controls are identified, categorised and assessed for each risk that has been recognised during the risk identification process. Controls may either be a single control activity that is capable of mitigating the risk, or a number of control activities that, in combination, mitigate the risks to an acceptable level.
- Residual Risk Assessment: Risks are classified based on the impact and likelihood of them occurring. The residual risk assessment assists in quantifying the exposure that Broadband Infraco has to a risk, after taking the control environment into account. A combination of both expert judgement and objective evidence is required to arrive at the appropriate risk rating.

• Risk Evaluation

The purpose of risk evaluation is to implement or review management action plans to address unacceptable risk exposure, control weaknesses, risk events and key risk indicator breaches. The decision to create an action plan is based on the residual risk rating. Risk evaluation will assist the business in making decisions, based on the outcome of the risk analysis process. The management team ensures that actions are tracked, communicated effectively and implemented successfully for maximum benefit to be derived from the process.

• Risk Monitoring

Risks are continuously monitored. This process involves the planning and tracking of new risks, monitoring action plans and residual risks, as well as reviewing the execution of risk responses while evaluating their effectiveness.

• Risk Reporting

All risks are reported on a quarterly basis, with detailed commentary on medium and high risks as well as a summary of risk events and their movement, in line with Audit and Risk Committee meetings.

SECTION ONE

10. GOVERNANCE CONTINUED

How Does Broadband Infraco Manage Risk?

Broadband Infraco uses the three lines of defence model:

First line of defence	Business Unit Management	Primarily responsible for risk management. The process of assessing, evaluating and measuring risk is ongoing and is integrated into the day-to-day activities of the business.
Second line of defence	Enterprise Risk Management Function	The Enterprise Risk Management Function is primarily accountable for setting Broadband Infraco's risk management framework and policy, providing oversight and independent reporting to Executive Management through various oversight committees and to the Board.
Third line of defence	Internal Audit Function	Provides an independent assessment of the adequacy and effectiveness of the overall risk management framework and risk governance structures.

Key Strategic Risks and Treatment Plans

Broadband Infraco acknowledges that in order to provide a structure for risk analysis, and help allocate responsibility for managing types of risks, risks need to be categorised appropriately. One method of risk classification is to reflect broad business functions, grouping risks relating to Information Technology, finance, marketing, and so on. The Board ensures

that there is effective management of both the operational, as well as the strategic risks. Operational risks are short-term in nature and impact on day-to-day activities of the organisation whilst the strategic risks are of a long-term nature.

Broadband Infraco has identified key Strategic Risks that need to be managed. The table below indicates those risks and the relevant treatment plans to reduce risks to acceptable levels:

Risk #	Vulnerability (Risk description)	Progress at 31 March 2014
1	Funding	Funding plan Approved application for technical assistance.
2	Preferred backhaul of infrastructure provider	National Broadband Policy On Thursday, 4 December 2013, the Cabinet of the RSA Government approved the National Broadband Policy. Broadband Council The Broadband Council is an Independent Council hence the standing membership will not be applicable. Shareholder support Broadband Infraco is a member of SOC Rationalisation workstream and DPE is a member of various task teams to address the implementation of the policy and SIP 15 – Broadband Infraco will facilitate engagement via DPE.
3	Reputation of Broadband Infraco	<ul style="list-style-type: none"> In sourcing of media Specialist Consultancy has been successful which resulted in significant negative media coverage. Broadband Infraco has participated in all provincial engagements led by the shareholder. Participated in all ICT consultative processes lead by the DoC and Broadband Infraco is a member of sub-committee discussing the implementation of Broadband policy. Participated positively in leading industry events such as those organised by Southern Africa Telecommunication Association (SATA), Africom, My Broadband and Gov tech.
4	Supply chain processes	SCM Re-engineering <ul style="list-style-type: none"> The Supply Chain Management (SCM) Policy was reviewed and has been endorsed by EXCO and recommended by Tender and Procurement Committee Board sub-committee. SCM structure was finalised and key positions have been appointed.
5	Utilisation of existing capacity	Sales Since its completion, the Northern Ring has generated significant orders for Broadband Infraco.
6	Network upgrade and expansion	DPE SOC collaboration <ul style="list-style-type: none"> Network optimisation and capacity upgrades in progress. Building additional PoP <ul style="list-style-type: none"> Durban Teraco PoP was completed during the year under review. Ramatlabama PoP was completed during the year under review. PTA West and East was completed during the year under review. IS Bryanston and IS Parklands was also completed during the year under review. Strategic Partnership A Memorandum of Understanding between Broadband Infraco and Eskom as well as Broadband Infraco and Transnet has been signed to allow fibre swap and co-location.

SECTION ONE

10. GOVERNANCE CONTINUED

Risk #	Vulnerability (Risk description)	Progress at 31 March 2014
7	Margin pressure	<ul style="list-style-type: none"> The Pricing Committee has been established and Terms of Reference approved by EXCO. This committee will be reviewing the current pricing principles and pricing model. Pricing principles were presented to the Broadband Infraco EXCO and will be reviewed. Ongoing process for engaging the customers. Measures to contain costs have been put in place during the year under review. Regular review of costs at monthly accounts discussion to be adopted.
8	Staff attraction and retention	<ul style="list-style-type: none"> Leadership development programme approved by HRRC during the year under review. Secondment Policy also approved in the year under review by HRRC. Relocation Policy (which addresses attraction and retention) was also approved in the year under review. 51 positions were filled during the year.
9	Information management systems for decision-making and process control	<ul style="list-style-type: none"> ERP Phase 1 (HR) is currently underway. Needs analysis completed, configuration of the system is also done and payroll parallel run completed. Super-user training completed. Phase 2 will commence in the next financial year.
10	Safeguarding of information and data	<p>Information Security Policy The policy will be tabled at EXCO for approval during the year under review.</p> <p>Physical Security Division of work areas within the building and improvement of access control will be completed in the next financial year.</p>

Insurance

As part of the process of managing risk, certain categories of risk have been identified to be suitably mitigated by taking out adequate insurance cover; these include:

- Assets All Risks;
- Commercial Crime;
- Liabilities, (Public and Officers' Liability);
- Stated Benefit;
- Travel;
- SASRIA; and
- Litigation and Legal.

In the normal course of business, Broadband Infraco is subject to legal proceedings, actions and claims. Legal matters are subject to risk and uncertainties that cannot be reliably predicted. A litigation report is tabled at each Audit and Risk Committee meeting for ongoing assessment.

Fraud and Theft

The current economic pressure has increased incentives to act unethically. There remains a real need for companies and those charged with their governance and oversight to revisit their focus on the risk of fraud. Fraud remains a clear and constant threat for Broadband Infraco. Management and employees are the eyes and ears of an organisation. In order to operate effectively,

Broadband Infraco has set standards for performance, Code of Conduct, policies and procedures which are embedded into Broadband Infraco's rules of engagement. While no system is completely fool proof, there are mitigating plans in place to deter fraud and make it less attractive to commit.

Whistle Blowing

In addition to other enforcement and compliance activities, the Board recognises the need for confidential reporting (whistle-blowing) of theft, fraud and other risks. Employees are encouraged to report any activity they believe to be illegal or in breach of the Code of Ethics and there is unrestricted access to a toll-free phone number. All calls are investigated.

Company Secretary

All Directors have access to the Company Secretary. The Company Secretary provides guidance to the Board as a whole and to individual Directors on discharging their responsibilities. The Company Secretary oversees the induction of new Directors and also assists in setting Board and committee plans for the year.

During the year under review, the Board has evaluated the Company Secretary and has found him to have performed effectively and efficiently in executing his duties as per section 88 of the Companies Act.

SECTION ONE

The Company is proud of the positive contribution it continues to make in providing “Broadband for all” by continuously monitoring and managing the impact it is making to the economic, social and natural environment.

11. THE SUSTAINABILITY REPORTING

Broadband Infraco is committed to the South African economy by responding to the economic, social and natural environment imperatives where we conduct business.

The Company is currently working towards having a sustainability strategy, policy and framework in place, which would ensure much more informed and comprehensive sustainability reporting, going forward.

The Company is proud of the positive contribution it continues to make in providing “Broadband for all” by continuously monitoring and managing the impact it is making on the economic, social and natural environment.

Broadband Infraco’s sustainability report seeks to provide stakeholders with a reflection on past performance and a view to the future in respect of environmental, social, economic, health and safety initiatives.

The information provided allows stakeholders to understand the key issues affecting the Company, as well as the effect the Company’s operation has had on the economic, social and environmental wellbeing of the community, both positive and negative.

The Board of Directors through the Social and Ethics Committee and Audit and Risk Committee continually monitors, oversees and reports on the economic, social and environmental issues of the Company on a quarterly basis.

Broadband Infraco has implemented business processes and policies and these policies take into account the aspects of safety, health, environmental, economic and social issues.

Key Performance Indicators are measured throughout the year to measure and monitor the performance towards achieving the key goals and targets. Our Key Performance Indicators include economic, social, environmental and safety and health measures. The Company performance against the Key Performance Indicators as set out in the Shareholders’ Compact is provided on page 16-17.

The Board of Directors is satisfied with the progress made in sustainability reporting for the period 1 April 2013 to 31 March 2014; however, the external assurance has not been provided on sustainability reporting.

The Integrated Report is tabled annually in the National Assembly in compliance with the requirements of the Public Finance Management Act, No 1 of 1999, as amended (the PFMA).

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11. THE SUSTAINABILITY REPORTING CONTINUED



Key developments for the period under review:

11.1 Funding Strategy

The Broadband Infraco Corporate Plan for the period 2013/2014 to 2015/2016 was drafted in accordance with specific shareholder instructions and requirements, which had the following key prescribed parameters:

- Indicate the cash flow position of the entity;
- Reprioritise and reduce the capital investment plan;
- Make no provisions for external funding; and
- Factor minimum or no market risks.

Hence, the Corporate Plan did not cater for external funding, particularly debt funding, outside of existing and internally generated corporate resources. The funding plan based on the revised 2013/2014 to 2015/2016 Corporate Plan excluded the possibility of recapitalisation by the shareholder, but considered the following funding options:

- Receipts from Government grants, e.g. USAASA;
- Broadband Infraco establishing a commercial paper programme;
- Establishing a medium term note facility;
- Export credit financing;
- Syndicated loans; and
- Project-based financing.

The Corporate Plan forecasted a capital investment programme of R319 million over three years, prioritising expenditure on projects that provide commercial and financial sustainability to the Company, i.e:

- Revenue protection = R223,3 million; and
- Revenue growth = R96 million.

The 2014/2015 to 2018/2019 funding plan, in line with the Executive Authority's statement of strategic intent, focuses on establishing facilities that will cater for the Company's short-, medium- and long-term funding requirements based on an expanded stretch capital investment plan. Treasury activities will also include strengthening the departments' institutional framework via Treasury Risk Management policies and procedural manuals.

The borrowing requirement and funding plan illustrated below is derived from the 2014/2015 to 2018/2019 stretch capital investment budgeting process.

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11. THE SUSTAINABILITY REPORTING CONTINUED

Borrowing Requirement and Funding Plan for the period 2014 to 2018

BBI Corporate Funding Plan		2014/2015F	2015/2016F	2016/2017F	2017/2018F	2018/2019F
Facility	Current Capacity	R	R	R	R	R
Development Finance Institutions	Sub Commercial and Licence Obligation Capex	26 314 721	123 024 133	177 769 512	317 819 167	208 113 272
Project and Structured Finance	Commercial Capex	503 732 600	162 757 449	117 321 552	110 286 676	–
Total Funding		530 047 321	285 781 582	295 091 064	428 105 843	208 113 272

Source: Broadband Infracore Corporate Plan

Funding facilities will mainly be sourced from development finance institutions, grant funding institutions and commercial banking facilities.

Initiatives in the next financial year are listed below:

African Development Bank (AfDB)

The AfDB has approved a R12 million grant funding facility specifically for the procurement of consultants' services for the development of a ten-year corporate strategy plan and a pre-investment/bankability study report. A consultant was appointed to provide the necessary services. The product of the consultants' services is expected by the end of October to November 2014.

Grant Funding Facilities

An application for R39 million has been made to the Infrastructure Investment Programme for South Africa (IIPSA) for the funding of a bankable/pre-investment feasibility study in support of broadband connectivity in the provinces of Limpopo and Mpumalanga. The application has been made collaboratively with the respective provincial governments.

The grant facilities provided by IIPSA are expected to be complemented by long-term concessional funding facilities provided by the European Development Agencies, including the European Development Bank and the French Development Agency.

In collaboration with the Universal Service Access Agency of South Africa (USAASA), the Company is developing a funding plan for the deployment of connectivity infrastructure to under-developed and underserved areas.

Economic Impact Study

A pioneering empirical economic impact study (EIS) of broadband benefits was completed. The study, undertaken by BMI Techknowledge Group and Strategic Economic Strategy (from the University of Stellenbosch), scientifically and

mathematically quantified the economic benefits of broadband penetration in South Africa, since broadband inception in South Africa, as well as sized future economic benefits for increased broadband penetration. The study used macro-economic indices such as productivity gains, Gross Domestic Product (GDP), job creation, and tax benefits accrued due to broadband deployment to assess the economic benefits. The results of the study will be subject to a thorough peer review by various stakeholders.

Shareholder Support

A Government Guarantee application for R1,8 billion has been submitted to the Executive Authority. The Company anticipates utilising the full value of the guarantee to secure cost-effective debt facilities from both Development Finance Institutions (DFI) and Commercial Banking Facilities. A Government guarantee is deemed necessary for DFI and commercial bank funding who have both voiced discomfort with the current risk inherent within the BBI balance sheet.

The Company is in the process of drafting a business case in support of an application for a Medium Term Expenditure Framework Recapitalisation of up to R4,0 billion. The required shareholder subscription is aligned to a potential maximum leverage ratio of 50% over the planning period, aligned to the Shareholders' Compact.

Treasury Institutional Framework

The following risk management policy documents are being taken through the governance processes in order to strengthen the institutional capacity and framework of the Treasury Department:

- Funding risk management;
- Cash and liquidity risk management; and
- Counterparty credit risk management.

The Treasury Department institutional design is consistent with international best practices and is developed with reference to the codes prescribed by the Association of Corporate Treasurers of South Africa.

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11. THE SUSTAINABILITY REPORTING CONTINUED

11.2 Business Development

In the year under review, Broadband Infraco successfully concluded the strategic intention of acquiring a second anchor client other than Neotel. The award of the entire backhaul bandwidth required by a Mobile Network operator is a consequence of a successful response to a competitive bid process; upselling from a pre-existing single STM 64 service boasting higher than SLA performance levels; and excellent relationship management. Cell C is also the first customer to assume co-location services from Broadband Infraco.

Highlights and Achievements

Awarded the Cell C RFP 1572 Backhaul Services

- Broadband Infraco was awarded the Cell C total backhaul contract.

Awarded Swaziland Post and Telecommunications (SPTC) services contract

- SPTC awarded Broadband Infraco an STM-4 service from Mahamba to Mtunzini.

Awarded services contract by Gateway Telecommunications/PCCW (new customer)

- Broadband Infraco was awarded an STM-4 Ramatlabama to Isando Data Centre.

Awarded services contract by Reflex Solutions (new customer)

Awarded additional services by existing customer MTC – Mobile Namibia Telecom

Awarded services contract by iBurst (new customer)

Implementation of the awarding of the Bofinet (formerly a part of Botswana Telecommunications)

- STM-16, from Mtunzini PoP (Durban) to Ramatlabama PoP (Mafikeng).

Broadband Infraco's customer growth is highlighted in the table below:

2009	2010 – 2011	2011 – 2012	2012 – 2013	2013 – 2014
				Reflex solutions
				Bofinet (Botswana Fibre Network)
				(iBurst) Wireless Business connection
			Cell C	Cell C
			CSIR	CSIR
		Vodacom	Vodacom	Vodacom
		UMzinyathi	UMzinyathi	UMzinyathi
		Business Connexion	Business Connexion	Business Connexion
		Paratus Telecom-Namibia	Paratus Telecom-Namibia	Paratus Telecom-Namibia
		MTC-Namibia	MTC-Namibia	MTC-Namibia
	Seacom	Seacom	Seacom	Seacom
	MTN	MTN	MTN	MTN
	Liquid Telecom	Liquid Telecom	Liquid Telecom	Liquid Telecom
Neotel	Neotel	Neotel	Neotel	Neotel

SECTION ONE

11. THE SUSTAINABILITY REPORTING CONTINUED

VISION

Stakeholder Engagement

We will proactively engage our stakeholders to understand their expressed and unexpressed needs.

11.3 Stakeholder Engagements

Broadband Infraco is acknowledging that it is an interdependent entity and the Board has identified important stakeholder groupings and disclosed in the Integrated Report how it interacts with each grouping. The Company's material stakeholders include the Department of Public Enterprises (74%), Industrial Development Corporation (26%), Department of Education, Provincial and Local Authorities, Telkom, Sentech, legislature, media, regulators, employees, communities, debtors and creditors. The written report is presented to the Board on a quarterly basis which provides information on feedback received from roadshows and other stakeholder interaction sessions.

The Company is committed and continues to build a good relationship with the key stakeholders by implementing key programmes and projects through development and implementation of a stakeholder strategy and suitable policies for the management of relations with stakeholders. The methods of engagement with stakeholders range from face-to-face engagement, individual or group meetings, site visits as well as media presentations and roadshows amongst others.

The Communications/Stakeholder Policy is in place as well as communication protocol which outlines communications procedures between Broadband Infraco and the office of the Minister and Deputy Minister. The risk management process to systematically assess risk from external events, market

conditions, technological advances, trends and issues on a regular basis is also in place and risk outcomes and consequences are reported.

The Company provides general progress reports of its relationships with its shareholders. The Company also provides the status of its relationships with major clients under its Shareholders' Compact obligations. Dispute resolution clauses are included in all contracts. Internal dispute resolution includes the Human Resource grievance process and ethics hotline.

Key Achievements

Broadband Infraco participated in the following stakeholder engagements for the year under review:

Customer Survey

The annual primary face-to-face customer satisfaction survey was conducted by a third-party provider and facilitated by Market Intelligence and included an assessment of the customer satisfaction level with Broadband Infraco's products and customer service (e.g. account management, pricing, network performance, SLAs, etc.). The needs analysis survey, based on existing clients and prospects, was used to size business opportunities for new sales, up-selling, and cross-selling. Sixteen clients and five prospects from all customer segments were interviewed.

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11. THE SUSTAINABILITY REPORTING CONTINUED



National Preparatory Working Group (NPWG)

Broadband Infraco, through Market Intelligence, participated by providing input into the NPWG. The objective of the NPWG was to prepare South Africa's position on many resolutions raised by various African states on ICT developmental challenges that need ITU's intervention. South Africa is currently chairing the Africa group in the ITU, and led the Africa group in the negotiations during the World Conference on International Telecommunications (WCIT) and the World Telecommunications Standardisation Assembly (WTSA). Broadband Infraco provided expert advice on subjects such as ICT infrastructure, improved broadband backbone infrastructure and access to affordable telecommunication/ICT services in urban and rural areas, and Guidelines on rural connectivity.

Umthatha Business Engagement

The Deputy Minister of the Department of Public Enterprises (DPE), Mr Bulelani Magwanishe, accompanied by the Eastern Cape MEC for Economic Development and Environmental Affairs, Mr Mcebisi Jonas, hosted information and Career Expo engagements, including a Launch and Switch-on of the Telematics System targeted at learners from St John's College and surrounding schools in Umthatha. The Information and Career Expo was attended by the eight State Owned Companies who were exhibiting bursaries, scholarships and related opportunities.

Richards Bay Business Engagement

Broadband Infraco participated in a follow-up business engagement in Richards Bay on 28 February 2014. The format of the event included delivering presentations that focus on business and procurement opportunities for the province with specific focus on the Uthungulu district.

Presidential Youth Summit (Gauteng)

The Broadband Infraco team attended the inaugural summit that took place from 28 February 2014 to 2 March 2014 at the Birchwood Hotel. The purpose of the Indaba was to provide a platform for Government and its social partners to have discussions on jobs and skills relating to the youth. The team from Broadband Infraco consisted of exhibitors and interns who attended the conference as skills beneficiaries.

Launch of Department of Public Enterprises' Africa Strategy (Gauteng)

A Broadband Infraco team attended the Department of Public Enterprises' Africa Strategy launch on 26 March 2014 at the Birchwood Hotel. The department launched the Africa Strategy in order to consolidate the SOCs market entry strategies for the continent. The idea is that the consolidated platform will ensure a common "South Africa incorporated" approach for SOCs which would minimise waste and duplication.

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11. THE SUSTAINABILITY REPORTING CONTINUED

Our main objective is to afford a learning opportunity in an e-learning environment for the disadvantaged learners.

Broadband Infraco attended and contributed to the following conferences, organised by the Department of Public Enterprises:

Event	Date/venue	Resolutions
ED Workshop	14 March 2014, Gauteng – Protea Hotel, Midrand.	DPE will continue to work with SOCs to ensure uniformity among SOCs as well as at a policy level.
CSI Summit	20 March 2014, University of Fort Hare, East London, Eastern Cape.	The SOCs, through suppliers must fund the building of a new library at the university.

11.4 Provincial Engagements

Limpopo Province

Broadband Infraco and the Limpopo Economic Development and Tourism (LEDT) have signed a Memorandum of Understanding (MOU) to address the Provincial Broadband Network requirements, and formed a task team to address the Provincial Broadband Network roll-out plans. The MEC of Economic Development & Tourism, the Chairperson of Broadband Infraco and CEO are the project sponsors to the task team, and Terms of Reference have been formulated. Broadband Infraco and the Limpopo Province have designed detailed maps to address future network roll-out plans and economic hubs for the province. Funding requirement mechanisms for Limpopo Province have been identified and are currently being pursued by the parties.

Mpumalanga Province

A Memorandum of Understanding (MOU) between Broadband Infraco and the Mpumalanga government was finalised and it awaits signature from the province. Broadband Infraco and the Mpumalanga Province have agreed to set up the Terms of Reference and establish a task team to address the Provincial Broadband Network roll-out plans. Detailed network designs of maps for the province have been done in conjunction with the province to address the future network roll-out plans, access gaps, and economic hubs for the province. Funding requirement mechanisms for Mpumalanga Province have been identified and are currently being pursued by the parties.

Other Provinces

A similar stakeholder relations approach for the remaining provinces was adopted as strategy to address the Provincial Broadband Network roll-out plan; so as to deliver on the Broadband Policy and address the National Development Plan in the deployment of ICT infrastructure.

11.5 Corporate Social Investment

Donations and Other Community Investments

Broadband Infraco is mandated to conceptualise three pillars of Corporate Social Investment (CSI) initiatives. These programmes will focus on advocating the benefits of broadband utilisation and encouraging greater use of such capacity. Broadband Infraco gives expression to CSI through its Corporate Social Economic Development (CSED) Policy.

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11. THE SUSTAINABILITY REPORTING CONTINUED



Ezakheni High School pupils receive equipment from Broadband Infraco.

Corporate Social Investment (CSI) Pillars

Broadband Infraco's CSI Programmes includes the following:

- Youth skills development programme:
 - Internship; and
 - Adoption of schools.
- Availing and encouraging business opportunities with Youth and Women Owned businesses.

Objectives

- Ensure that learners from disadvantaged backgrounds have an equal opportunity of being the best students they can be.
- Ensure quality leadership and teaching, adequate infrastructure, community involvement and proper academic support.
- Promote Youth and Women Owned Companies as suppliers in the Broadband Infraco supply chain as stipulated in the Statement 36 and 37(c) of the B-BBEE Codes Framework.
- Enhance Enterprise Development (ED) initiatives in Broadband Infraco to support Youth and Women Owned Enterprises.

Strategies

Broadband Infraco's CSI strategies are to:

- Adopt schools for a period of three years in order to be able to monitor progress at the schools.
- Take qualifying students through a leadership programme.
- Conduct needs analysis with schools and provide the basic needs for the schools to run efficiently.
- Recruit women and youth companies to our database by hosting "Basadi in Telecommunications" events.

Progress to date at both schools

Seshego High School	Ezakheni Combined School
<ul style="list-style-type: none"> • Last mile connectivity • Installation of the Telematics Programme (in conjunction with the University of Stellenbosch) • Refurbishment of the telematics block • Building of toilets at the school • Distribution of sanitary towels to girl children at the school (through Pfuna Projects) 	<ul style="list-style-type: none"> • Last mile connectivity • Installation of the Telematics Programme (in conjunction with the University of Stellenbosch) • Refurbishment of the library, computer centre and Telematics laboratory walls and window tinting • Distribution of sanitary towels to girl children at the school (through Pfuna Projects)

Background and Needs Analysis of Seshego High School (Limpopo Province)

Seshego High School in Moletjie was established in 1962 and has never underperformed despite a shortage of resources, with the school receiving, amongst others, numerous science and technology awards.

Broadband Infraco adopted Seshego High School for three years to help the school with basic needs to run efficiently with an option to extend adoption for an additional two years should there still be shortfalls in terms of the school's needs.

Seshego High School was adopted by Broadband Infraco so that it can benefit from the Company's Northern Ring Project. The school is:

- A no-fees school that offers Mathematics and Science;
- Centrally located and accessible for the other schools in the region;

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11. THE SUSTAINABILITY REPORTING CONTINUED

- Committed and willing to accommodate learners from other schools;
- Already conducting winter revision classes for matric learners in the area;
- Most learners from the school are from child headed households; and
- Buy-in received from the school management and governing body.

List of identified and outstanding needs at Seshego High School:

- Construction of an administration block;
- Repair class rooms to bring them to an acceptable standard;
- Establish a vegetable garden for the school to help to alleviate poverty at the school;
- Enable the school to utilise broadband connectivity for learning and development;
- Installation of interactive white boards for Mathematics and Science classes;
- Suitable training for teacher development; and
- Laboratory equipment and chemicals.

Background and needs analysis of Ezakheni Combined School (Mpumalanga Province)

Ezakheni Combined School is situated on a farm in Driefontein, Piet Retief under the ambit of the Mkhondo Local Municipality. The school is a state-of-the-art structure that was born from the amalgamation of 12 farm schools in the surrounding area.

The school is a no-fee, boarding facility for 1 042 learners, from Grade R to 12, which is equipped with a laboratory, library, computer centre, gymnasium, hostels and sports grounds.

List of identified and outstanding needs at Ezakheni Combined School include the following:

- Suitable training for teacher development; and
- Laboratory equipment and chemicals

Way forward

Broadband Infraco is in the process of adopting another school in Gauteng. Our main objective is to afford a learning opportunity in an e-learning environment for the disadvantaged learners.

11.6 Legal and Regulatory

The Company continues to comply with its licence terms and conditions and submits regular Compliance Reports to ICASA. The Company also continues to monitor legislative and regulatory developments affecting its business. In this regard, various regulatory developments have taken place during the period under review.

General Licence Fees Regulations

The revised General Licence Fees Regulations, 2012, 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. Broadband Infraco's turnover for the period 1 April 2013 to 31 March 2014 amounts to R302,4 million. Based on this figure, Broadband Infraco would make payment of an amount of approximately R0,8 million in annual licence fees to ICASA due on or before 30 September 2014.

National Broadband Policy

On 4 December 2013, Cabinet approved South Africa's Broadband Policy. The National Broadband Policy (South Africa Connect) has redefined broadband to mean an "ecosystem of high capacity, high speed and high quality electronic networks, services, applications and content that enhances the variety, uses and value of information and communications for different types of users". It recognises that the key benefits of a knowledge-based society are based on the provision of always-on affordable broadband connectivity that delivers relevant content and useful applications by means of easy-to-use and affordable access devices.

The Policy proposes that, to improve services-based competition, market and sectorial institutions are restructured to create an environment conducive to public and private investments needed to achieve the required levels of broadband network extension. It suggests that existing SOCs should be rationalised to contribute to national objectives more efficiently and effectively. National Departments residing in the Infrastructure Cluster (led by the DoC, DPE and National) will, in terms of the Policy, develop a transition plan (which will feed into the broadband roadmap and implementation plan) aimed at positioning and strengthening the relevant SOCs to optimally support and contribute towards the delivery of a robust and cost-effective open access broadband network. The Policy further recognises the importance of spectrum in providing high-capacity broadband services. It prioritises the urgent re-allocation and assignment of the high-demand spectrum (800 MHz and 2.6 GHz spectrum).

The Policy also proposes that public sector demand be aggregated (Government as an anchor tenant) to facilitate the competitive procurement of discounted, high quality services required to meet the communication needs in critical areas of public service delivery (such as health, education and safety and security), and to enable network extension in areas that are unconnected by reducing the associated investment risk. It prioritises dedicated connectivity to all schools and public health facilities. National broadband initiatives would, in terms of the Policy, be coordinated with similar initiatives undertaken at Provincial and Local Government level.

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The Policy suggests that additional investment in the National Broadband Network be achieved through public and private investment in a manner that will initiate long-term collaboration of existing infrastructure providers. The Minister of Communications would, in terms of the Policy, consider the need, structure, and the most viable business model for an open access wholesale National Broadband Network. This voluntary public-private venture will enable operators who choose to participate in this initiative to contribute their network assets. Future network build projects would also be based on a consortium model or similar multiplayer model.

The Policy recognises that realising the benefits of a world-class broadband infrastructure requires complementary policy action related to demand stimulation, skills, Research and Development, innovation and entrepreneurship. It encourages the development of local content and applications to ensure demand uptake, such as ensuring the provision of e-education, e-health and other online Government content and applications to support the promotion of safety and security, social development schemes and Home Affairs services.

The Policy outlines various targets aimed at closing the identified gaps between the current relatively poor status

of broadband in the country and the vision of a seamless information infrastructure by 2030; with broadband being universally accessible across the country at a cost and quality that meets the needs of citizens, business and the public sector and provides access to the creation and consumption of a wide range of converged applications and services required for effective economic and social participation by citizens.

SIP 15 (which forms part of Government's drive to upgrade the country's critical infrastructure, and focusing on expanding Access to Communication Technology) will coordinate the implementation of the National Broadband Network across the three tiers of Government. A Broadband Council, made up of public, private and civil society representatives/experts, have been appointed to advise the Minister of Communications on the design and implementation of the Broadband Policy. Task teams have been set up according to the four components of the National Broadband Policy, namely Digital Future, Digital Opportunity, Digital Readiness and Digital Development.

Broadband Infraco welcomes the promulgation of the National Broadband Policy. The Company is, in this regard, gearing itself to cooperate and complement other ICT SOCs in the deployment of the National Broadband Network.

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11. THE SUSTAINABILITY REPORTING CONTINUED

Broadband Infraco also recognises the importance of allocating the high-demand spectrum to enable service-based competition, as espoused in the Policy. The Company is looking forward to participate in the spectrum licensing process, and is optimistic that sufficient spectrum in the high-demand band would be set aside for the creation of an open access wireless network in underserved areas to, not only extend the reach of broadband services, but also to stimulate the growth of SMME businesses located in these areas.

Broadband Infraco shares the view that Government should be the primary occupier of the National Broadband Network to fulfil a socio-economic objective (of achieving universal access to broadband). That is, Government should become an anchor tenant on the National Broadband Network to ensure sustainable business cases for operators providing broadband infrastructure and services, particularly in underserved areas.

ICT Policy Review Process

On 24 January 2014, the Department of Communications, as part of the ICT Policy Review process, published the National Integrated ICT Policy Green Paper for public comment. This legislative development seeks to amend and integrate policies and regulations, to take account of rapid changes in the ICT sector in recent years. The last major review of the ICT sector took place in the 1990s, with the release of separate White Papers (developed in isolation) on telecommunications, broadcasting and postal services. Broadband Infraco has made inputs pertaining to the current legislative and regulatory framework applicable to the ICT sector, and has also proposed several policy reforms aligned to the Government's developmental goals.

Universal Access and Service Strategy

The Universal Service and Access Agency of South Africa (USAASA) is currently developing a national universal service and access strategy which will inform the Agency and its stakeholders on policies and programmes driven by USAASA (including procedures for accessing funds accumulated in the Universal Service and Access Fund [USAF]). According to USAASA, the strategy will be developed in five stages: situation analysis, access gaps, draft strategy, consultative framework, followed by a final strategy. The Agency has already completed the situation analysis of the universal access and service in the country. It is now in the process of verifying the access gaps identified by the Agency. Broadband Infraco has given input into the strategy, and is in regular engagement with the Agency to progress the strategy.

Cost to Communicate Programme

ICASA has initiated a Cost to Communicate Programme in South Africa. The aim of the Programme is to stimulate public debate

around the cost to communicate in South Africa, introduce regulatory interventions to address perceived high costs associated with communications, and stimulated competition in the ICT sector. The Programme includes an undertaking, by ICASA, of a broadband value chain study, collection of ICT industry indicators, review of the call termination market, publication of draft regulations indicating the manner in which the copper local loops will be unbundled, and initiation of an inquiry into the provision of wholesale broadcasting transmission services. The Company is participating in the process and has, to date, complied with all requests issued pursuant to the Programme.

Presidential Review Committee on State Owned Companies

The President's Office has set up the Presidential Review Committee (PRC) on State Owned Companies. The PRC reviewed SOCs with the objective of identifying ways to improve their service delivery, financial management, efficiency and ability to meet the country's socio-economic and development challenges. On 28 May 2013, the PRC published its report containing 31 recommendations on improvement of SOCs execution of their mandates. Government has since indicated that a Ministerial Task Team will be set up to develop short-, medium- and long-term strategies to implement these recommendations. Broadband Infraco will continue to closely monitor this process.

ECA Bill

During July 2013, the Portfolio Committee on Communications issued the revised Electronic Communications Amendment Bill. Broadband Infraco has submitted its comments to the revised Bill. The comments emphasised (amongst others) the importance of a proper definition of "broadband", the independence of ICASA, due consultations with existing licensees regarding any proposed amendments to their universal service and access obligations, as well as implementation of competition provisions contained in the ECA. The Bill has since been signed into law.

Competition Commission Referral

In June 2011, Broadband Infraco referred a complaint of collusive tendering. These tenderers and the Competition Commission have concluded a Settlement Agreement where the Competition Tribunal has endorsed this settlement proposal.

Challenges

The Company is still awaiting an invitation, from the Department of Communications, to join the ICT Review Panel. Membership of the Panel will enable Broadband Infraco to directly participate in the development of the legislative and regulatory reforms applicable to the ICT sector.

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Broadband Infraco is, in the absence of an Individual Electronic Communications Service (ECS) licence, unable to bundle the sale of its WACS capacity with its national long distance offerings. The inability, by the Company, to offer end-to-end solutions to its customers is adversely affecting its revenue-generating efforts.

The lack of an ECS licence will also compromise the Company's ability to optimally implement the National Broadband Policy. The Policy recognises that its implementation should contribute towards job creation, small business development, national empowerment and the promotion of the NDP goals. Broadband Infraco will, with the acquisition of an ECS licence, give tangible effect to the objectives of the National Broadband Policy by extending connectivity to underserved communities through partnerships with (unlicensed) Small, Medium and Macro Enterprises (SMMEs), thereby stimulating the growth of SMMEs located in these areas.

The Broadband Policy further prioritises dedicated connectivity to all schools and public health facilities, encourages the establishment of free public Wi-Fi at public points reached by the public sector network so that citizens can access

e-Government services. Broadband Infraco will collaborate with Government Institutions at National, Provincial and Local Government level to bring broadband connectivity and services to public educational and health institutions, police stations, as well as other public points that may be reached by the public sector network. The Company would, to the extent that such Institutions are unlicensed, require an ECS licence to implement such collaboration efforts.

Forward-looking

Broadband Infraco is looking forward to the implementation of the National Broadband Policy and is, in this regard, ready to contribute its expertise and resources towards the infrastructure gaps identified in the National Broadband Network. The Company is in a position to participate in the development of the Broadband Implementation Plan, and the technical design and deployment of the broadband network.

The Company is also encouraged by the launch of the Cost to Communicate Programme, whose objective is aligned to its mandate. ICASA may, upon conclusion of the Programme, be able to introduce further regulatory interventions aimed at stimulating much needed competition in the ICT sector.

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11. THE SUSTAINABILITY REPORTING CONTINUED

VISION

People Management

To enable Broadband Infracore to become the Employer of Choice in the ICT sector within the next three to five years.

11.7 People Management Strategic Undertaking

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

The major thrust for the year under review was organisational capacity and capability building to establish readiness for the implementation of integrated Human Resources management strategies. To take talent management and organisational effectiveness to the next level, emphasis was placed on:

- Identifying gaps in the human capital space and leadership capability and determine appropriate interventions;
- Entrenching the governing principles for good people management practices;
- Continued enhancement of employee relations,
- Effective administration controls; and
- Consolidation of employee benefits for retention maximised value as well as increased employee morale.

Headcount

Nineteen new positions were created and in addition, three frozen positions were converted in order to provide required capacity. All 22 new positions were filled together with 29 replacements.

Terminations

The significant reduction in attrition rate compared to the previous year demonstrates the improved workplace morale and ability to retain talent. This stability stands the Company in good stead for succession planning and development of required capacity and capability to execute its mandate.

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11. THE SUSTAINABILITY REPORTING CONTINUED



Demographic Profile

Job Levels	Male				Female				Foreign Nationals		Sub-totals		Total
	A	C	I	W	A	C	I	W	M	F	M	F	
Executives	2	0	2	1	2	0	0	0	0	0	5	2	7
Senior management	11	0	0	2	4	0	0	1	0	0	13	5	18
Professional specialists and middle management	21	0	1	1	8	0	0	1	0	0	23	9	32
Supervisory and junior management	56	1	2	6	24	0	0	2	1	0	66	26	92
Support staff	3	0	0	0	16	0	0	2	0	0	3	18	21
Total permanent	93	1	5	10	54	0	0	6	1	0	110	60	170
Temporary	0	0	0	0	1	0	0	0	0	0	0	1	1
Interns	7	0	0	0	3	0	0	0	0	0	7	3	10
Grand total	100	1	5	10	58	0	0	6	1	0	117	64	181

Key Achievements

To achieve the set goals for the year under review, the division embarked on the following talent capital management initiatives:

Talent Sourcing

A total number of 51 permanent and one temporary positions were filled. This output indicates the improved ability to attract required talent. Of the total permanent appointments, 32

were new acquisitions and 19 were internal promotions. This also confirms management's endeavours to take advantage of career advancement opportunities. Twenty-four of the new appointments were for Engineering, IT and Project Management and 12 were for Finance and Supply Chain Management. These areas are considered vital for the effective execution of the business strategy. Fourteen female appointments, nine of whom were at management level, was a good attempt; however, there is room for improvement.

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11. THE SUSTAINABILITY REPORTING CONTINUED

The novelty of Broadband Infraco and rapid global technological advancement and vigorous growth of the ICT sector pose a serious challenge in terms of the lack of the technical expertise that is available in the country for required internal capacity.

Ten Internship Programme candidates were successfully identified for the Engineering environment and placed on a 24-month learning process.

Organisational Design and Development

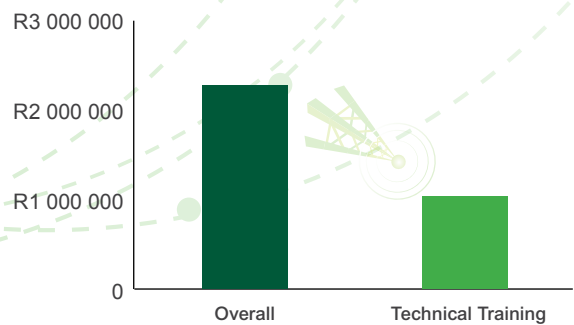
To ensure the capacity and capability to deliver its strategic objectives, HR facilitated an organisational structure realignment, job profiling and competency assessment in the Finance, Supply Chain Management, Human Resources and Executive roles. Additional capacity requirements were identified for Engineering, Sales and Marketing and Chief Executive's Office.

Human Resources Development

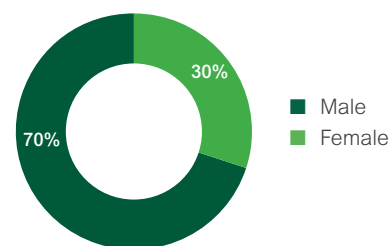
The strategy to enhance organisational capability from Executive level downwards was facilitated through team building workshops for Executives and Senior Managers, leadership skills for goal setting and strategy execution as well as performance management learning programmes. A comprehensive leadership development programme to be instituted over the next two years was endorsed.

During the year under review, a total number of 8 115 hours, on average 45,08 hours per employee was spent on training and 4 336 thereof was spent on technical skills enhancement. The total amount spent on talent development is R3,1 million inclusive of all related costs and costs for training provided in-house. This amount translates into an average of R16 939 training spend per employee. Calculations are based on 170 permanent employees and 10 interns.

Training Spend



Training by Gender



- The 362 overall participation represents 254 males and 108 females and of the 215 participants in technical training, 159 were males and 56 females.
- The annual Employee Wellness Day was attended by two-thirds of head office staff.



Performance Management

Contracting for the 2013/2014 financial year

- Consequent to a concerted effort to enhance and institutionalise the employee performance management framework, last year marked a breakthrough with a contracting rate of 98% across the organisation. There was significant improvement in the alignment of individual Key Performance Indicators (KPIs) to the Company Shareholders' Compact. Training was extended to the regional staff.

Annual Evaluation and Performance-based Incentives (2012/2013 financial year)

- Due to the appreciation for the proper application of the principles of the system, there were no disputes arising from the performance incentive award for the 2012/2013 financial year individual annual performance evaluations.
- Out of the 134 eligible employees, 131 had complied with the requirements of the process as stipulated in the relevant policy. A decision was made by the HRRC that for the performance incentive to be commensurate with the overall Company performance, only the 70% of the employee portion of the incentive less the Company's portion which equals 30% allocation would be awarded.

Legislative Compliance and Effective Governance

- The Employment Equity (EE) Forum recommended the annual EE report for approval by EXCO and submission to the

Department of Labour by the 15 January 2014 deadline.

- In response to a review process, the HR Department submitted the Company's three-year Employment Equity Plan to the Department of Labour on 10 March 2014 after ratification by the EE Forum and endorsement by the Executive Committee.
- The annual Workplace Skills Plan (WSP) which was due on 30 June 2013, was duly authorised and submitted to the Media, Information and Communications Technology (MICT) SETA on 28 June 2013.
- Thirteen new and revised HR policies were approved by the Human Resources Management Committee and three were due for final ratification.
- A roadshow to communicate 11 approved policies to sensitise the employees about the application of the revised and new workplace practices was rolled out as far as the regions. The process was open to suggestions for future enhancements.
- The draft Executive Remuneration and Incentive Policy based on the Department of Public Enterprises' standards has been recommended for HRRC ratification by EXCO.
- All the policies have been analysed independently for any unintended discrimination and unfairness as part of the workplace audits for the formulation of the EE Plan.

Employee Engagement Process

- Fifty-one new employees, including those located in the different regions attended the quarterly induction sessions for assistance with understanding of the content of business, governance philosophy and administrative processes.

SECTION ONE

11. THE SUSTAINABILITY REPORTING CONTINUED

The novelty of Broadband Infracore, rapid global technological advancement and vigorous growth of the ICT sector pose a serious challenge in terms of the lack of the technical expertise that is available in the country for required internal capacity.

- The regular Senior Management Forum and Organised Labour representative meetings with the CEO and HR continue to be an effective means of sharing information and gathering input for business decision-making processes.
- An Employee Attitude Survey was commissioned to test the perceptions of employees about the management of matters that impact on their relationship with the organisation and find out what aspects need improving or reinforcing. A 79% participation rate against the targeted 60% was a demonstration of willingness to make input into the process. The results indicated a 70% overall satisfaction rate with 62% of employees intending to stay with the Company for another two years.
- The Change Management process facilitated by an external service provider party was concluded in November 2013 with the establishment of the Change Agent Networks (CANs). The Terms of Reference for the CANs were finalised and the formal launch of the structure was preceded by training to ensure role clarity for the members whose term of office will be running for the next 24 months.

Employee Benefits Management

- The Company conducted a benchmark of employee conditions of service against other SOCs and organisations in the ICT sector. Independent expert and legal advice on how to maximise the value of benefits such as medical aid and pension fund through establishment of group schemes was explored and initiated through consultation processes. A

Group Medical Aid with the option of two schemes to choose from has been introduced. The review of the Pension Fund Scheme for value added services continues.

Employee Relations Climate

- The Company has seen a substantial decline in the number of disciplinary actions taken with only one case initiated and subsequently referred to the CCMA during the reporting year. The inference that can be drawn from this is that employees have seen how consistently discipline has been managed in the past and that has acted as a deterrent.
- The same trend has been reported in terms of the number of grievances registered for the reporting year with no formal grievance reported. This can be attributed to improved relations between the employees and their managers as well as between the Company and trade union. Two cases relating to constructive dismissal and refusal to bargain were reported at the CCMA and there were no adverse findings against the Company.
- The Company has experienced a peaceful reporting year with no incidents of industrial action reported.

Substantive Negotiations

Due to the desire to obtain agreement on a cost-effective but mutually beneficial negotiated settlement for 2013/2014, we were able to successfully achieve the cost-effective outcome as indicated below:

SECTION ONE

11. THE SUSTAINABILITY REPORTING CONTINUED



Category	# Eligible	Old TCTC	%	Difference	New TCTC
General Staff	78	R26 587 425	7.5	R1 982 931	R28 570 357
Management	48	R31 654 819	7	R2 189 587	R33 844 407

- 1% of the total annual salary adjustment was allocated towards basic medical aid cover for employees not subscribed (1 October 2013).

Improved Administrative Efficiency and Controls

- To alleviate ongoing administrative and data integrity as well as reporting inadequacies and legislative compliance challenges, the Human Resources information management system has been upgraded from Pastel Payroll to VIP People to cater for all human capital management requirements. The ground work in terms of collating all the required information to configure the new system is 80% complete. The testing of the new system took place in the last week of March 2014 to coincide with the end of the financial year.
- The segregation of the payroll management function between HR and Finance to ensure proper reconciliations, checks and balances, third party account management and tightening of controls ended with agreed Terms of Reference between the two units. This has led to clarification of roles and clear levels of accountability and authority.

- Alignment of labour cost to acceptable industry norms is receiving serious attention. Alternative means of implementation of tasks and upgrading of automation is expected to assist with this imperative. Leave accrual is one of the consistently monitored cost factors.

Labour Cost Indicators Challenges

Limited Technical Skills

- The novelty of Broadband Infraco, rapid global technological advancement and vigorous growth of the ICT sector pose a serious challenge in terms of the lack of the technical expertise that is available in the country for required internal capacity. The available limited core skill is going at market rates that are not easily affordable and is difficult to retain due to competition.
- This makes it more difficult to achieve desired diversification as set out in the country's labour legislation.

Transformation of Organisational Culture

- The loss of two female Executives has had an effect on the EE statistics and difficult to replace.
- The Company is also struggling to achieve satisfactory racial diversity and envisaged numbers of persons with disabilities. These are the areas that are intended to be given more impetus going forward.

SECTION ONE

11. THE SUSTAINABILITY REPORTING CONTINUED

Young Age Profile

The average age of the personnel in the organisation is 34 years. This advantage in respect of health, ability to learn and appetite for exploration and risk taking reduces the level of maturity for dealing with more complex issues and particularly, the wisdom to calculate the implications based on foresight.

11.8 Supply Chain Management

Supply Chain Management (SCM) remains a critical aspect of the business. As a strategic business partner, SCM has a major impact in delivering on the Company's objectives and mandate. SCM has progressed well, albeit it remaining a highly challenged environment, in the year under review within an identified process of transformation, from a transactional buying approach to a strategic sourcing approach, whereby alignment of the structure has been re-designed to complement the business model and further address the challenges the business is facing in relation to the supply of goods and services. The Network Masterplan; Enterprise Project Plan; and all functional Demand Plans were consolidated and used as input into the finalisation of a comprehensive Supplier Chain Management Integrated Plan. Detailed and comprehensive network engineering, goods and services lists form the cornerstone for products procured on a regular basis, for which Framework Agreements are developed.

The SCM Policy has also been revised and processes developed for the proper facilitation of the procurement of goods and services for the Company. The total procurement costs for the year amounted to R403 million. As an infrastructure Company in the telecommunications industry, Broadband Infracore procured the following critical goods and services:

- Transmission equipment;
- Core-network upgrade;
- Fibre and installation thereof;
- Fibre accessories;

- Construction and leasing of sites;
- Trenching;
- Professional services;
- Pre-engineering designs; and
- Calibration of various equipment.

Procurement and B-BBEE spend

Black Women Owned 27.75%		B-BBEE 102%
	Black Owned Enterprises 42%	

The focus going forward would be particularly on achieving the efficiency in supply chain practices and compliance to legislative requirements, through the implementation of an effective Enterprise and Supplier Development strategy. It is envisaged that this will result in:

- Creating opportunity for job preservation.
- Developing a local supplier base that supports preferential procurement outcomes.
- Developing and increasing skills, capacity and competency within the telecommunications industry.
- Increasing black women and youth participation in the industry.
- Achieving equitable representation from SCM in all occupational categories and levels in the workforce to drive suppliers to reach maximum levels of participation.
- Entrenching preferential procurement as a tool to drive, transformation.
- Driving investment in enterprises that are owned or managed by black people.

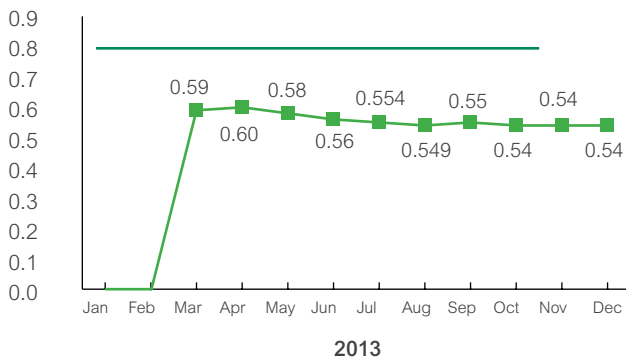
11. THE SUSTAINABILITY REPORTING CONTINUED

11.9 Safety, Health, Environment and Quality (SHEQ)

The implementation and maintenance of SHEQ (Safety, Health, Environment and Quality) systems is very important for Broadband Infraco. The function is performed in consultation with internal (business units) and external stakeholders, i.e. companies such as Eskom and Transnet. The division ensures compliance to the Occupational Health and Safety Act, No 85 of 1993, National Environmental Act, Local and Provincial Regulations, OSHAS 18001:20011 standard, ISO 14001:2008 standard, ISO 9001:2004 standard and other requirements applicable to the business.

A major achievement is that the measurement of the LTIFR has been instituted and has been steadily reducing from a maximum of 0.59 in March 2013 to 0.51 in March 2014.

BBI – LTIFR (Lost Time Injury Frequency Rate)



Occupational health

Employee medicals for all employees who undertake high-risk tasks, are conducted on an annual basis. Management identifies and manages risks that may be present from activities, products and services. Management also endeavours to prevent incidents that may cause harm to staff, visitors and interested parties.

Safety

All possible hazards have been identified, assessed and communicated to all stakeholders as per the legal requirement. A Stage 1 OSHAS 18001:2007 certification audit has been conducted. Regions are audited as per the SHEQ Audit Plan, namely one region per month. Compliance to the audit schedule has been completely achieved. No disabling injury has been recorded for the year under review.

Safety Achievements

- Lost Time Injury Frequency Rate (LTIFR) – 0% achieved in year ending March 2013/2014, compared to 0.65% in 2012/2013.
- Training: All employees have been to SHEQ inducted in the year under review, as compared to 0% in 2012/2013.

Environmental Responsibility

With regards to environmental performance, and in particular waste management, a total of 2.56 tonnes of waste was generated from business operations. A total of 1.9 tonnes of waste was recycled, 0.50 tonnes was disposed of, and 0.7 tonnes was reused.

No fines were imposed as a result of contraventions in terms of the Environmental Act, No 85 of 1993 during the year under review.

A total of 164898 Kw of electricity was used in the year under review.

Quality

In terms of the SHEQ system implementation, more than 50% of the system has been implemented and the intention is to achieve 100% SABS certification in the next financial year.

As a Quality Management System (QMS) requirement, an internal and external customer survey takes place on a yearly basis.

Physical security

Broadband Infraco has a legal and moral obligation to protect all its employees, contractors and the general public against all security risks, as well as risks through loss and damage to assets, in all areas of operations associated with its business. No loss of Company asset through theft or any physical security-related acts were recorded in the year under review.

SECTION ONE

12. MOVING FORWARD – CHALLENGES AND PROSPECTS

Some of the overall challenges experienced by the Company in the year under review included:

- Finalising the demand plan to allow Supply Chain Management (SCM) to establish framework contracts.
- Over-reliance on a single resource for complex pricing during urgent business development engagements has been mitigated through multi-skilling of existing resources.
- Securing concrete funding in the form of a shareholder guarantee remains elusive and requires greater concerted collaboration between the Board and Executive Management of the Company.
- Attracting critical technical skills.

Some of the technical challenges faced by Broadband Infracore relate to historical legacies which are being addressed. These include the following:

- Network capacity and protection limitation on various routes.
- Availability of spare fibre pairs and the proximity of our network to potential customers in the metros.

• Mitigation Strategy for Network Engineering

The following mitigation strategies are under consideration:

- Network capacity and protection projects have been prioritised for design and implementation.
- Strengthening and meshing of network to make it more resilient, robust and reliable.
- Rectifying of single points of failure to prevent multiple failures.
- Increasing capacity where there are bottlenecks to be able to meet more customers' demands.
- Network autonomy – build own network to be less reliant on other competitive partners.

• Plans for 2014/2015

The target for the 2014/2015 financial year is to complete all the projects listed below:

Completion of the upgrade of transmission routes for increased capacity by replacing old legacy equipment with latest SDH and DWDM equipment on the Golden Triangle is paramount:

Project	Project progress status
Kimberley to Cape Town (via Aries)	Equipment installation in progress.
Durban to Port Elizabeth	Equipment installation in progress.
Port Elizabeth to Cape Town	Equipment installation in progress.

- Four single points of failures (SPOFs) will be addressed in separate projects.
- Strengthening and meshing of the existing network (including increasing the number of PoPs) to intensify connectivity and implementation of ASON (where viable) on the relevant sites.
- Extension of the IP core network (aggregation points) in various provinces and implementation of one international IP node in England.
- Maintaining close relationships with Eskom and Transnet regarding fibre replacement and roll-out.

From a facilities maintenance perspective, it becomes important to continue with the network expansion programme by assisting with site acquisition, lease agreements and electrical connections. In tandem with this programme, the upgrade of security at sites by replacing perimeter fencing on the 14 initially identified sites that currently do not comply, becomes paramount.

Network operations is crucial in the running of the network. The following challenges have been identified for corrective measures:

- Lack of sufficient capacity on the network. This will be addressed through the upgrade project taking place.
- Most of the international connection links to neighbouring countries are spur links. Redundancy is required on these international links in order to guarantee the service level connectivity demanded by international links. This will also address the long restoration times experienced during catastrophic failures or episodes of vandalism which affect the overall MTTR and route availability.

SECTION ONE

12. MOVING FORWARD – CHALLENGES AND PROSPECTS CONTINUED

In the interim, Broadband Infraco has made maintenance arrangements with Eskom to allocate security to respond to possible vandalism incidents on the problematic sections of the network.

The relocation of Broadband Infraco equipment from TFR to Broadband Infraco owned facilities will be considered during the next financial year, so as to address access challenges experienced at the TFR facilities. This will positively affect the accessibility and hence, the responsiveness of the Broadband Infraco teams to any network problems.

In the SHEQ environment, the key challenge is that some of the teams have not yet been trained on customer and client required training. Plans have been put in place to complete this by the next financial year.

Additionally, a company-wide legal register is in the process of implementation to be compliant with the South African Bureau of Standards (SABS).

The organisation has also stepped up its plan to manage contractors better by introducing a Contractor Management system.

Broadband Infraco has put down the following items for close follow-up and management:

Risk	Mitigation action completed
Security and safety at Broadband Infraco sites	<ul style="list-style-type: none">• Revised the site civil specifications• Upgraded the container specification to include steel enforced side panels, flood lights with movement sensors• Engaging SAPS and private security companies to escort maintenance employees
Environmental disasters	<ul style="list-style-type: none">• Directly supervising contractors doing work with potential to have an impact on the environment.

The Information Technology environment is busy resourcing the environment to allow a functional Service Desk to be operational in the next financial year. This will facilitate the proper logging of service requests and incidents/calls and enable the IT Department to measure its performance in terms of service delivery.

Commercial Challenges

These are some of the commercial challenges faced by Broadband Infraco:

- Underresourced engineering environment impacting on business development efforts. Professional engineering framework agreements in place to help mitigate this challenge.
- Optimisation and realignment of the finance environment to the Company's operating model.
- Optimisation and resourcing for sales back office segregation of the front office from the back office.

SECTION ONE

13. FUTURE OUTLOOK

View on the forthcoming financial year

The management and employees of Broadband Infraco are confident that the Company remains well placed to improve performance and to deliver on its mandate and to reach its shareholder, revenue, governance, operational and transformation targets in the ensuing years. National Treasury's express support to the National Broadband Policy is encouraging and to achieve the target of 100% broadband penetration by 2020, Broadband Infraco will play a leading role in unpacking the strategy and leading the implementation plan.

While the market remains intensely competitive, and the future of Neotel hangs in the balance, Broadband Infraco's capacity

to provide competitive pricing, excellent service, experienced account managing, dedicated employees and collaborative approach to the market, will remain its strongest positioning platform as is evidenced in the independent Customer Satisfaction Survey concluded.

WACS Upgrade

In view of Broadband Infraco's WACS Upgrade capacity entitlement and the agreement with DST, DST will be provided with the opportunity to participate in upgrade to secure up to 65% of the Broadband Infraco entitlement as per the WACS agreement. Broadband Infraco will have to determine whether it will take up the remaining 35% entitlement to the upgrade capacity or consider taking up the additional capacity should the DST not follow their participation rights for the additional share of the capacity.

Capital Programme Management

Broadband Infraco will finalise the execution of some key projects during the year.

In addition, the following projects have been completed in this financial year:

Project	Category	Project progress status
PoP in Welkom	Expansion/customer	Handed over to Procurement to get the equipment budgetary quotes.
Relocation of Onseepkans container	Refurbishment	The executable file will be handed over to CPM for implementation.
TNMS upgrade	Network operations	TNMS version 13.0 instability issues have been resolved after thorough investigation and analysis by the supplier team. Upgrade to version 14 almost completed.
Northern Ring upgrade	Expansion/customer	Completed upgrade from SDH to DWDM. Currently running traffic.



Network Maintenance

There was a general increase in incidents on most routes during the last period. Most of these incidents were mostly on underground fibre-optic cables installed on Transnet Freight Rail (TFR) servitudes, which occurred during the refurbishment of the service road. Temporary repairs restored the affected links, and repeat failures were experienced on these sections which caused a high failure rate. The incident (fault) distribution per technology domain over the year under review was as follows:

- Fibre-optic cable: 73;
- Transmission equipment: 16; and
- Facilities (Power): 13.

In future, emphasis will be placed on planned maintenance and to effect permanent repairs on the various temporary repairs, so as to improve the reliability and availability of the network.

In addition, continued emphasis will be placed on the remote manageability and visibility of the network, and this will be done by extending the Data Communications Network (DCN) ancillary network. This will improve the response times, thus positively affecting overall network availability.

Challenges with the deployment of the DCN network have been experienced before, and therefore the network engineering is re-designing the architecture and configuration of the DCN.

Information Technology

The following plans for IT are going to be implemented in the 2014/2015 financial year.

- The regional office connectivity will be rolled out to additional regional offices.
- The disaster recovery plans of the enterprise will be developed and tested.
- Key IT policies and procedures will be developed or updated.
- The implementation of Phase 2 of the ERP system will commence and be completed.



SECTION TWO

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2014

The Company annual financial statements were audited in terms of the Companies Act, 71 of 2008.

The preparation of the Company annual financial statements were supervised by the Chief Financial Officer (Interim), I Hassen - BCompt, BCompt (Hons), CA(SA).

These annual financial statements were authorised by the Board of Directors on 22 July 2014.

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

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REPORT OF THE AUDIT AND RISK COMMITTEE

Introduction

We are pleased to present our report to the shareholders for the year ended 31 March 2014. The Audit and Risk Committee (ARC) of Broadband Infraco is constituted as per the requirements of the Companies Act, 2008 (Act No 71) as amended. The main purpose of the committee is to assist the Broadband Infraco Board of Directors in monitoring the integrity of financial statements and overseeing integrated reporting. It is also responsible for the effectiveness of the internal financial controls and overseeing the internal and external audit functions. The Audit and Risk Committee is satisfied that it has complied with the legal, regulatory and other responsibilities.

Audit and Risk Committee Meetings and Attendance

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 11 of this Integrated Report. The attendance of committee members at the meetings is reflected on page 23. The performance of the Audit and Risk Committee has been independently evaluated and the report was submitted to the shareholders for consideration.

The Chief Executive Officer, Chief Financial Officer, Internal Auditors and External Auditors attend the committee meetings by invitation. Other members of management attend as required. There are also in-committee meetings held between committee members, Internal Auditors and External Auditors.

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 Manager has direct access to the committee, primarily through the Chairman. The function of the Executive Governance is currently fulfilled by the Internal Audit Manager due to resignation of the incumbent. A permanent appointment has been made and the incumbent will start on 1 August 2014.

The Internal Audit function is currently fulfilled by a co-sourcing arrangement. The approved Audit Plan for the 2013/2014 financial year was executed. All critical and significant findings resulting from the audits for the 2013/2014 and previous financial years are reported to the Audit and Risk Committee on a quarterly basis. At the end of the financial year, all planned audits as per

the approved Audit Plan were executed. The project assurance project was introduced in 2013/2014 to track implementation of the previous year findings. As at 31 March 2014, 62% of the previous year findings were resolved, 36% were in the process of being resolved and 2% remain unresolved.

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. The ARC has approved the combined assurance process for the Company which ensures assurance from all three levels and also addresses previously raised findings in an effort to improve the control environment.

The Internal Audit function performed its activities as per the Institute of Internal Auditors (IIA) Standards.

Integrated and Sustainability Reporting

In fulfilling its oversight responsibilities, the committee reviewed the sustainability information that forms part of the Broadband Infraco Integrated Report and has assessed its consistency with operational and consistency in the Integrated Report.

Internal Financial Controls

The Audit and Risk Committee reviewed the process by which Internal Audit performs the assessment of the adequacy and effectiveness of the Company's system of internal control including the internal financial controls. The committee is continuously assessing the effectiveness of the internal control environment to ensure all critical and significant findings are addressed and corrective action is undertaken by management.

Expertise of the Finance Function

The Audit and Risk Committee is satisfied with the general expertise resources and experience in the Company's Finance division and believes the addition and appointment of an Executive in the Treasury function will greatly enhance the gaps identified previously with regard to funding and cash management. The Finance division, including the Supply Chain division's structure will be reviewed in the ensuing financial year to ensure that the competencies are matched to the Company's operating requirements. The incumbent CFO resigned in November 2013 and the Executive functions are being fulfilled by a service provider until a permanent appointment is finalised.

Governance of Risk

The Board, through the Audit and Risk Committee is responsible for the governance of risk, as well as considering the effectiveness of the process. The Board determines the risk strategy, which is based on the need to identify, assess, manage and monitor all known forms of risks across the Company, in liaison with the Executive Directors and Senior Management.

SECTION TWO

REPORT OF THE AUDIT AND RISK COMMITTEE CONTINUED

The risk management process is clearly communicated to all employees to ensure that the risk strategy is incorporated into the language and culture of the Company. The Board determines the Company's profile and tolerance for risk and has the responsibility to ensure that the Company has implemented an effective and continuous process to identify risks and to measure its impact against a broad set of assumptions and then to activate what is necessary to proactively manage these risks. Risk management and internal control are practiced throughout the Company which is embedded in day-to-day activities with the Strategic Risk Register being monitored on a quarterly basis.

Compliance to Legislation

Broadband Infraco has identified all applicable regulatory requirements falling within the scope of compliance risk for the organisation as a whole and has ensured that a Company-wide Regulatory Universe has been developed. In recognising that each business function is subject to laws and regulations, the Regulatory Universe has been rolled out and presented to the respective business units.

As at 31 March 2014, 69 applicable regulatory requirements for Broadband Infraco were identified. The classification (core/non-core) of the regulatory requirement is in progress. The next phase would be to categorise the identified legislation in terms of core, secondary and topical legislation in order to prioritise Broadband Infraco's compliance obligations.

Compliance reviews on applicable legislation, including the PFMA, Treasury Regulations, the Companies Act and all other critical and pertinent legislation have been conducted during the financial year.

A review of the Compliance Management Policy, Framework and Manual was conducted by Executive Management and submitted for Board approval.

In order to enhance appropriate compliance activities, an Annual Compliance Plan, including a detailed programme was implemented during the financial year, which enables the Company to monitor compliance with applicable laws and regulations.

External Audit

The Audit and Risk Committee is satisfied that the External Auditor, Nexia SAB&T, conducted its duties independently and that no scope limitations were imposed by management on the Auditor whilst performing its duties during the period under review. 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 2014.

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, fruitless and wasteful expenditure. Such expenditure once detected, is tracked and reported to the Audit and Risk Committee and subsequently to the Executive Authority. Management ensures that corrective action, as required by the PFMA, is instituted to prevent the expenditure from recurring.

The Audit and Risk Committee has noted irregular expenditure of R6,5 million for the year ended 31 March 2014.

Going Concern

The Audit and Risk Committee has evaluated the financial statements of Broadband Infraco for the year ended 31 March 2014 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

22 July 2014

COMPANY SECRETARY'S CERTIFICATE

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

22 July 2014

SECTION TWO

STATEMENT OF DIRECTORS' RESPONSIBILITY

for the year ended 31 March 2014

The Board of Directors is pleased to present its report and the audited annual financial statements for the year ended 31 March 2014.

The Directors are responsible for the integrity and fair presentation of the annual financial statements of Broadband Infraco. The annual financial statements presented on pages 70 to 101 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 Integrated Report and are responsible for both its accuracy and consistency.

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

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

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 and the results of their operations and cash flows for the year ended 31 March 2014.

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 reviewed the approved Corporate Plan for the five years to 31 March 2019 and considered the cash position at 31 March 2014 and the cash requirements for at least 18 months from that date. The going concern is discussed in more detail on page 65 of this Integrated 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 67 to 69.

The annual financial statements of Broadband Infraco for the year ended 31 March 2014, as set out on pages 70 to 101 have been prepared under the supervision of Mr Lemrahn Hassen CA(SA) and were approved by the Board on 22 July 2014 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

SECTION TWO

DIRECTORS' REPORT

FINANCIAL AND OPERATIONS REVIEW

Broadband Infraco increased revenue for the year to R302,4 million (2013 – R237,4 million), an increase of R65 million due to the addition of new customers and a substantial sale (69,9%) of the total WACS capacity on a 15-year IRU contract to the Council for Scientific and Industrial Research (CSIR) under guidance from the Department of Science and Technology.

The increased revenue assisted the Company in reducing the loss for the year under review to R143,5 million (2013 – R174,3 million) which is R30,8 million below the loss in the previous financial year.

The main contributors to the reduction in operating loss were:

- An increase of R65 million in revenue;
- A decrease in cost of sales of R19,2 million;
- An increase of R50,7 million in operating expenses; and
- A further reduction of R2,7 million on finance income due to lower average cash and bank balances and the conclusion of the foreign exchange contract that resulted in a gain in the previous year.

Cash generated from operating activities at R328,7 million (2013 – R10,2 million) is substantially better than the previous year, mainly due to the sale of the WACS capacity resulting in the closing cash balance at R441,8 million as compared to the previous year at R342,9 million, an increase of R98,9 million.

The results for the financial year are analysed below:

Revenue

Revenue	R'000
Contracts/revenue for the year ending 31 March 2013	237 374
Revenue loss due to service migration	(8 616)
New contracts concluded during the year	17 897
Revenue reduction from existing customers	(124)
Additional revenue from WACS	55 842
2014 financial year contracts/revenue	302 373

Broadband Infraco was successful in the 2013/2014 financial year to diversify its revenue base away from reliance of the Second Network Operator, Neotel (Pty) Ltd. It increased revenue generated from other telecom operators with the contribution to revenue from Neotel declining to 62% from 83% in the previous year.

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 its existing customers (excluding Neotel) and new customers by 21% of the current year revenue as compared to 17% in the prior year.

Broadband Infraco finalised the sale of 30,0 million MAU or 69,9% of its capacity on a 15-year Indefeasible Rights of Use (IRU) basis to the Council for Scientific and Industrial Research (CSIR). Revenue is deferred in accordance with revenue recognition principles over the period of the contract.

The accounting for the sale is reflected in the financial statements as follows:

WACS	R'000
Total IRU contract	526 316
Recognised in revenue for the year	36 550
Payment received December 2013	263 158
Payment scheduled for 30 June 2014	114 035
Final payment scheduled for 30 June 2015	149 123

It is anticipated that Broadband Infraco will be working on growing the revenue generated from existing customers and other markets not presently being serviced. In addition, Broadband Infraco will implement a greater collaboration strategy with the broader market to fulfil revenue targets.

Cost of Sales

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

Cost of sales reduced by 11% at R153,0 million (2013 – R172,2 million) compared to the previous year mainly due to renegotiation of existing services, which lowered costs of fibre lease agreements. Broadband Infraco acquires its core services of maintaining its network from Eskom and Transnet Freight Rail (TFR). In addition, Broadband Infraco manages its own Network Operating Centre to ensure service levels are maintained in accordance with its service offerings and agreements.

During the year, Broadband Infraco entered into a number of lease agreements to increase its footprint. These include Points of Presence and fibre. The option of leasing infrastructure is exercised where the benefits of leasing outweigh those of a self-build and where existing infrastructure is suitable to meet the Company strategy at reasonable costs. This is in accordance with the National Broadband Strategy to avoid wasteful duplications whilst ensuring that benefits outweigh the cost.

SECTION TWO

DIRECTORS' REPORT CONTINUED

Cost of sales	R'000
2013 financial year contracts	172 200
Increase of the maintenance of the network and operating system	22 502
Savings due to renegotiation of co-location and fibre lease contracts	(43 628)
New leases to expand Broadband Infraco footprint	1 926
2014 financial year contracts	153 000

SIGNIFICANT CONTRACTS

The following contracts have a significant impact on the reported financial results and will continue to impact the Company's performance:

Master Service Agreement with Neotel (Pty) Ltd (Neotel)

Broadband Infraco continues to provide services to Neotel pursuant to the conclusion of a five-year Master Service Agreement (MSA) in April 2012. The resolutive condition contained in the MSA is due to expire on 30 June 2014, but will likely be extended until the arbitration proceedings (referred to below) have been concluded.

Broadband Infraco and Neotel are currently involved in arbitration in respect of services (Migratory Services) that were provided to Neotel in terms of the Right of Use and Operate Agreement that ceased to exist effective April 2012. Broadband Infraco continued to provide the Migratory Services to Neotel until they were decommissioned from its network in accordance with the migration plan agreed to by the parties.

Neotel, however, refused to make payment to Broadband Infraco in respect of the utilisation of Migratory Services which resulted in a dispute and is the subject of the current arbitration proceedings. The proceedings adjourned in October 2013, and will recommence on 4 June 2014.

Eskom

Network maintenance contract

Broadband Infraco has a three-year contract with Eskom for the maintenance of the network with 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 servitude rights, which are well-maintained by Eskom.

Fibre lease contract

The existing long-term fibre lease contract with Eskom was concluded on 1 September 2008 and is expiring on 31 August 2015. All long-term contracts are normally negotiated at least 12 months prior to the expiry date to ensure continuity of service.

Transnet Freight Rail (TFR)

Network maintenance contract

Broadband Infraco concluded a three-year contract with TFR for the maintenance of fibre, effective from 1 April 2012. This contract enables Broadband Infraco to access the fibre attached to the TFR transport infrastructure which covers major parts of the country. Broadband Infraco has servitude rights, with the network being well maintained by TFR.

Fibre lease contract

The fibre lease contract with TFR was concluded on 1 September 2008 and expires on 31 March 2015.

GOING CONCERN

The Directors, in evaluating the appropriateness of the going concern assumptions used in the preparation of these annual financial statements, considered the following:

- The cash requirements for 18 months from reporting date;
- The solvency and cash position at year-end; and
- Current trading environment.

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 18-month period to 30 September 2015. The annual financial statements therefore were prepared on a going concern basis.

The going concern assumptions were reviewed taking account of the following:

1. The sale of 69,9% of WACS capacity improved Broadband Infraco's cash position to R441,8 million (2013 – R342,9 million) as 50% of the IRU contract value was settled in December 2013 with the balance to be paid in two tranches – R130 million in June 2014 and a final payment of R170 million by 30 June 2015. This has contributed to Broadband Infraco having adequate resources for the next 18 months.
2. Broadband Infraco continuously engages with its shareholders regarding the requirement for a recapitalisation to enable the Company to meet its mandate. The future operating requirements in fulfilling the mandate is premised on the Company building a more robust network and addressing the refurbishment programme and technology upgrade that will enhance the service offering.
3. Broadband Infraco is cognisant of the fact that a complete turnaround is dependent on:
 - Obtaining adequate funding with support from Government.
 - Increasing revenue from existing customers, and gaining new customers.

SECTION TWO

DIRECTORS' REPORT CONTINUED

- Acquiring government as an anchor customer.
- Improving collaboration with other operators.
- Improving operational excellence and efficiency.

Should the interventions referred to above fail to materialise, 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 all 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 legislation.

CAPITAL EXPENDITURE

The total capital expenditure for the year at R199,2 million represents an almost 80% achievement compared to the year's budget of R269 million. The lower than budgeted expenditure is mainly due to the delays in project approvals and implementation. The capital budget included acquisition of dark fibre on long-term IRUs over 15 years. During the year, IRUs amounting to R17 million was concluded as part of the infrastructure capital budget and these are accounted for as prepayments as indicated in note 6 of the annual financial statements.

The estimated useful life of property, plant and equipment was reassessed in the financial year. As a result, a change in useful life in certain assets was identified with the net effect of the change in estimate resulting in a reduction in depreciation for the year of R6,956 million. The impact of the change in estimate reduced the depreciation in the prior year by R6,732 million. As a result, the loss as reported in the prior year reduced from R181,071 million to R174,339 million.

SHARE CAPITAL AND SHARE PREMIUM

The authority to issue shares vests in the shareholders. Directors do not have the authority to issue shares of the Company. 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 2014 year (2013 – nil).

AUDITORS

The annual financial statements are audited by Nexia SAB&T auditors. The statutory auditors for the forthcoming year will be confirmed at the AGM scheduled for 7 August 2014.

COMPANY SECRETARY

The Company Secretary for the period under review was Mr Fahim Mohamed and his business and postal addresses during the year were as 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 2014 and 22 July 2014.



M Ngcobo

Chairman of the Board



P Kwele

Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

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 (INFRACO)

Introduction

I have audited the financial statements of Broadband Infraco SOC Limited set out on pages 70 to 101 which comprise the statement of financial position as at 31 March 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as 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-General's responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Broadband Infraco as at 31 March 2014 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.

Emphasis of matter

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Restatement of corresponding figures

As disclosed in note 3 to the financial statements, the corresponding figures for 31 March 2013 have been restated as a result of reassessment of the useful life of assets performed during 31 March 2014 in the financial statements of Broadband Infraco at, and for the year ended, 31 March 2013.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2014, 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 statements. We have not audited the reports and accordingly do not express an opinion on them.

SECTION TWO

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of Broadband Infraco for the year ended 31 March 2014:

- Objective 1: Financial Sustainability on pages 16 to 17
- Objective 2: Expand Broadband Access on pages 16 to 17
- Objective 3: Built good reputation that leads to end-user satisfaction and ensuring an increase in service delivery to exceed customer expectations on pages 16 to 17

I evaluated the reported performance information against the overall criteria of usefulness and reliability.

I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Compliance with legislation

I performed procedures to obtain evidence that Broadband Infraco had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Financial statements, performance and annual reports

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

Liability management

Existing credit cards that were not used for permitted purposes, as set out in Treasury Regulation 31.2.7 (TR), were not cancelled, as required by TR 31.2.6.

Procurement and contract management

Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).

Internal control

I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for opinion, and the findings on non-compliance with legislation 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:

- A difference in the interpretation of the CIDB regulations related to the procurement of construction contracts.

Financial and performance management

Management did not adequately monitor adherence with the requirements of CIDB for the procurement of construction contracts and as a result irregular expenditure was incurred.

Management did not adequately review the financial statements for completeness and accuracy prior to its submission for audit purposes.

OTHER REPORTS

Investigations

Internal Audit performed an investigation at the request of Broadband Infraco, which covered the period 20 June 2013 to 6 November 2013. The investigation was initiated based on allegations that contracts were awarded to suppliers in contravention of appropriate tender procedures. The investigation concluded that the successful bidder did not have fair competition during the bidding process from competing bidders.

Internal Audit performed an investigation at the request of Broadband Infraco, which covered the period 27 June 2013 to 6 November 2013. The investigation was initiated based on allegations of employment irregularities in relation to the appointment of procurement specialists. The investigation concluded that the recruitment process was not properly followed as per the approved Recruitment and Selection Policy.

Nexia SAB&T

Nexia SAB&T
Per: TJ de Kock
Director
Registered Auditor
22 July 2014

SECTION TWO

STATEMENT OF FINANCIAL POSITION

at 31 March 2014

	Note	2014 R'000	2013 R'000 (Restated)
ASSETS			
Property, plant and equipment	3	1 280 736	1 207 881
Intangible assets	4	10 218	10 730
Deferred tax asset	5	–	–
Long-term trade receivable	6	185 758	–
Total non-current assets		1 476 712	1 218 611
Trade and other receivables	6	174 544	48 397
Cash and cash equivalents	7	441 828	342 944
Total current assets		616 372	391 341
Total assets		2 093 084	1 609 952
EQUITY AND LIABILITIES			
Equity			
Share capital	8	*	*
Accumulated deficit		(621 179)	(477 695)
Shareholders' loans	9	1 829 529	1 825 851
Total equity		1 208 350	1 348 156
LIABILITIES			
Deferred income	10	575 399	81 698
Total non-current liabilities		575 399	81 698
Short-term loans	9.1	–	34 279
Deferred income	10	35 267	12 853
Trade and other payables	11	265 818	64 630
Provisions	12	8 250	68 336
Total current liabilities		309 335	180 098
Total liabilities		884 734	261 796
Total equity and liabilities		2 093 084	1 609 952

* Amount less than R1 000.

SECTION TWO

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2014

	Note	2014 R'000	2013 R'000 (Restated)
REVENUE	13	302 373	237 374
Cost of sales	14	(153 000)	(172 200)
Gross profit		149 373	65 174
Operating expenses	15	(312 391)	(261 693)
Employee expenses	15.1	(110 212)	(86 140)
Directors' emoluments	15.2	(6 960)	(6 758)
Service fees	15.3	(14 865)	(8 811)
Selling, general and administrative expenses	15.4	(40 802)	(37 728)
Operating leases	15.5	(12 675)	(7 207)
Depreciation, amortisation, impairment and write-off	15.6	(126 877)	(115 049)
Results from operations		(163 018)	(196 519)
Finance income	16	19 540	22 194
Finance costs	17	(6)	(14)
Loss before taxation		(143 484)	(174 339)
Income tax expense	18	–	–
Loss for the year		(143 484)	(174 339)
Total comprehensive income/(loss)		(143 484)	(174 339)
Attributable to the parent		(106 178)	(129 011)
Non-controlling interest		(37 306)	(45 328)
		(143 484)	(174 339)

SECTION TWO

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2014

	Share capital R'000 Note 8	Accumulated deficit R'000	Shareholders' loans R'000 Note 9	Total equity R'000
Balance at 31 March 2012	*	(303 356)	1 825 851	1 522 495
Loss for the year	–	(174 339)	–	(174 339)
Total comprehensive income for the year	*	(174 339)	–	(174 339)
Balance at 31 March 2013	*	(477 695)	1 825 851	1 348 156
Loss for the year	–	(143 484)	–	(143 484)
Total comprehensive income for the year	–	(143 484)	–	(143 484)
Total changes	–	(143 484)	–	(143 484)
Transactions with owners, recorded directly in equity	–	–	3 678	3 678
Balance at 31 March 2014	*	(621 179)	1 829 529	1 208 350

* Amount less than R1 000.

SECTION TWO

STATEMENT OF CASH FLOWS

for the year ended 31 March 2014

	Note	2014 R'000	2013 R'000
Cash flows from operating activities			
Cash receipts from customers		509 540	244 061
Cash payments to suppliers and employees		(200 369)	(255 919)
Cash generated from/(used in) operations	19	309 171	(11 858)
Finance income received	20	19 540	22 072
Finance costs paid	20	(6)	(14)
Net cash from operating activities		328 705	10 200
Cash flows from investing activities			
Purchase of equipment	3	(199 220)	(142 070)
Purchase of intangible assets	4	–	(1 666)
Net cash from investing activities		(199 220)	(143 736)
Cash flows from financing activities			
Shareholders' loan received/(repaid)		(30 601)	34 279
Net cash from financing activities		(30 601)	34 279
Total cash movement for the year		98 884	(99 257)
Cash and cash equivalents at the beginning of the year		342 944	442 201
Total cash and cash equivalents at end of the year	7	441 828	342 944

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. Presentation of financial statements

1.1 Corporate Information

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

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.

1.2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis and incorporate the principal accounting policies set out below.

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 Significant judgements and sources of estimation uncertainty

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date. All these assumptions and estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may ultimately differ from estimates and assumptions. 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. Significant judgements include:

Residual values and useful lives of equipment

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

Provisions

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

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

Impairment of trade receivables, loans and other receivables

Impairment provisions are raised against trade receivables, loans and other 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.

Any impairment identified is recorded in profit and loss.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. Presentation of financial statements (continued)

1.2.5 Income tax

Deferred tax

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 assessment of the recoverability of deferred taxation assets requires the Company to make significant estimates relating to expectations of future taxable income. These estimates are based on projected cash flows from operations and the application of existing tax laws in South Africa. To the extent that it is probable that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the deferred tax assets recorded at the year-end date could be impacted.

Deferred tax is provided in the financial statements 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.

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 currency of the entity at exchange rates applicable at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated 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 measured at historical cost in a foreign currency are not retranslated.

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 Property, plant and equipment

Recognition and measurement

Property, plant and equipment are initially measured at historical 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 its location and 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 all activities are completed for the asset's intended 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 straight-line basis over the estimated useful lives of each part of an item of equipment to its estimated residual value.

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2.2 Property, plant and equipment (continued)

Depreciation (continued)

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 the end of each financial period. 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 as a result of it being sold or scrapped. The gain or loss arising from derecognition of an item of equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Work-in-progress

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

2.3 Jointly controlled assets

West Africa Cable System (WACS)

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

The jointly controlled asset has been commissioned and is depreciated in line with the useful life.

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	5 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2.5 Financial instruments

Financial assets and liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provision of the instruments

All financial assets and liabilities are initially measured at fair value including transaction costs, except for those classified as at fair value through profit or loss which is initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in profit or loss.

The Company classifies its financial instruments into the following categories:

2.5.1 Non-derivative financial instruments

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

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

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 and short-term loans.

Cash and cash equivalents

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

2.5.2 Non-derivative financial liabilities

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

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

Non-derivative financial liabilities are classified as other financial liabilities.

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.

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.

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2.6 Share capital

2.6.1 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.

2.6.2 Shareholders' loan

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

2.7 Impairment of assets

2.7.1 Financial assets

Non-derivative financial assets

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

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

Loans and receivables

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

In assessing collective impairment the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement 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 written off against the allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

2.7.2 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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2.7 Impairment of assets (continued)

2.7.2 Non-financial assets (continued)

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

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

In respect of non-financial 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.

2.8 Taxes

Current Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to transactions or events recognised directly in Other Comprehensive Income, 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

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

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

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

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

2.9 Leases

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

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.

2.10 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.

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.10 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed in the period incurred and 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.

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

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

2.12 Revenue

Revenue is recognised to the extent that economic benefits will flow to the Company and it can be reliably measured for 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.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.13 Finance income and costs

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

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

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.

2.14 Related parties

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

2.15 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.

2.16 Operating segments

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

2.17 Classification of current and non-current

The annual financial statements report all amounts considered to be current as the flow of economic benefits within 12 months. All other amounts are considered as non-current.

2.18 Deferred revenue

Deferred income relates to revenue received under indefeasible Rights of Use (IRU) 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.

2.19 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 2014

IFRS 9, *Financial Instruments* (IFRS 9) will replace IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost if the fair value option (FVO) is not invoked. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in November 2013, deferred the effective date to annual periods beginning on or after 1 January, 2018, with earlier adoption permitted.

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.19 Standards and interpretation issued but not yet effective (continued)

IFRS 11, *Joint Arrangements* (IFRS 11) will replace guidance in IAS 31, *Interests in Joint Ventures*.

IFRS 11 provides focus on the rights and obligations of the joint arrangement, rather than its legal form in the current standard. IFRS 11 also addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interest in jointly controlled entities. IFRS 11 is effective for periods beginning on or after 1 January, 2013.

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

IFRS 10, IFRS 12 and IAS 27 – *Investment Entities* (Amendments) proposes an investment entity which is new to IFRS. The amendments represent a significant change for investment entities which are currently required to consolidate investees they control. Significant judgement of facts and circumstances may be required to assess whether an entity meets the definition of investment entity. The amendments are effective for annual periods beginning on or after 1 January 2014 and must be applied retrospectively.

Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*, specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively

Amendments to IAS 36 *Recoverable Amount Disclosures for Non-financial Assets*. The amendments clarify the disclosure requirements in respect of fair value less cost of disposal. An unintended consequence of the issuance of IFRS 13 was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount. This requirement has been deleted. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively in accordance with the requirements of IAS 8 for changes in accounting policy.

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

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. Property, plant and equipment

	Cost R'000	Accumulated depreciation and impairment R'000	Carrying value R'000
2014			
Mobile equipment	4 115	(2 624)	1 491
Work-in-progress	198 260	–	198 260
Office equipment	8 040	(2 928)	5 112
IT equipment	16 468	(10 396)	6 072
Fibre-optic cables	502 530	(225 324)	277 206
Optical transmission equipment	655 067	(335 376)	319 691
WACS	540 964	(68 060)	472 904
	1 925 444	(644 708)	1 280 736
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	(9 622)	5 879
Fibre-optic cables	479 069	(181 111)	297 958
Optical transmission equipment	470 112	(164 002)	306 110
WACS	540 964	(31 915)	509 049
	1 598 528	(390 647)	1 207 881

The estimated useful life of property, plant and equipment was reassessed in the financial year with the following changes to the useful life asset categories:

- Computers increased from 36 months to 60 months;
- Optical transmission phones from 36 months to 60 months;
- Infrastructure Civils from 48/120/168 months to 240 months; and
- Optical transmission equipment from 48 to 72 months.

As a result of the change in useful life estimate, the net effect was a reduction in depreciation for the year of R6,956 million. The impact of the change in estimate reduced the depreciation in the prior year by R6,732 million. As a result, the loss as reported in the prior year reduced from R181,071 million to R174,339 million as currently reported.

The comparative numbers in the financial statements were accordingly restated.

The Company did not pledge any item of property, plant and equipment as security for borrowings during the year (2013: Rnil).

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

– Property, plant and equipment (continued)

Reconciliation of equipment

	Opening carrying value R'000	Additions R'000	Write-off and impairments R'000	Transfers R'000	Depreciation R'000	Closing carrying value R'000
2014						
Mobile equipment	2 103	154	–	10	(776)	1 491
Work-in-progress	80 944	196 873	*(3 710)	(75 847)	–	198 260
Office equipment	5 838	91	(17)	–	(800)	5 112
IT equipment	5 879	982	(12)	–	(777)	6 072
Fibre-optic cables	297 958	–	–	23 459	(44 211)	277 206
Optical transmission equipment	306 110	1 120	–	52 378	(39 917)	319 691
WACS	509 049	–	–	–	(36 145)	472 904
	1 207 881	199 220	(3 739)	0	(122 626)	1 280 736
2013						
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	(2 657)	5 879
Fibre-optic cables	308 022	–	–	32 198	(42 262)	297 958
Optical transmission equipment	260 395	3 632	–	76 827	(34 744)	306 110
WACS	440 534	100 430	–	–	(31 915)	509 049
	1 178 983	142 070	(11)	(1)	(113 160)	1 207 881

* Includes writing off project costs.

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. Intangible assets

	Cost R'000	Accumulated amortisation R'000	Carrying value R'000
2014			
Computer software	2 720	(1 034)	1 686
Servitudes	12 486	(3 954)	8 532
	15 206	(4 988)	10 218
2013			
Computer software	2 720	(1 147)	1 573
Servitudes	12 486	(3 329)	9 157
	15 206	(4 476)	10 730

Reconciliation of intangible assets

	Opening carrying value R'000	Additions R'000	Amortisation R'000	Write-off and impairments R'000	Closing carrying value R'000
2014					
Computer software	1 573	–	*113	–	1 686
Servitudes	9 157	–	(625)	–	8 532
	10 730	–	(512)	–	10 218
2013					
Computer software	1 160	1 666	(1 253)	–	1 573
Servitudes	9 782	–	(625)	–	9 157
	10 942	1 666	(1 878)	–	10 730

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

None of the intangible assets has been pledged as security.

There are no contractual commitments outstanding at the reporting period.

* Revision of useful life.

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. Deferred tax asset

Deferred tax asset

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

Reconciliation of deferred tax asset

At beginning of the year

Movement in temporary differences

Deferred tax assets not recognised

At the end of the year

Deferred tax rates

The deferred tax rate applied was 28% (2013 – 28%).

Recognised deferred tax assets/(liabilities)

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

Other provisions

Straight-lining of lease liabilities

Capital allowances

Prepayments

Leave pay accrual

Deferred income

Provision for bonuses

Provision for bad debts

Deferred tax assets not recognised

	2014 R'000	2013 R'000
	-	-
	-	-
	40 522	16 842
	(40 522)	(16 842)
	-	-
	-	-
	-	19 134
	395	650
	(23 617)	(8 579)
	(505)	(343)
	1 246	1 223
	98 600	26 424
	2 310	-
	603	-
	(79 032)	(38 509)
	-	-

The estimated accumulated tax loss is R332,9 million (2013 – R333,2 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.

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R'000	2013 R'000
6. Trade and other receivables		
Trade and other receivables consist of:		
Long-term and current trade receivables and prepayments		
Non-current assets		
Long-term trade receivable *1	170 000	–
Payment in advance – Rights of Use *2	15 758	–
	185 758	–
Current assets		
– trade receivables	172 447	31 398
Less: Provision for bad debts	(2 454)	–
	169 993	31 398
– deposits	2 025	1 654
– income accrued	–	1 286
– interest accrued	711	1 304
	172 729	35 642
Other receivables		
– prepayments	1 815	1 225
– VAT	–	11 530
	1 815	12 755
	174 544	48 397

*1 The long-term trade receivable is due to the sale of the WACS capacity on a 15-year IRU with final payment expected at 30 June 2015.

*2 Long-term payment in advance consists of dark fibre acquired for use in operations on a 15-year IRU basis.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Current accounts The Standard Bank of South Africa Limited

Short-term deposits The Standard Bank of South Africa Limited (bearing interest at 5,0% – 5,65% p.a.)

Short-term deposits Nedbank Limited (bearing interest at 5,55% – 5,988% p.a.)

Short-term deposits First National Bank, a division of FirstRand Bank Limited (bearing interest at 5,5% – 5,9% p.a.)

5 441	1 082
93 068	157 328
191 804	92 260
151 515	92 274
441 828	342 944

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.

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

8. Share capital

Authorised

1 000 ordinary shares of R1 (2011 – R1) each

Issued

100 ordinary shares of R1 (2011 – R1) each

Shares are held as follows:

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

Unissued shares are controlled by the Executive Authority.

* Amount less than R1 000.

9. Shareholders' loans

Subordinated loans

Department of Public Enterprises (DPE)

Industrial Development Corporation of South Africa (IDC)

The loans are unsecured and have no fixed terms of repayment and bear no interest.

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

9.1 Short-term loans received

Industrial Development Corporation of South Africa (IDC)

10. Deferred income

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

Non-current liabilities

Current liabilities

Cumulative effect

Total income received in advance

Less: Amount recognised in revenue

	2014 R'000	2013 R'000
	1	1
	*	*
	1 351 130	1 351 130
	478 399	474 721
	1 829 529	1 825 851
	–	34 279
	575 399	81 698
	35 267	12 853
	610 666	94 551
	672 282	103 148
	(61 616)	(8 597)
	610 666	94 551

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R'000	2013 R'000
11. Trade and other payables		
Trade and other payables consist of:		
Financial liabilities	244 290	60 333
– trade payables	225 470	37 456
– other accruals		
– services not commissioned	10 903	15 251
– pension fund and trade union	429	231
– accrued leave	4 451	4 365
– audit fees internal	1 431	1 019
– audit fees external	1 104	1 060
– retentions	502	951
Other liabilities	21 528	4 297
– South African Revenue Services – PAYE/VAT	20 116	1 974
– Accrual: Straight-lining of leases	1 412	2 323
	265 818	64 630
12. Provisions		
Balance beginning of year	68 336	–
Transferred to accounts payable	(68 336)	–
Charged to cost of sales	–	68 336
Charged to operating expenditure – bonus provision	8 250	–
Balance at end of year	8 250	68 336
<i>Fibre Usage</i>		
Provisions raised relates to a fibre usage dispute with a key service provider on the network where the quantum of services was not agreed. This dispute was settled on 25 March 2014.		
<i>Provisions for performance incentives</i>		
The provision relates to performance agreements completed with qualifying personnel determined on the individual's performance and the Company's performance. Final payments are approved by the Board.		
13. Revenue		
The amount included in revenue arising from exchanges of goods or services included in revenue are as follows:		
Sale of broadband services	245 143	221 222
Indefeasible rights of use income	53 158	11 261
Other services	–	1 286
Operations and maintenance income	4 072	3 992
Rental income (straight-lining of operating lease income)	–	(387)
	302 373	237 374

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

14. Cost of sales

Cost of sales consists of:

Managed service contract

Co-location costs

Fibre lease costs

Fibre maintenance costs

15. Operating expenses

Operating expenses consist of:

15.1 Employee expenses

Salaries

Other benefits*

* Other benefits include cell phone allowance, annual leave, subsistence allowance and bonus payments

15.2 Directors' emoluments

Executive Directors

Non-executive Directors*

* Refer to note 23 for details.

15.3 Service fees

Auditors' remuneration

Internal Audit services

External Audit services

– current year

– prior year

Consultancy services

Legal fees

15.4 Selling, general and administrative expenses

Repairs and maintenance

Marketing

Travelling costs

Recoveries – travel reimbursement (WACS)

Insurance

Recruitment costs

Telephone costs

Training costs

IT charges

Licence fee

Commission paid

Other expenses

	2014 R'000	2013 R'000
	1 164	(4 005)
	(15 445)	(13 519)
	(43 782)	(87 410)
	(94 937)	(67 266)
	(153 000)	(172 200)
	(312 391)	(261 693)
	(110 212)	(86 140)
	(104 014)	(79 173)
	(6 198)	(6 967)
	(6 960)	(6 758)
	(4 011)	(4 134)
	(2 949)	(2 624)
	(14 865)	(8 811)
	(2 733)	(2 588)
	(1 782)	(2 000)
	(951)	(588)
	(2 733)	(1 188)
	1 782	600
	(8 788)	(4 066)
	(3 344)	(2 157)
	(40 802)	(37 728)
	(8 438)	(4 931)
	(2 888)	(10 946)
	(6 763)	(9 223)
	1 086	3 983
	(1 202)	(1 293)
	(1 330)	(703)
	(798)	(1 201)
	(916)	(612)
	(2 085)	(1 485)
	(1 352)	(708)
	–	(35)
	(16 116)	(10 574)

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R'000	2013 R'000
15. Operating expenses (continued)		
15.5 Operating leases	(12 675)	(7 207)
Land and building	(12 675)	(6 110)
Equipment	–	(1 097)
15.6 Depreciation, amortisation, impairment and write-off	(126 877)	(115 049)
Depreciation of equipment	(122 626)	(113 160)
Amortisation of intangible assets	(512)	(1 878)
Write-off and impairment of equipment	(3 739)	(11)
16. Finance income		
Finance income consists of the following:	19 251	19 453
Interest received on bank deposits	289	116
Interest received on receivables	–	2 625
Foreign exchange gains	19 540	22 194
17. Finance costs		
Finance costs consist of the following:	–	(6)
Foreign exchange losses	(6)	(8)
Suppliers – interest	(6)	(14)
18. Income tax expense		
Major components of the tax (expense)/credit		
Income tax	–	–
Deferred		
Deferred tax expense		
– current year	–	–
– prior year under provision	–	–
	–	–
Reconciliation of the tax expense		
Reconciliation between accounting loss and tax expense:		
Accounting loss	143 484	174 339
Tax at the applicable tax rate of 28%	(40 176)	(48 815)
Tax losses recognised	(59)	–
Tax effect on adjustment on taxable income:		
Permanent differences	(287)	(3 813)
Deferred tax assets not recognised	40 522	52 628
	–	–

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R'000	2013 R'000
19. Cash generated from/(used in) operations		
Loss before taxation	(143 484)	(174 339)
<i>Adjustments for:</i>		
Depreciation and amortisation	126 877	115 049
Finance income	(19 540)	(22 194)
Finance costs	6	14
Movement in straight-lining of operating lease accrual	–	(935)
Unrealised foreign exchange gain	–	61
Deferred income	516 115	(8 597)
Changes in working capital:		
Trade and other receivables, excluding straight-lining of lease	(311 905)	16 046
Trade and other payables, excluding straight-lining of leases	141 102	63 455
Unrealised foreign exchange losses included in trade and other payables	–	(418)
	309 171	(11 858)
20. Finance income received/(costs paid)		
20.1 Finance income received		
Finance income per statement of comprehensive income	19 540	22 194
Decrease/(increase) in interest receivable	–	(540)
Unrealised foreign exchange gains – derivative held for risk management	–	418
	19 540	22 072
20.2 Finance costs paid		
Finance expense per statement of comprehensive income	(6)	(14)
	(6)	(14)
21. Related parties		

The Company is controlled by the Department of Public Enterprises (DPE) who holds 74% of the issued share capital and is a Schedule 2 Public Entity in terms of the Public Finance Management Act (PFMA), No 1 of 1999 (as amended). Its related parties therefore constitute DPE, its subsidiaries, some major public entities falling under Schedule 2 of the PFMA, its minority shareholder, the Industrial Development Corporation of South Africa (IDC) and key management personnel.

Relationships

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

Shareholder with significant influence Industrial Development Corporation of South Africa.

Public entities that have the same shareholder (DPE) Eskom SOC Limited and Transnet SOC Limited.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

21. Related parties (continued)

	2014 R'000	2013 R'000
<i>Related party balances</i>		
Loan accounts owing to related parties		
Department of Public Enterprises	1 351 130	1 351 130
Industrial Development Corporation of South Africa	478 400	474 721
Short-term loans		
Industrial Development Corporation of South Africa	–	34 259
<i>Related party transactions</i>		
Lease of fibre-optic cables		
Eskom Holdings SOC Limited	5 897	4 276
Transnet SOC Limited	5 361	5 808
Other service contracts		
Eskom Holdings SOC Limited	–	1 799
Co-location lease agreement		
Transnet SOC Limited	3 816	2 957
Interest paid		
Transnet SOC Limited	–	–
Maintenance service		
Eskom Holdings SOC Limited	61 873	56 205
Transnet SOC Limited	6 956	10 951
22. Lease commitments		
Operating leases		
– payable within one year	12 815	15 045
– payable within two to five years	27 357	37 127

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

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

23. Directors and key management personnel compensation

2014	Services as	Service period in months	Basic salary R'000	Bonuses and commissions paid R'000	Expenses, other allowances R'000	Total R'000
Non-executive directors						
BMC Ngcobo	Board Chairperson	12	783	–	–	783
SAU Meer*	Board member	12	299	–	–	299
SD Mabalayo	Board member	12	373	–	–	373
SA Essa	Board member	12	328	–	–	328
N Selamolela	Board member	12	251	–	–	251
A Githiari	Board member	12	278	–	–	278
MM Maponya	Board member	12	264	–	–	264
X Kakana	Board member	12	373	–	–	373
Executive Directors						
P Kwele	Chief Executive Officer	12	2 344	–	24	2 368
RJ Magoele	Chief Financial Officer	9	1 611	–	32	1 643
I Hassen**	Interim Chief Financial Officer	3	–	–	–	–
Total Directors emoluments			6 904	–	56	6 960
Key management – Members of Executive Committee						
V Maharaj	Executive Special Projects/Capital Programme	12	1 548	207	127	1 882
M Mopeli	Executive Human Resources	12	1 156	118	24	1 298
G Zowa	Chief Technical Officer	12	1 813	–	24	1 837
F Msiza	Executive Governance	9	1 126	182	12	1 320
K Motlhabane	Executive Legal	12	1 484	162	24	1 670
R Hamilton	Chief Marketing and Sales Officer	12	1 099	–	128	1 227
Total			8 226	669***	339	9 234

* Paid to the Industrial Development Corporation of South Africa as nominee director in terms of employment.

** Interim CFO is remunerated on a consultancy basis through Ernst and Young

*** This relates to the bonus paid for the 2012/2013 financial year. The 2013/2014 financial year bonus as per note 12 will be approved by the Accounting Authority at the AGM in August 2014.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

23. Directors and key management personnel compensation (continued)

2013	Services as	Service period in months	Basic salary R'000	Bonuses and commissions paid R'000	Expenses, other allowances R'000	Total 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 - Members of Executive Committee						
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. Financial risk management and financial instruments

The Accounting Authority has a 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.

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

24. Financial risk management and financial instruments (continued)

Categories of financial instruments:

	Loans and receivables R'000	Liabilities at amortised costs R'000	Fair value through profit or loss R'000	Total Carrying amount R'000
2014				
Long-term receivables	170 000	–	–	170 000
Trade and receivables	172 729	–	–	172 729
Cash and cash equivalents	441 828	–	–	441 828
	784 557	–	–	784 557
Trade and other payables	–	(128 179)	–	(128 179)
		(128 179)	–	(128 179)
2013				
Trade and receivables	35 642	–	–	35 642
Cash and cash equivalents	342 944	–	–	342 944
	378 586	–	–	378 586
Trade and other payables	–	(55 968)	–	(55 968)
	–	(55 968)	–	(55 968)

All financial instruments at fair value through profit and loss are held for trading.

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).

24.1 Credit risk

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

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

	2014 R'000	2013 R'000
By geographical area		
Domestic	35 018	27 415
International	7 392	3 983
By customer type		
Telecom service provider companies	42 410	31 398

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

24. Financial risk management and financial instruments (continued)

24.1 Credit risk (continued)

Impairment losses

The ageing of trade receivables at the reporting date was:

	2014		2013	
	Gross R'000	Impairment R'000	Gross R'000	Impairment R'000
Not past due	35 960	–	27 429	–
60 days	1 678	–	638	–
90 days	4 772	–	3 331	–
	42 410	–	31 398	–

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:

	2014 R'000	2013 R'000
Loans and receivables	172 729	35 642
Cash and cash equivalents	441 828	342 944
	614 557	378 586

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

24.2 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 instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign exchange risk

Sensitivity analysis

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

	2014		2013	
	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
Foreign debtors				
USD	74	(74)	40	(40)

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

24. Financial risk management and financial instruments (continued)

24.3 Interest rate risk

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

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

	2014 R'000	2013 R'000
Current accounts: The Standard Bank of South Africa Limited	5 441	1 082
Investments		
The Standard Bank of South Africa Limited	93 068	157 328
Nedbank Limited	191 804	92 260
First National Bank, a division of FirstRand Bank Limited	151 515	92 274
	441 828	342 944

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 2013.

	50 bp increase	50 bp decrease
Cash and cash equivalents		
2014	R'000	R'000
Recognised in profit/(loss)	2 209	(2 209)
2013		
Recognised in profit/(loss)	1 715	(1 715)

24.4 Foreign currency risk

The Company operates predominantly in its functional currency of South African Rands (ZAR). Certain transactions take place in foreign currencies, primarily with respect to the US Dollar. The Company's main USD exposure is in respect of its ongoing investment in the West 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.

24.5 Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient financial resources to meet its obligations when they fall due. The Company's risk to liquidity is a result of the funds available to cover future commitments. The Company manages liquidity risk through the ongoing review of future commitments and credit facilities and by continuously monitoring and forecasting cash flows.

The following are the contractual maturities of financial liabilities:

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

24. Financial risk management and financial instruments (continued)

24.5 Liquidity risk (continued)

	Carrying amount R'000	Contractual cash flows R'000	6 months or less R'000	6 – 12 months R'000
2014				
Trade and other payables	(264 406)	(264 406)	(249 155)	(15 251)
2013				
Trade and other payables	(124 073)	(124 073)	(108 730)	(15 345)

25. Licence agreements

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

The licence area for all of the licences above is the Republic of South Africa. The licence was granted at no consideration and the Company is required to comply with the applicable licence obligations. The Company is required to pay Annual Licence Fees in addition to paying Frequency Spectrum Fees and making contributions 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 the statement of comprehensive income for the year.

26. Capital commitments

	2014 R'000	2013 R'000
Capital commitments		
– approved, but not contracted	31 063	719 695
– approved, and contracted	320 839	131 288
	351 902	850 983

27. Contingent assets and contingent liabilities

The Company instituted a claim against Neotel (Pty) Limited and are currently involved in arbitration in respect of services (Migratory Services) that were provided to Neotel in terms of the Rights of Use and Operate Agreement that ceased to exist effective April 2012.

Neotel, however, refused to make payment to Broadband Infraco in respect of the utilisation of Migratory Services which resulted in a dispute and is the subject of the current arbitration proceedings. The proceedings were adjourned in October 2013, and will recommence on 4 June 2014. The Company has not estimated the future economic benefits of the current arbitration process and remains optimistic that the claim will be in favour of the Company.

28. Fruitless and wasteful expenditure and irregular 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 17 of which 16 relate to the current year and one to the prior year.

SECTION TWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

28. Fruitless and wasteful expenditure and irregular expenditure (continued)

Irregular expenditure (continued)

	2014 R'000	2013 R'000
Opening balance	130 782	203 462
Incurred in the current year	6 535	396
Identified in the current year relating to previous year	(377)	377
Condoned during the year relating to 31 March 2013	(396)	(73 454)
Amount not condoned	136 544	130 782

	Action taken	Expenditure identified R'000	Amounts ratified/ condoned R'000	Remaining irregular expenditure R'000
2014				
Expenditure incurred in the current year				
Expenditure incurred in transgression of commercial processes, policies.	Matters are in the process of being ratified	6 535	–	6 535
Identified in the previous year for ratification				
Expenditure incurred in transgression of commercial processes, policies.	Matters are in the process of being ratified	130 782	(773)	130 009
		137 317	(773)	136 544
2013				
Expenditure incurred in the current year				
Expenditure incurred in transgression of commercial processes, policies.	Matters are in the process of being ratified.	723		723
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.	203 513	(73 454)	130 059
		204 236	(73 454)	130 782

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

28. Fruitless and wasteful expenditure and irregular expenditure (continued)

Losses through criminal conduct, irregular, fruitless and wasteful expenditure

Material losses through fruitless and wasteful expenditure

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:

	2014 R'000	2013 R'000
Fruitless and wasteful expenditure		
Opening balance	16	54
Identified in the current year	604	17
Recovered	–	–
Losses written off	(243)	(55)
	377	16

Fruitless and wasteful expenditure	Action taken	Losses identified R'000	Losses recovered year to date R'000	Losses written off R'000	Recovery outstanding R'000
2014					
Incorrect payment	Recovery underway	377	–	–	377
Interest incurred from suppliers	Losses written off	3	–	(3)	–
Tender cancelled due to non-compliance to PPPFA	Losses written off	224	–	(224)	–
		604	–	(227)	(377)

Fruitless and wasteful expenditure	Action taken	Losses identified R'000	Losses recovered year to date R'000	Losses written off R'000	Recovery outstanding R'000
2013					
Interest incurred from suppliers	Losses written off	3	–	(3)	–
Cancellation fees charged request for postponement	Losses written off	13	–	(13)	–
		16	–	(16)	–

SECTION TWO

ACRONYMS

GLOSSARY OF TERMS

AfDB	African Development Bank
AGM	Annual General Meeting
ASON	Automatically Switched Optical Network
ARC	Audit and Risk Committee
B-BBEE	Broad-Based Black Economic Empowerment
BPM	Business Process Management
CAN	Change Agents Network
CCMA	Council for Conciliation, Mediation and Arbitration
CEO	Chief Executive Officer
CIBD	Construction Industry Development Board
CIPC	Companies and Intellectual Property Commission
CFO	Chief Financial Officer
COBIT	Control Objectives for Information Technology
COSO	Committee of Sponsoring Organisation
CPI	Consumer Price Index
CPM	Capital Programme Management
CSED	Corporate Social Economic Development
CSI	Corporate Social Investment
CSIR	Council for Scientific and Industrial Research
DTN	Digital Telecommunications Network
DFI	Development Finance Institutions
DoC	Department of Communications
DPE	Department of Public Enterprises
DST	Department of Science and Technology
DWDM	Dense Wavelength Division Multiplexing
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
ECA	Electronic Communications Act
ECS	Electronic Communication Services
ED	Enterprise Development
EE	Employment Equity
EIS	Economic Impact Study
ERP	Enterprise Resource Planning
ESS	Employee Self Services
EXCO	Executive Management Committee
FMPPPI	Framework for Managing Programme Performance Information
FTTH	Fibre to the Home
FTTP	Fibre to the Premises
FVO	Fair Value Option
GDP	Gross Domestic Product
GRI	Global Reporting Initiatives
HR	Human Resources
HRRC	Human Resources and Remuneration Committee
HSDPA	High-Speed Downlink Packet Access
IAS	International Accounting Standards
ICASA	Independent Communications Authority of South Africa
ICT	Information Communication Technology
I-ECNS	Individual Electronic Communications Network Services
IIA	Institute of Internal Auditors
IDC	Industrial Development Corporation
IFRS	International Financial Reporting Standards
IIPSA	Infrastructure Investment Programme for South Africa
IP	Internet Protocol
IT	Information Technology
ITIL	Information Technology Infrastructure Library
ITU	International Telecommunication Union
ISO	International Standards Organisation
IRU	Indefeasible Rights of Use
KPI	Key Performance Indicator
LEDT	Limpopo Economic Development and Tourism
LTE	Long Term Evolution
LTIFR	Lost Time Injury Frequency Rate
MAU	Minimum Assignable Units

SECTION TWO

ACRONYMS



MEC	Member of Executive Council
MICT	Media, Information and Communication Technologies
MOU	Memorandum of Understanding
MPLS	Multi-Protocol Label Switching
MSA	Master Service Agreement
MTC	Mobile Namibia Telecom
MTEF	Medium Term Expenditure Framework
MTS	Multiwavelength Transport System
MTTR	Mean Time to Restore
NOC	Network Operations Centre
NDP	National Development Plan
NPWG	National Preparatory Working Group
OECD	Organisation for Economic Co-operation and Development
PAA	Public Audit Act
PAYE	Pay As You Earn
PFMA	Public Finance Management Act
PoP	Point of Presence
PoPI	Protection of Personal Information
PPPFA	Preferential Procurement Policy Framework Act
PRC	Presidential Review Committee
QMS	Quality Management System
RACI	Responsible Accountable Consulted Informed
RFP	Request for Proposal
RoU	Rights of Use
RSA	Republic of South Africa
S&E	Social and Ethics
SA	South Africa
SABS	South African Bureau of Standards
SADC	South African Development Community
SANReN	South African National Research Network
SAPS	South African Police Services
SASRIA	South African Special Risk Insurance Association
SATA	Southern Africa Telecommunications Association
SCM	Supply Chain Management
SDH	Synchronous Digital Hierarchy
SETA	Skills Education and Training Authority
SHEQ	Safety, Health, Environment and Quality
SIP	Strategic Infrastructure Project
SITA	State Information Technology Agency
SKA	Square Kilometre Array
SLA	Service Level Agreement
SMF	Senior Management Forum
SMS	Short Message Service
SMME	Small Medium and Micro Enterprise
SOC	State Owned Company
SPOF	Single Points of Failures
SPTC	Swaziland Post and Telecommunications
SSLA	Service Level Agreement
STM	Synchronous Transport Module
TCTC	Total Cost to Company
TENET	Tertiary Education Network
TFR	Transnet Freight Rail
TNMS	Telecommunications Network Management System
USAASA	Universal Service Access Agency of South Africa
USAF	Universal Service and Access Fund
USAL	Under Serviced Area Licensees
USD	United States Dollar
VAT	Value Added Tax
WACS	West Africa Cable System
WAN	Wide Area Network
WCIT	World Conference on International Telecommunications
WIP	Work In Progress
WSP	Workplace Skills Plan
WTSA	World Telecommunications Standardisation Assembly
ZAR	South African Rand

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