2016

INTEGRATED REPORT










SHARING OUR SUCCESSES

Broadband Infraco

Sharing our Successes...

THE IMPLEMENTATION OF BUILD, GROW AND EXPAND STRATEGY

2014

- Second anchor customer acquired
- Five (5) open access PoPs completed
- Presidential Proclamation signed on 19 September 2014, effectively transferring Broadband Infraco from the Department of Public Enterprises to the Department of Telecommunications and Postal Services
- 89.47% Achievement of Shareholders' Compact
- Unqualified audit report

2015

- 83% Achievement of Shareholders' Compact
- 74% of employees participated in a satisfaction survey and 70% were satisfied
- Overall award and "A" rating in compliance
- "A" rating in internal audit and internal control
- Unqualified audit report

2016

- 87.50% Achievement of Shareholders' Compact
- Zero irregular expenditure
- NOSA Accreditation
- ISO 18001 successful audit
- Unqualified audit report
- Positive EBITDA

CONTENTS

Broadband Infraco

Broadband Infraco prides itself on excellence in service delivery

1. ABOUT THIS REPORT

1. Introduction

The Board of Directors and Executive Management of Broadband Infraco SOC Limited ("the Company") are pleased to present the Integrated Report of the Company for 2016. Broadband Infraco reports on its activities and performance to the shareholders, namely the Minister of Telecommunications and Postal Services (Executive Authority in terms of the Public Finance Management Act 1 of 1999) in his capacity as a shareholder representative on behalf of the government of South Africa, and to the Industrial Development Corporation of South Africa Limited (IDC) of South Africa, as the second shareholder.

The Company's main accountability instruments are the Corporate Plan, Shareholders' Compact and Performance Indicators, Integrated 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 29 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 into Broadband Infraco, its value proposition and strategy, opportunities and risks, its business model and governance. 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.

The Integrated Report presented includes forward-looking information to allow stakeholders to make an informed assessment of the future value creation ability of the organisation. This report is tabled against the background of a turnaround in the Company manifested, among others, by the following performance variables:

I. Economic and Strategy Performance Indicators

- Achieving double-digits year-on-year revenue growth of 24% (year ended 31 March 2016 amounts to R452 million; previous year R366 million) in an industry that reflects single-digit year-on-year revenue growth.
- Continuing to diversify its customer base by increasing its number of customers from 18 in the previous year, to 23 in the year under review.
- Growing its cumulative year-on-year STM-1 equivalent from 1 506 STMe to 2 003 STMe.
- Cementing its long-term partnership with the state, through Customer 1 becoming a major anchor customer.
- Significantly increasing its share of revenue from South Africa's biggest mobile network operator through a long-term, multiple-link transaction.
- Continuously attracting emerging Internet Service Providers (ISPs), utilising efficient IP-based services.

II. Environmental Performance

The implementation and maintenance of Safety, Health, Environment and Quality (SHEQ) systems forms part of the core of the Company's strategy. The following are the highlights for the period under review:

- OSHAS18001: Audits conducted successfully and SABS accreditation confirmed.
- The 2015/16 year ended without a fatality from operational incidents.
- The Company has been applying ISO 9001 principles and has now resolved to initiate the certification process, of which 32% has been covered.
- Reduction in direct energy consumption per energy source.
- Increased percentage of use of recyclable materials.
- No environmental incidents have been reported and/or recorded.
- Reduction in water consumption in project implementation programmes.
- Environmentally friendly materials used during the implementation of various projects of Broadband Infraco.
- Indirect energy consumption reduced by primary source and energy saved due to conservation and efficiency improvement.

III. Social Performance Indicators

The Company enlisted the support of partnerships within private and public companies to acquire and donate 60 tablets to Seshigo High School. The tablets, donated to benefit mainly the matric learners at the school and loaded with an online content application, named 2Enable, were delivered to ensure that the tools are a teaching aid that will complement the work of the teachers, while simultaneously providing an audio-visual learning opportunity for the learners.

The 2Enable application boasts the following features:

- Diagnostic self-assessments
- Courseware
- Course support
- SACE CPTD tracking
- Analytics and reporting
- Communication and training calendar
- Learning circles/user groups
- Administration

1. ABOUT THIS REPORT CONTINUED

The tablets were also delivered with the following value-added services at no cost from the service provider:

- Sim cards with 200MB data for 12 months.
- WiFi data access for two (2) years.
- Monitoring and evaluation implementation programme.

IV. Network Performance

Broadband Infraco has achieved numerous successes in the past financial year. Major positive changes have taken place in the technical operating environment of the Company, including completion of many projects, allowing much required autonomy and cost saving. Similarly, many customer services have been built and provisioned. Notable among the achievements are the following highlights:

- Completion of the Multiwavelength Transport Services (MTS) project together with the core network optimisation projects, which have increased the total network capacity with more than 100% capacity in some cases.
- The completion and migration of services from some third-party closed points of presence (PoPs), thus allowing major cost of sales savings and network autonomy.
- The completion of the Oberholzer to Ramatlabama link Dense Wavelength Division Multiplex (DWDM) upgrade, allowing more services to be provided to neighbouring Botswana. This strengthens the Broadband Infraco mandate to improve regional connectivity.
- The successful implementation and timely provisioning of key customer services to a major mobile network operator.
- The building, installation and provisioning of services as part of the first and second phases of the project for Customer 1.
- Successful relocation of Broadband Infraco equipment from Transnet Freight Rail sites, which contributes to better network maintainability and improves restoration times, thus improving overall network performance.
- A quality system programme has been initiated for implementation, with a goal of reaching ISO9001 accreditation in the next two (2) years.
- National Occupational Safety Association (NOSA) accreditation.

V. Socio-Economic Performance

The Supply Chain Management (SCM) department has succeeded in deploying systems, policies and procedures specifically designed to attract meaningful contribution from previously disadvantaged groups, and created an environment within the Company where these individuals enjoy preference in terms of the supply of goods and services in all spheres of the supply chain. As a strategic business partner, SCM continues to have a great impact on the delivery of the Company's objectives and mandate. It also played a major role in transformation by contributing to the Broad-Based Black Economic Empowerment (B-BBEE), through a supply chain management system that enabled all stakeholders to participate in a fair, equitable, transparent, competitive and cost-effective manner.

These specific integrated reporting indicators are contained in the relevant sections below.

Shareholders' Compact

The Company and its Shareholders are bound by the Shareholders' Compact, which the two (2) parties conclude annually, in terms of the Treasury Regulations. This records the mandated key performance measures and indicators to be attained by Broadband Infraco as agreed between the Board and the Shareholders. The parties are bound by the principles of Corporate Governance in the Public Sector (Protocol), the Broadband Infraco Act, 2007, the Companies Act, the PFMA and applicable Treasury regulations. The Company endeavours to enhance effective business performance and to maintain good corporate governance, including subscribing to the principles contained in the King III Report.

The Shareholders' Compact records the objectives of the Company as follows:

To ensure that Broadband Infraco:

- Maintains a reliable network;
- Ensures financial sustainability;
- Implements sound HR practices; and
- Economic transformation.

2. OVERVIEW

2.1 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 Information Communication Technology (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 underserviced areas. These are in accordance with the Electronic Communications Act No 36 of 2005 and commensurate with international best practice and pricing, through the provision of electronic communications network services and electronic communications services. The Company is a Schedule 2 public entity in terms of the PFMA and has the Department of Telecommunications and Postal Services (DTPS) and the Industrial Development Corporation of South Africa Limited (IDC) as its shareholders. The Minister is the Executive Authority in terms of the PFMA.

Broadband Infraco's mandate resonates with three (3) Strategic Infrastructure Projects, (SIP) 15 which focuses on expanding access to ICT, SIP 16 which focuses on the Square Kilometre Array (SKA) and Meerkat, and SIP 17 which focuses on regional integration for African cooperation and development. Availing the capacity of the West African Cable System (WACS) to the Department of Science and Technology (DST) is at the core of SIP 16, while the Company also has an obligation to connect 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, provincial and district backhauls require state intervention, thus allowing private investments to lead the way in the access market.

Broadband Infraco has 14 661 km of fibre network nationally and 156 PoPs. The national long-distance fibre-optic network currently utilises DWDM equipment, providing a number of 2.5 Gigabits, 10 Gigabits and 40 Gigabits lambdas along the majority of fibre routes.

2.2 Vision Statement

Broadband Infraco's vision is as follows:

"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;
- To connect to all six (6) neighbouring countries of South Africa; and
- To connect countries on the west coast of Africa to the WACS.

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

2.4 Values

- **Engage Stakeholders**
  Broadband Infraco proactively engages its stakeholders to understand their ongoing requirements.
- **Broadband Infraco prides itself on 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 for its customers.
- **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 that they deserve.

2. OVERVIEW CONTINUED

2.5 Opportunity Overview

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

Broadband Infraco currently operates as the second largest commercial national long distance optic fibre network in South Africa, with nearly 14 661 km or 28% of the current total network.

Broadband Infraco's activities during the period under review 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 access networks of potential partners;
- Developing organisational capability through people, systems, and an ongoing improvement to the network; and
- Cooperating with different partners to harvest broadband networks that will grow the use of broadband services.

2.6 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 the Company's operational model has provided unique challenges and requires resources to address them, including:

- The complexity around raising funds as the Company has no history of debt; and
- Market price declines, which impact revenues negatively.

Since its licensing in 2009 and the connection of the first independent customer in 2010, Broadband Infraco has continued to develop its capability and capacity through the implementation of the Build-Grow-Expand strategy. This strategy has focused both on internal efficiencies and external service delivery. It executes the legal mandate and is also customer-centric. It supports the national broadband policy by ensuring that:

- The cost to communicate is kept affordable;
- High-capacity bandwidth is available for all the citizens;
- Optimal planning designs avoid duplication; and
- It works within the framework of the National Broadband Policy in partnership with private and public collaborators.

3. WHAT WE DO

Our Core Business

Broadband Infraco is a licensed telecommunications service provider of wholesale services to the industry. Our services are based on the provision of high-capacity bandwidth from point of presence (PoP) to PoP within our National Long Distance Fibre Optic Network.

The Broadband Infraco business is a combination of three (3) elements:

1. National Connectivity

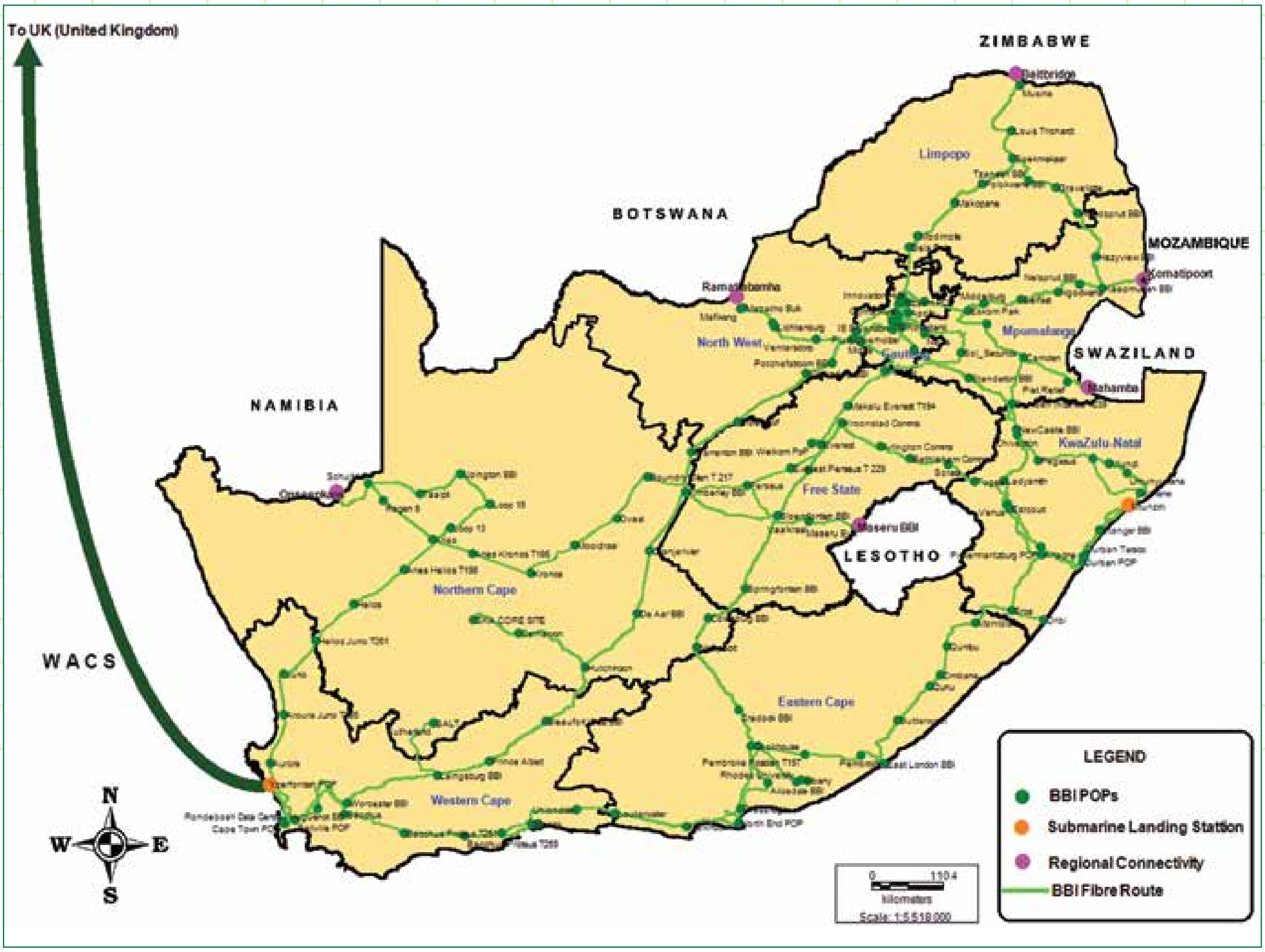
In line with the vision for "broadband to all", and as indicated earlier in the report, the Broadband Infraco fibre optic network is made up of 14 661 km of fibre. The Company has upgraded major portions of the network from Synchronous Digital Hierarchy (SDH) to DWDM and Internet Protocol (IP) technology, which is the latest technology. The maximum capacity on some routes now goes up to 170Gb/s.

Economic Hubs

Broadband Infraco's National Long Distance Network covers the country's nine (9) provinces and most major cities and towns. The Network Master Plan has been approved to improve the resilience and scalability of the network to accommodate the increasing market demand and to continue to exceed the needs and 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.

Major Products and Services

At present, customers are able to buy multiple units of individual (DWDM, IP and SDH) services between any two (2) long-distance drop-off points (or cities) connected by the Broadband Infraco network.



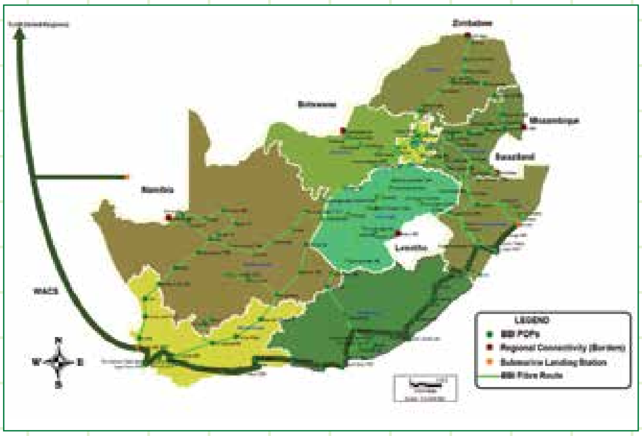
SECTION 1

3. WHAT WE DO CONTINUED

2. Regional Connectivity

Network extensions have also been implemented to provide fibre connectivity to the neighbouring countries of Lesotho, Mozambique, Namibia, Swaziland, Zimbabwe and Botswana. Broadband Infraco can link West Coast and East Coast international cable systems through its terrestrial national network.

In line with the Southern African Development Community (SADC) Protocol on transport, communications and meteorology and the regional infrastructure development masterplan alignment, Broadband Infraco is connected to all the neighbouring SADC countries.



3. International Connectivity

Broadband Infraco's a tier-1, core investor in the WACS initiative. The Company was instrumental in bringing all the parties together to address the need for international connectivity. Through Broadband Infraco's investment, the government has direct access to 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.

Key Customer Base

Broadband Infraco has three (3) anchor customers from which 80% of its revenue is derived. The Company also provides key connectivity to SADC regional operators, internet service providers and other infrastructure operators. Its customer base is set out as:

- corporate customers;
- the public sector;
- mobile network operators;
- international operators;
- SADC regional operators;
- system integrators; and
- internet service providers.

For all its customers, Broadband Infraco will:

- Sustain a very high-level relationship/account management programme;
- Maintain the accounts that are targeted at master service agreement revenue levels as part of longer term negotiations;
- Grow accounts through leveraging site-sharing opportunities;
- Identify strategic major risks and opportunities associated with each of the anchor customers; and
- Assess the likelihood of each scenario; quantify the expected impact of most likely scenario; and develop mitigation plans.

Broadband Infraco

4. OUR LEADERSHIP

The Board

BMC Ngcobo
Chairperson of the Board

Qualifications:

LLB (Natal), LLM in Company Law (WITS), Business Management Programme (UCT) Admitted Attorney

Expertise:

Telecommunications and Business Management

A Githiari
Independent Non-Executive Director

Qualifications:

PhD (Electrical Engineering) (Cambridge University), BSc (Electrical Engineering) (University of Nairobi)

Expertise:

Telecommunications Industry Specialist

M Maponya
Chairperson: Audit and Risk Committee

Qualifications:

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

Expertise:

Auditing, Corporate Finance and Telecommunications

S Mabalayo
Chairperson: Human Resources and Remuneration Committee

Qualifications:

BSc (Electrical Engineering)(UCT), MBA (WITS)

Expertise:

Telecommunications, Project and General Management

N Selamolela
Chairperson: Investment, Finance, Tender and Procurement Committee

Qualifications:

BCom (Accounting) (North-West University), BCom (Honours) (UKZN)

Expertise:

Telecommunications, Finance and General Management

M Mosweu
Chairperson: Social and Ethics Committee

Qualifications

B Compt (Hons) (UNISA) CA (SA), MBL

Expertise:

Project, Corporate Finance and Telecommunications expertise

P Kwele
Chief Executive Officer

Qualifications:

BSc Honours (WITS), Postgraduate Diploma in Management (WITS), Certificate in Financial Management (UJ) Chartered Marketer (Marketing Association of SA)

Expertise:

Telecommunications and Business Management, Strategy Development and Execution

II van Niekerk
Chief Financial Officer

Qualifications:

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

Expertise:

Telecommunications, Financial Management, Commercial Management and Strategy

4. OUR LEADERSHIP CONTINUED

Executive Committee

P Kwele
Chief Executive Officer

Qualifications:

BSc Honours (WITS), Postgraduate Diploma in Management (WITS), Certificate in Financial, Management (UJ)
Chartered Marketer (Marketing Association of SA)

Expertise:

Telecommunications and Business Management, Strategy Development and Execution

Il van Niekerk
Chief Financial Officer

Qualifications:

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

Expertise:

Telecommunications, Financial Management, Commercial Management, Strategy

S Mafu
Chief Marketing and Sales Officer

Qualifications:

BA; Post-Grad Dip Management (UCT); MBA (Hull: UK);
Chartered Marketer (Marketing Association of SA)

Expertise:

Telecommunications, Sales and Marketing, Business Development, Strategy, National socioeconomic development

M Mopeli
Executive: Human Resources

Qualifications:

Executive Development Programme (GIBS)
Masters of Management in HR (WBS)
Honours - Bachelor of Library & Information Science
BA: Political Science and Public Administration

Expertise:

HR & General Management (Telecommunications & Manufacturing), Organisational Development and Transformation Strategy, Employee Relations and Labour Legislation

G Zowa
Chief Technical Officer

Qualifications:

BSc Electrical Eng (Hons), MBA (University of Pretoria), Pr Eng (ECSA), MSAIEE, MIEE (UK)

Expertise:

Telecommunications, (Switching, Transmission, Mobile (2G, 3G, LTE, IP, IT). Strategic Management, and Business Management

M Mojapelo
Executive: Compliance, Risk and Audit

Qualifications

B.Compt, GIA; PA. (S.A); EDP (Executive Development Program (Wits); LP (Leadership Programme for Senior Manager (Univ. of PTA); International Leadership Development Program (ILDP) Henley and Penn State Business School

Expertise:

Internal Auditing; Compliance; Risk; Governance and Strategy

F Mohamed
Company Secretary (ex officio)

Qualifications:

BA (Law), PGDBM (Henley UK)

Expertise:

Company Secretariat, Governance, Administration, and Stakeholder Management

Note: Mr K Motlhabane (Executive: Legal and Regulatory) and Mr V Maharaj (Executive: Capital Programmes) resigned from Broadband Infraco.

5. REPORT FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The Chairman and Chief Executive Officer, on behalf of the Board of Directors, present the Broadband Infraco's Integrated Annual Report for the year ended 31 March 2016.

This Integrated Report covers the total performance of the Company, its financial and other resources. This report reflects the performance of the Company over the past four (4) years. The execution of the strategic themes has resulted in numerous successes, such as the continuous increase in revenue generated (R452 million against a R366 million for the previous financial year), reduction of cost of sales (17%) and achievement of network autonomy. This is as a result of optimising and containing costs while not hampering service delivery to customers.

1.1 The Past Four Years: The Successes

Over the past four (4) years the Company has executed its Build, Grow and Expand strategy, which has resulted in numerous successes. This is reflected in the following trajectory:

- Consistently achieving in excess of 80% Shareholders' Compact deliverables (87.5% for 2015/16; 83% 2014/15).
- Consistently increased its revenue by double-digits year-on-year (from R302m, R366m to R452m).
- Consistently generated a gross profit (R149m, R51m to R192 m). The increase in gross profit is as a result of decreased cost of sales.
- Optimised 33 PoPs to achieve network autonomy.
- Consistently invested very significant capital expenditure in the extension and refurbishment of its national long-distance networks (R199m, R148m to R161m).

The Company's overall strategy over the period has evolved to align it to new conditions and to better exploit emerging opportunities. The key themes that were implemented in support of the strategy include:

Strategic Thrust	3-Year Strategy Evolution
Revenue	Diversification of customer base and growth of customer numbers
Pricing	A sound Pricing Strategy driving profitability
Cost of Sales	From accepting fixed expenses as immutable; to robustly re-engaging with leasing partners to extract real value for money and massive cost reductions. This includes constantly assessing the most feasible option to deploy infrastructure
Infrastructure Management and Maintenance	Optimising our technical designs and execution of sound engineering principles complemented by re-engaging strategic partners resulted in a reduction of cost of sales
Human Capital	A constant critical review of productivity and high-performance contracting enforcement enables honest conversations in areas of improvement

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

1.2 Results of the Year Under Review

- *Shareholders' Compact*

  The Company has achieved 87.5% of its Shareholders' Compact targets for the financial year. The two (2) non-achievements are due to non-attainment of revenue, and total spending on people with disability-owned enterprise targets.

  In total, 70% of the Company's Annual Performance Plan (APP) is financial in nature. The foundation of non-financial indicators has been set and this phase is about financial sustainability. While the revenue targets were not achieved, critical targets like the reduction of cost of sales and operating loss were achieved.

- *Update on SHEQ*

  The implementation and maintenance of SHEQ systems forms part of the core of the Company's strategy. The following are the highlights for the period under review:

  a. Safety: the Company was awarded NOSA accreditation during the period under review and for OSHAS18001 audit queries were resolved successfully and a recommendation to issue the certificate has been submitted to SABS.
  b. The 2015/16 year ended without a fatality from operational incidents.
  c. The Company has been applying ISO 9001 principles and has now resolved to initiate the certification process, of which 32% has been covered.
  d. No environmental incidents have been reported and/or recorded.
  e. There has been no third-party claim as a result of non-compliance to SHEQ requirements.

- *Enterprise Development and Corporate Social Investment*

  The Enterprise and Supplier Development Strategy is in the second year of implementation. This strategy has been designed to provide conclusive enterprise and supplier development through effective planning and sourcing of products and services. It has also been aligned to business objectives and targets. The main focus of this strategy is to:

  - Increase black women and youth participation in the telecommunications industry;
  - Increase skills capacity and capability within the ICT sector;
  - Achieve equitable representation in all procurement activities and levels in the effort to drive enterprises to reach maximum levels of participation; and
  - Entrench preferential procurement as a tool to drive transformation.

The Enterprise and Supplier Development Programme has yielded 114% (113%: 2014/15) B-BBEE spent, of which 45% (33%: 2014/15) was spent on black women-owned enterprises, and 10.7% on youth-owned enterprises.

The strategy to support the learning of maths and science is still relevant and thus the Company has continued to support Seshigo High School in Limpopo and Ezakheni High School in Mpumalanga. Over the four (4) years the Company and our strategic partners have invested in ICT to aid the learning of various subjects including maths and science. In addition to Telematics and the computer lab provided previously, Seshigo High School has now been provided with tablets that have the approved Curriculum and Assessment Policy Statement (CAPS) curriculum uploaded.

1.3 Network Improvement

Four (4) years ago, 80% of the transmission was old, and now major projects to upgrade this network have been completed. These include the MTS and core optimisation projects.

With regard to regional connectivity, the Ramatlabama PoP has been upgraded to the latest DWDM equipment, allowing for higher capacity and enabling seamless communication between South Africa and Botswana.

1.4 Human Capital Management

The Build-Grow-Expand Strategy required strategic renewal of our Human Capital management practices. The strategic and operational outputs of Human Resources have focused on enabling the organisation to renew and reenergise itself through effective human capital revitalisation strategies.

The Company has managed to address the challenges of balancing capacity and capability requirements for the execution of critical aspects of the business and the balancing of financial resources to afford imperatives.

The critical imperatives were:

- Advancing the implementation of human resources development strategies to sharpen existing skills and build new competency requirements in critical areas of work;
- Retention of skills base, workplace morale and accolades that are important for business reputation like contribution to B-BBEE ratings (Employment Equity plan, Workplace Skills Plan and study assistance programme); and
- Innovative HR practices were explored and ways of optimising human resources capacity to avoid possible job losses and to monitor labour costs within the confines of the Company's financial circumstances were implemented.

These were underpinned by a process of an HR capacity database that indicated qualifications, competencies, years of service and experiences profile of each employee which included the following:

- The HR capacity database informed the rotation, secondment and temporary deployments that were effected to multi-skill and intensify talent development for succession planning and career advancement at various levels of the organisational structure.
- A twelve-month productivity analysis was conducted per functional area to assess where there were shortages and areas with possible excess.

Among the imperatives that were instrumental in bolstering the enhancement of people management practices in the organisation were the following:

- Approval of the framework for implementation of the temporary deployment strategy for effective HR optimisation.
- Continued the realignment of critical divisional structures for optimisation and operational effectiveness for departments such as Information Technology.
- Implementation of the automated performance management system.

All these were conducted and the Company still maintained its compliance to all HR legislative imperatives.

Appreciation

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

To the Board: Thanks for helping navigate through waters both calm and troubled and for always putting Broadband Infraco's interests first. Your professionalism embodies the Company's values and philosophy and your hard work is an inspiration to all of us.

To Team Infraco: It's only a matter of time before your collective efforts will translate into sustainable, operating profit. Your hard work, perseverance and loyalty to the Company have become the epitome of standing strong and punching way above your weight. The positive feedback from the market praising your competence and dedication will percolate into additional desired growth. Thank you.

To our Customers: Words can never be enough to salute you for trusting us with enabling you to provide South Africa's connectivity requirements. As we express our gratitude, we do not forget that the highest appreciation is not to utter words, but to live them in the quality of service we render.

M Ngcobo
Chairman of the Board

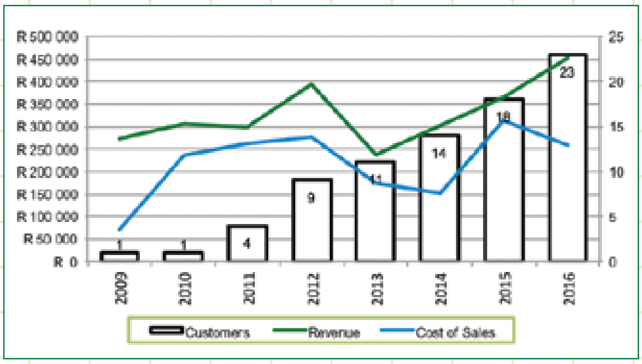
P Kwele
Chief Executive Officer

6. CHIEF FINANCIAL OFFICER'S REPORT

It is with great pleasure that I present herewith the financial report for the year ended 31 March 2016.

This has been a year in which we set about to stabilise the business, grow revenue and contain and manage our costs. I am pleased to report that the Company has exceeded the targets that were set around stabilising the business and containing costs. Albeit the revenue grew by almost 24%, the Company is slightly below the target that was set, but well on its way to continue this growth pattern.

Financial results



Revenue – The Company has grown its customer base from 18 to 23 in the current year. It has acquired significant up-sales from existing customers and also sold significant capacity to new customers. It has engaged customers strategically and reviewed transactions stringently to ensure better returns per transaction. Revenue grew by 24% during the current year and is expected to grow overall by 18% in the next financial year.

Cost of sales – Management undertook several optimisation exercises to reduce cost of sales through re-negotiations of maintenance contracts and fibre lease agreements, optimisation of routes, and building new networks instead of leasing. This resulted in a sustainable reduction in cost of sales in excess of R50 million per annum or 17% on the previous financial year. This reduction will be carried through to the 2017 financial year with a further reduction of 3% in cost of sales being budgeted for.

Operational cost – Operating expenditure excluding depreciation for the year is 17% lower than the previous year, after providing for abnormal legal arbitration costs. Management undertook a focused cost-saving drive during 2015/16 to reduce operational costs across the Company. This resulted in sustainable reduction in operational costs excluding depreciation in excess of R30 million. It is expected that operational costs will increase by inflation on an annual basis from this low base. The Neotel matter has been settled.

Capex

During the year under review, the Company continued to roll out major capital projects for the provisioning and implementation of services to strategic customers. The total capital spend for the year under review was R161 million. It is envisaged that a total of R75 million will be spent in the next financial year to complete these projects. A total of 420 km new fibre was added and more than 30 points of presence (POPs) optimised.

Cash flow

The Company remained cash positive throughout the financial year, with a positive Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) of 7% and generating net cash flows from operations. It is envisaged that this positive pattern will continue into the future, and positive returns on EBITDA are expected in the next financial year.

Future outlook and sustainability

Driving revenue remains a key focus and priority of the Company and will be driven hard not only by the Chief Sales and Marketing Officer, but also by the Chief Executive Officer and each Executive Member, as revenue is the key differentiator in ensuring the sustainability of the Company.

The good foundation that was created during the current financial year – positive and continued sales growth, cost of sales sustainable reduction and operating cost optimisations, will contribute further to enable and ensure the sustainability of the Company.

Although the forecast of Broadband Infraco remains positive, the Company has embarked with renewed intensity on sourcing funding to further enhance liquidity and sustainability. The funding requests are to various commercial banks and developmental finance institutions to fund working capital, specific ring-fenced projects for customers and selective critical maintenance projects.

Socio-Economic Development

The Supply Chain Management (SCM) department has succeeded in deploying systems, policies and procedures specifically designed to attract meaningful contribution from previously disadvantaged groups, and created an environment within the Company where these individuals enjoyed preference in terms of the supply of goods and services in all spheres of the supply chain. As a strategic business partner, SCM continues to have a great impact on the delivery of the Company's objectives and mandate. It also played a major role in transformation by contributing to B-BBEE through a supply chain management system that enabled all stakeholders to participate in a fair, equitable, transparent, competitive and cost-effective manner.

The total procurement spend for the year was almost R318 million. A breakdown of spend is indicated below:

Number of indirect jobs created	686
Allocation of B-BBEE budget	114%
Percentage increase on black-owned entities spend	54%
Percentage spend on youth-owned entities	11%
Percentage spend on women-owned entities	45%
Percentage increase spend on people-with-disabilities-owned entities	0,1%

The focus going forward is to continuously improve efficiency in supply chain practices and compliance to legislative requirements, to maintain current B-BBEE spend and ranking, amid changes in legislative environment.

Funding

Broadband Infraco continues to follow a funding strategy that is designed to cater for a transitioning business model that will enable sustainability. The Company's business model has transitioned from a single customer to one based on multiple customers, ranging from the private to the public sector. The Company's planned capital investment programme is supportive of long-term financial sustainability, with four (4) key priorities:

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

The funding strategy is to source funding from the private commercial banking sector, Development Finance Institutions (DFIs) and selective vendor financing alternatives. Commercial banks are targeted as a source of short-term cash and liquidity-provisioning facilities, while the DFIs are expected to support the Company with long-term debt capital and vendors to support medium- and long-term balancing of operational costs with revenue through the financing of technology enhancements.

In determining the funding strategy for the period under review, and aligning primarily to the capital investment programme, the Company considered a number of funding mechanisms and sources, ultimately deciding on the following three (3) options:

- **Project-based structured financing**: Previously Broadband Infraco was not able to secure funding for customer-generated projects due to the lack of a track record. The Company is now able to demonstrate that they are able to win, plan and execute major projects successfully. These projects resulted in both significant growth and cost-savings. The Company is positive that it will be able to secure funding off the back of these projects for future, customer-requested projects where revenue will improve.
- **Development Finance Institutions facilities (including bank funding for bridging purposes)**: The Company has demonstrated its ability to manage cash optimally over the past twelve months. This was achieved through proactively and continuously applying cost optimisation strategies, engaging with suppliers to extend payment terms and appealing to customers to pay the Company as quickly as possible. This will have a positive effect on future engagement with some of the DFIs and commercial banks.
- **Vendor financing of technology upgrades**: During the past year, the Company engaged with many of its key suppliers and was able to negotiate extended credit terms with most of them. Many of these suppliers have now indicated that they will be willing to consider longer-term financing of technology and customer enhancements, over the useful life of the equipment. This type of funding could cover a significant part of the planned capital expenditure planned for the 2016/17 financial year.

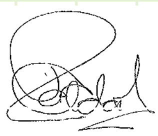
These options sought to secure funding for Broadband Infraco either directly onto the Company's balance sheet or on an off-balance-sheet basis.

Conclusion

During the forthcoming period, the Company will remain focused on doing what it is doing now, only better. We will continue to drive revenue, ensure we maintain and optimise cost levels, and improve efficiencies even further.

We are committed to operating within our financial means, and in a way that does not detract from our delivery capability, nor from achieving our sustainability target.

I want to take this opportunity to thank every Broadband Infraco employee, contractor, executive and our shareholders for their tireless efforts in assisting to help Broadband Infraco on the road to achieving financial sustainability. To the finance team, I thank you for your prudence and diligence.



Ian van Niekerk
Chief Financial Officer

7. HIGHLIGHTS

The following salient milestones were achieved in the year under review:

SHAREHOLDERS' COMPACT

87.5% achieved

REVENUE: R452M

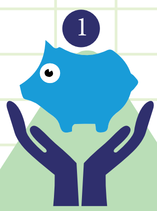
24% year-on-year growth achieved

CORPORATE SOCIAL INVESTMENT

60 tablets procured and delivered through partnerships with suppliers

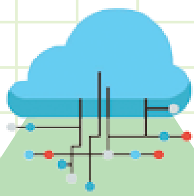
YEAR-ON-YEAR CUSTOMERS

From 18 to 23 growth



CAPITAL EXPENDITURE

From R148m to R161m



NETWORK AUTONOMY

33 open-access PoPs optimised

SHEQ
The 2015/16 year ended without a fatality from operational incidents

WATER
Reduction in water consumption in project implementation programmes

ENVIRONMENT
No environmental incidents have been reported and/or recorded

NETWORK AVAILABILITY
Exceeded industry norm by 99.92%

NETWORK SALEABILITY
497 STM-1 equivalent year-on-year growth achieved

PRODUCT DEVELOPMENT
Successfully launched Remote Peering and Mast Colocation products

8. PERFORMANCE AGAINST SHAREHOLDERS' COMPACT – 2015/16

Strategic Objective	Weighting	KPA	KPI	Sub-weighting	Baseline	2015/16 Target
Ensure Business Sustainability	30%	Network Performance Rebates	Network performance rebates paid as percentage of gross revenue	12.50%	0.17%	≤0.3% of customer revenue
		Revenue	Percentage increase of actual revenue	7.50%	R364mil	28% increase in Revenue
		Cost of Sales	Percentage decrease of cost of sales excluding depreciation	5%	R444mil	10% decrease of Cost of Sales
		Net Profit	Decreased amount of Operating Loss	5%	(R267mil)	(R133mil) decrease in Operating Loss
Network Saleability	30%	Network Utilisation	Number of STM-1 equivalent sold	30%	1 484 STM-1	160 STM-1 Equivalent
Network Improvement	20%	Customer Enablement	Number of KM of fibre added to the Network	10%	14 392.14	100 km by 31 March 2016
			Oberholzer to Ramatlabama Link upgraded to DWDM	5%	–	Oberholzer to Ramatlabama Upgrade completed by end of Nov 2015
		Projects completed	Number of Projects on time, scope and cost	5%	–	5 Projects
Economic Transformation	20%	Controlled Training Spend	Training spend as percentage of payroll	3%	3%	1%
		Maximise Socioeconomic Contributions	Number of indirect jobs created	2%	182	60 jobs
			Allocation of B-BBEE budget discretionary spend	5%	117%	70%
			Percentage increase on Black-owned entities spend	2%	35%	40% spend of B-BBEE
			Percentage spend of Youth-owned entities	2%	8%	10% spend of 40% spend on BOE
			Percentage spend of Women-owned entities	2%	33%	10% spend of 40% spend on BOE
			Percentage increase spend on People with Disabilities-owned entities	2%	R518k	1%
		Enhance learning environment through the use of digital learning tools	Number of digital learning tools	2%	Interactive boards	60 tablets

	Q1 Actual results	Q2 Actual results	Q3 Actual results	Q4 Actual results	YTD	Status	Comments
	0.03%	0.10%	0.12%	0.13%	0.10%	Achieved	Service availability improved
	65%	32%	10%	4.2%	23.6%	Not Achieved	Delay in billing cycle and lower recovery from WACS
	98%	-6%	-53.30%	-45.9%	-17.6%	Achieved	Lower fibre maintenance costs and renegotiated contracts
	(R47.8 million)	(R29.1 million)	(R41.4 million)	R26.9 million	(R91.4 million)	Achieved	Lower employee, marketing and admin costs due to natural attrition and cost containment
	341.27 STM-1 Equivalent	74.45	80 STM-1 Equivalent	1.55 STM-1 Equivalent	497 STM-1 Equivalent	Achieved	
	202.60 km	182.50 km	15.49 km	19.46 km	420.05 km	Achieved	Route optimisation and Customer 1 connectivity
	In Progress	In Progress	Upgrade successfully completed	Upgrade successfully completed	Upgrade successfully completed	Achieved	
	In Progress	In Progress	In Progress	6 Projects completed	6 Projects completed	Achieved	
	0.10%	0.47%	0.76%	1.24%	1.33%	Achieved	Training was in accordance with the Workplace Skills Planning (WSP)
	40	47	412	187	686	Achieved	Agreement with service providers to create jobs
	111%	106%	117%	121%	114%	Achieved	Orders were placed with level 1 and 3 suppliers
	34.10%	47.0%	69%	70.70%	54.1%	Achieved	Implementation of the Enterprise development plan
	2.1%	8.3%	13.6%	15.4%	10.7%	Achieved	Youth participation is increasing
	48.1%	51.7%	42.2%	43.1%	44.5%	Achieved	Women participation in the sector is increasing
	0%	0%	0.00%	1%	0.1%	Not achieved	The certificate for disability verified that the service provider was only 35%
	In Progress	DFA sponsorship letter for R50 000 has been received.	60 tablets	60 tablets	60 tablets procured and delivered	Achieved	Partnership with service providers

8. STRETCH TARGETS BY SHAREHOLDERS

Strategic Objective	Weighting	KPA	KPI	Sub-weighting	Baseline	2015/16 Stretch Target
Ensure Business Sustainability	70%	Revenue	Percentage increase of actual revenue	15%	R364mil	32% increase in Revenue
		Cost of Sales	Percentage decrease of cost of sales excluding depreciation	20%	R444mil	12% decrease of Cost of Sales
		Debtors Collection*	Number of days per outstanding customer invoices	5%	-	45 days
		Unallocated Creditors*	Number of days for unallocated creditors	5%	-	Unallocated creditors less than 1 week
Network Saleability	10%	Network Utilisation	Number of STM-1 equivalent sold	10%	1 484 STM-1	668 STM-1 Equivalent
Network Improvement	10%	Customer Enablement	Number of km of fibre added to the Network	5%	14 392.14	250 km by 31 March 2016
		Points of Presence (PoP) optimisation	Number of PoPs optimised to facilitate customer connection points	2.50%	–	41 PoPs optimised

*Debtors collection and unallocated creditors were new Key Performance Areas (KPAs).

Broadband Infraco

	Q1 Actual results	Q2 Actual results	Q3 Actual results	Q4 Actual results	YTD	Status	Comments
	65%	32%	10%	4.2%	23.6%	Not Achieved	Delay in billing cycle and lower recovery from WACS
	98%	-6%	-53.30%	-45.9%	-17.6%	Achieved	Lower fibre maintenance costs and renegotiated contracts
	43 days	27 days	46 days	26 days	26 days	Achieved	Improvement in collection
	Allocated within a week	Allocated within a week	Allocated within a week	Allocated within a week	Allocated within a week	Achieved	
	341.27 STM-1 Equivalent	74.45	80 STM-1 Equivalent	1.55 STM-1 Equivalent	497 STM-1 Equivalent	Not Achieved	Increase of targets based on customer upgrades
	202.60 km	182.50 km	15.49 km	19.46 km	420.05 km	Achieved	Route optimisation and Customer 1 connectivity
	In Progress	In Progress	24 PoPs optimised	9 PoPs optimised	33 PoPs optimised	Not Achieved	Optimisation is linked to customer connectivity that will be concluded in the new financial year

9. TECHNICAL ENVIRONMENT

Operational Review

1. Network Improvements

In the period under review, Broadband Infraco achieved numerous successes. Many projects that were in inception phase have now been completed, allowing much required autonomy and cost-saving. Similarly, many customer services have been built and provisioned. Notable among the achievements are the following highlights:

- Finalisation of the MTS project together with the completion of the core network optimisation projects, which have increased the total network capacity by more than 100% in some instances.
- The completion and migration of services from some third-party closed PoPs, thus allowing major cost of sales savings and network autonomy.
- The completion of the Oberholzer to Ramatlabama link DWDM upgrade, allowing more services to be provided to neighbouring Botswana. This improves the Broadband Infraco mandate to improve regional connectivity.
- The successful implementation and timely provisioning of major customer services to a major mobile network operator.
- The building, installation and provisioning of services as part of the first and second phases of the project for Customer 1.
- Successful relocation of Broadband Infraco equipment from Transnet Freight Rail sites, which contributes to better network maintainability and improves restoration times thus improving overall network performance.
- A quality system programme has been initiated for implementation, with a goal of reaching ISO 9001 accreditation in the next two (2) years.
- LTIFR – The lost-time injury frequency rate has dropped to zero since January 2016.

2. Network Engineering Projects

Laboratory: From the test and training laboratory that was successfully established in the previous financial year, Broadband Infraco has managed to run and successfully complete all DWDM and Synchronous Digital Hierarchy (SDH)interoperability tests with third-party suppliers in preparation for diversifying suppliers on the network.

Route optimisation: After the successful completion of the latest DWDM equipment, both the new DWDM and the old SDH equipment were running in parallel. This resulted in double consumption of power and space, thus increasing the monthly operational costs. The organisation then embarked on network optimisation to eliminate the existence of the parallel SDH and DWDM links for the major affected routes. This optimisation was completed and thus resulted in a more efficient network. The optimisation is continuing for routes that are outstanding.

Core network (MTS) upgrade: During the financial year, the MTS upgrade project and associated sub-projects (core network upgrades and optimisation), were all completed. There was a significant addition of capacity on the network due to these upgrades. As a result, Broadband Infraco is now providing services requiring significant capacity for new and existing customers.

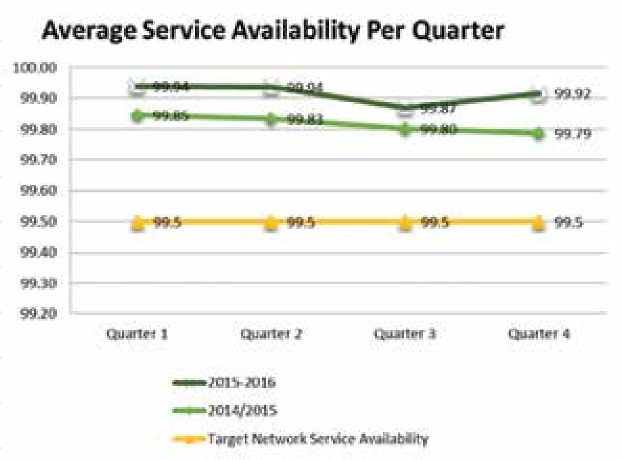
Other customer projects: The projects to complete the redundancy links for other customers are ongoing and at various stages of progress. These are summarised as follows:

- Wuthering Heights: Fibre build is in progress.
- Witbank: The protection fibre for Witbank has been constructed, tested and accepted and the protection services are now running.
- Ramatlabama Project: The project to upgrade network capacity on the border with Botswana was completed in time.

3. Network operations

3.1 Network Availability Trend

The performance of the network is measured through the service availability for customers. This is a measurement of the actual time that customer services are available (up and running). In 2015/16 the averaged Broadband Infraco network service availability was 99.92%, which is higher than the contracted SLA at 99.50%. This is as a result of some of the network failures occurring where there were redundant links, thus protecting the services and improving the uptime for customer services. The graph below shows this performance in comparison to the previous year's performance, and also in comparison to the contracted SLA.



3.2 Mean Time To Restore (MTTR)

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

The MTTR over the past financial year remained acceptable within the target of eight (08:00) hours. The actual average value was about six (06:10) hours.

3.3 Network Information

Broadband Infraco has 157 PoP sites and 14 661 km of fibre (overhead and underground). The basic network layout is shown on the map (page 7).

Broadband Infraco National Network

3.4 Focus Areas

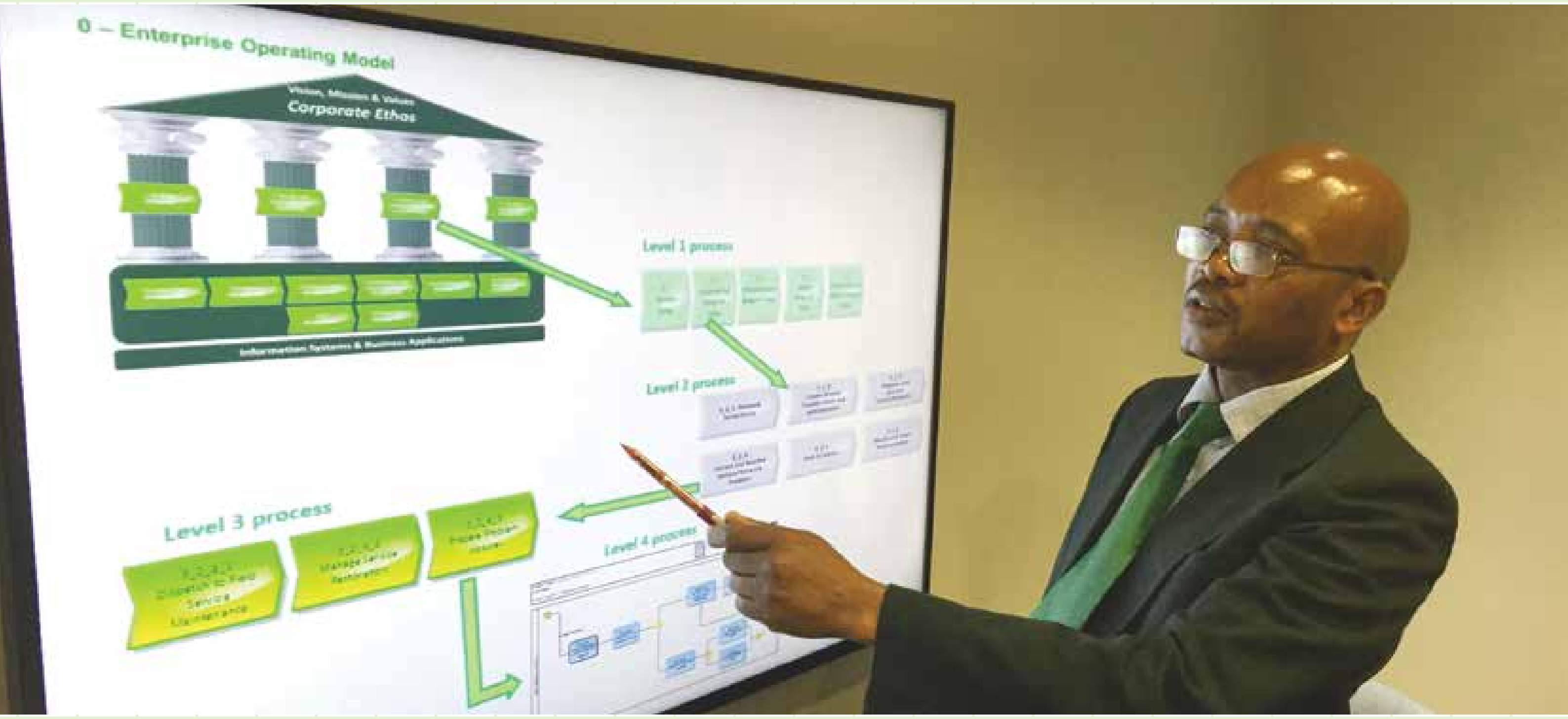
The following areas will be targeted for operational improvements:

a. Obsolete network technology: Whereas recent successful network upgrades have resulted in more than 75% of the active network being revamped, there are still outstanding elements in the network that will need to be refurbished or upgraded. In addition, the Adlash fibre will need to be upgraded in conjunction with Eskom's refurbishment plans.

b. Information Technology network: Disaster recovery plans have been completed and most of them have been implemented already.

SECTION 1

10. BUSINESS DEVELOPMENT



Broadband Infraco's business development successes for the year under review are as follows:

- Achieving double-digit year-on-year revenue growth of a 24% increase (year ended 31 March 2016 amounts to R452 million; previous year of R366 million) in an industry that reflects single-digit year-on-year revenue growths.
- Continuing to diversify its customer base by increasing its number of customers from 18 in the previous year to 23 in the year under review.
- Growing its cumulative year-on-year STM-1 equivalent growth from 1 506 STM-1 Equivalent in the last year, by 497 STM-1 Equivalent during the year under review, bringing it to a total annual increase of 2 003 STM-1 Equivalent for the year.
- Cementing its long-term partnership in terms of being a core provider to public sector connectivity demand.
- Consolidating its position as a provider of all primary end-to-end links for a leading Mobile Network operator.
- Significantly increasing its share of revenue from South Africa's biggest mobile network operator revenue through a long-term, multiple-link transaction.
- Continuously attracting the emerging ISPs utilising efficient IP-based services.

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

- Broadband Infraco provides carrier-grade service availability to all its customers that far exceeds the contracted SLA of its customers.
- Each customer is allocated a full-time, dedicated human resource as a first and comprehensive point of entry to their specific needs.
- Broadband Infraco's decision-making is agile, and its structures are flat, which allows for expedited conclusion of governance processes to enable the highest levels of service to customers.
- Broadband Infraco sees its customers as long-term partners contributing towards making connectivity in South Africa, a ubiquitous, affordable necessity. This has allowed the Company to cross-sell and up-sell significant services to its existing base.
- Broadband Infraco deploys highly trained staff on the ground in all provinces to conduct both restorative and preventative maintenance to its national long-distance network.
- Broadband Infraco's products and services are competitively priced and reflect objective value for money.
- The Company is led by experienced industry veterans whose main drive is to deliver a world-class customer experience to the market.

Broadband Infraco had received an overwhelmingly positive Customer Satisfaction Survey in its 2014/15 independent Customer Satisfaction Survey. This has continued through direct customer feedback during the last year with regard to the responsiveness of its Network Operations Centre, dedication of its staff, competitive pricing and ease of transaction with the market.

The major contributors of its revenue outcomes are:

Customer 1

Broadband Infraco has been able to grow its slice of revenue from customer 1 through nearly doubling its capacity from the time of inception and end of the financial year. This enables customer 1 to in turn deliver a protected, always-available, end-user experience to its portfolio of critical service delivery connectivity.

Customer 2

Broadband Infraco continues to supply all primary connectivity links to customer 2's terrestrial network across all regions of operations. The Company also provides colocation services to customer 2 on a long-term basis.

Customer 3

Broadband Infraco continues to provide critical backhaul services enabling customer 3 to conduct business within the SA telecommunications value chain. Broadband Infraco enables customer 3 to deliver services at wholesale, retail and enterprise level providing critical services to the economy of the country.

Customer 10

Broadband Infraco has intensified its strategic partnership with customer 10 due to its consistent delivery of an impeccable track record of high-quality of redundant, zero-disrupted experience. Broadband Infraco is the only provider of end-to-end gig-E services to critical regional and in-country nodes to customer 10.

Customer 18

Broadband Infraco grew its volume of business from customer 18 significantly within the past year, due to customer 18's exponential market growth. This partnership is likely to continue generating more opportunities for both operators in the forthcoming year.

Emerging ISPs

Broadband Infraco has experienced a significant growth from the small to medium Internet Service Providers (ISPs). The Company has managed to conclude contracts with several new Internet Service Providers who operate in markets overlooked by the bigger operators. Broadband Infraco's competitive DWDM/IP product portfolio is the cornerstone of such growth as the nature of the products is such that the revenues initiated start steady and become significant over time.

Broadband Infraco remains the only state-owned company created by an Act of Parliament solely for the purpose of rolling-out strategic broadband infrastructure and enabling national development. Broadband Infraco looks forward to a long-term strategic partnership with one of the country's leading national mobile network operators driving national broadband penetration.

Pricing

In addressing the prevailing market conditions such as customers' expectations for better pricing, heightened competition in the backhaul market space and ensuring increased market share and the Company's sustainability, the Company embarked on a comprehensive costing and pricing review exercise. This review exercise resulted in a unit price that is profitable and competitive as well as a pricing model that will go a long way in ensuring the sustainability of the Company. This is one of the greatest milestones achieved in the period under review as it places the Company onto a firm path of sustainable yet responsible market trade.

Product Development

The Company has successfully launched the colocation service (hosting space and mast) in response to growing customer demands and also to intensify the "one-stop shop" for backhaul connectivity. In total, 17% of the customer base is already utilising these colocation services.

Broadband Infraco also launched the "NOC as a Service" (Phase 1 - Disaster Recovery NOC) in March 2016. Broadband Infraco is currently using its NOC for its own customers, connected to its network. This concept sees an opportunity to extend these NOC services to other operators who may require them. This has potential to stimulate the Company's revenue without any additional capital investment.

11. STAKEHOLDER ENGAGEMENTS

Stakeholder management entails proactively engaging our stakeholders to understand their expressed and unexpressed needs.

Building the brand through high-visibility stakeholder engagements

Provincial Youth, Career and Small, Medium Enterprise Development Events

Broadband Infraco participates in Ministerial, Provincial, Municipal and other Stakeholder events on a regular basis. The Company participated in the following priority events during the period under review:

Date	Event	Area	Broadband Infraco Purpose
DTPS Launch of ICT Youth and Disability in Mpumalanga	3 - 5 February 2015	Ngwenyama Lodge, White River Mpumalanga	To disseminate corporate information about Broadband Infraco's products and services and opportunities for young entrepreneurs and ICT career advocacy.
Deputy President Youth Indaba	20 February 2015	University of Johannesburg Soweto Campus	To disseminate corporate information about Broadband Infraco's products and services and opportunities for young entrepreneurs and ICT career advocacy.
Jozini Youth Summit and Career Expo	14/15 November 2015	Jozini Local Municipality	Presentation about Broadband Infraco; Career advise to youth.
Wi-Fi Roll-Out Launch	19 February 2016	Potchefstroom Taxi Rank, Tlokwe	To disseminate corporate information about Broadband Infraco's products and services and position it as a backhaul provider of choice to Wi-Fi connectivity.

These events are often initiated at the level of the President; Deputy President; Minister of Telecommunications and Postal Services and his Deputy, and in partnership with key provincial and municipal partners. Career exhibitions in rural areas, such as Jozini assist with direct empowerment opportunities and knowledge transfer and are an advocacy platform for ICT careers.

Co-creation of the Limpopo Provincial broadband strategy

Planning engagements between Broadband Infraco and the Limpopo Department of Economic Development, Environment and Tourism (LEDET) continued during the period under review. The draft Limpopo Provincial Broadband plan positions Broadband Infraco as the backhaul provider of choice to the province. The Company has conducted extensive detailed network feasibility and design work and has provided such information to LEDET. The Limpopo Provincial Broadband feasibility study is still to be approved and finalised in the 2016/17 financial year.

LEDET has also been supportive of Broadband Infraco CSI initiatives in the province, e.g. the Seshigo High School computer lab launch, and the tablet sponsorship launch.

Broadband Infraco continues to interact with all other provinces to various degrees of detail in terms of being ready and capable of providing for their connectivity needs given the extensive national and international footprint of the Company.

Broadband Infraco's positive brand-building events

Objectives:

- To increase brand awareness with existing and potential customers.
- To differentiate Broadband Infraco from competitors; this encourages customers to feel positive about their association with Broadband Infraco and continue to consume more.
- To increase brand loyalty to Broadband Infraco's products.

Strategies:

- Sponsor and participate in industry-related events.
- Partner with other SOCs in support of shareholders' initiatives.
- Advertise in targeted niche media platforms, which distributes to public and ICT sectors.

Highlights during the year under review:

- **Broadband Infraco AfriCom 2015, at Cape Town ICC**

  AfriCom is the biggest and best technology event in Africa that gathers senior decision-makers from the entire digital ecosystem. Broadband Infraco acquired brand visibility for this event to connect with major existing and prospective customers. AfriCom is the perfect platform for face-to-face meetings with senior-level buyers and influencers from the region's operators. Broadband Infraco procured a branded meeting room at the conference. The Company's Key Accounts Managers succeeded in meeting with existing and potential customers in a professional environment to position Broadband Infraco's brand and showcase its products and services among the leaders of the African Telecoms, Media, and ICT and Broadcast Industry.

- **Broadband Infraco at GovTech 2015**

  Govtech is the premium ICT platform for thought leaders and their associated innovations in the ongoing quest to find practical and progressive solutions to a developing nation using ICT tools.

  Broadband Infraco, as part of the sponsors for the event, was afforded an opportunity to erect a full colour 3X3 exhibition stand. The exhibition area was used as a platform to display Company information, host meetings with existing and potential customers and increase brand awareness levels.

  The positive aspect of the stand is that Broadband Infraco sends people with different skills to the event, which helps to address different enquiries from the people visiting the stand. Among people who visited Broadband Infraco's stand were the Minister of Telecommunications and Postal Services; Chairperson of the Portfolio Committee, Ms Mmamoloko Kubayi and the Deputy Minister, Professor Hlengiwe Mkhize. SITA launched the ICT Awards at the 2015 conference with seven (7) categories. Broadband Infraco CEO, Ms Puleng Kwele was the second runner-up in the Women in ICT category.

- **I-Week 2015**

  iWeek is South Africa's leading Internet industry conference, held annually since 2001. iWeek brings together all of South Africa's major Internet organisations for a series of presentations, panel discussions, workshops, training sessions and social events. The iWeek co-hosts are:

  - Internet Service Providers' Association (ISPA)
  - Internet Exchange – South Africa (INX-ZA)

In addition, a number of partners are supporting iWeek 2016 by facilitating content or hosting events, including AFRINIC , FID/IDEA, FPB, ISOC-Gauteng, ISOC-ZA, WAPA, Wi-Fi Forum SA, ZACR and ZADNA.

Broadband Infraco was proud to have brand visibility at this event.

12. CORPORATE SOCIAL INVESTMENT

Broadband Infraco's Corporate Social Investment (CSI) Programmes include the following:

- Youth skills development programme:
  - Internships .
  - 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 businesses as suppliers in the Broadband Infraco supply chain as stipulated in 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 do the following:

- Adopt schools for a period of three (3) years in order to be able to monitor progress at the schools.
- Take qualifying students through a leadership programme.
- Conduct needs analyses with schools and provide the basic needs for the schools to run effectively.
- Recruit women and youth companies to our database by hosting "Basadi in Telecommunications" events.

Highlights during the year under review:

The Company enlisted the support of partnerships within the private and public companies to acquire and donate 60 tablets to Seshigo High School as its third instalment in its ongoing CSI supporting programme in contributing to maths and science skill capacitation in the nation. The tablets, donated to benefit mainly the matric learners at the school and loaded with an online content application, named 2Enable, were delivered to ensure that the tools are a teaching aid that will complement the work of the teachers, while simultaneously providing an audio-visual learning opportunity for the learners.

The 2Enable application boasts the following features:

- Diagnostic self-assessments
- Courseware
- Course support
- SACE CPTD tracking
- Analytics and reporting
- Communication and training calendar

Learning circles/user groups

Administration

The tablets were also delivered with the following value-added services at no cost from the service provider:

- Sim cards with 200MB of data for 12 months.
- WiFi data access for two (2) years.
- Monitoring and evaluation implementation programme.

Broadband Infraco prides itself in the remarkable manner in which it has sustained a mutually beneficial relationship with Seshigo High School, with the continued intention to positively support and leverage the use of ICT in teaching, learning and development. The Company will continue to deliver annual contributions to strengthening this multi-partner (provincial departments; private companies; local community) partnership established over years.

The tablets that were delivered during the period under review were a culmination of other deliverables that had been made to the school in the past, which included the following:

- The introduction of interactive teaching and learning aids, opening a new avenue in the classroom environment.
- Portable, compact, durable teaching tools (interactive whiteboards) were also acquired and supplied to the schools, offering new levels of curriculum access, interactivity and proficiency, thereby stimulating learner participation and improving results.
- A partnership with Transnet, which culminated in the building and completion of a 35-seater computer laboratory. The laboratory is equipped with desktop computers and a projector screen to enable learners to also use it as an additional venue for Telematics (long-distance learning) offered by Stellenbosch University.
- The provision of scientific calculators has also gone a long way in ensuring that lessons are practical and interesting for both teachers and learners. The calculators are for the use of the school and not individual learners, thus guaranteeing a longer shelf life and use by a greater number of learners.
- Building and renovation of 43 toilets for able-bodied and disabled learners at Seshigo High School, ensuring that learners in South Africa, regardless of race and class, will be able to learn in environments with adequate infrastructure.

13. GOVERNANCE

Our Governance

It is important to note upfront that Broadband Infraco is fully committed to good corporate governance and the ethical principles of fairness, accountability, transparency and responsibility.

During the period under review, Broadband Infraco continued to evolve its governance structures and practices to make sure that we achieve our vision to deliver to our customers effectively, efficiently and transparently. We established new operational committees accountable to the Executive Committee to enhance our compliance and strategic deliverables, which are aligned to governance practices.

The Board of Directors' responsibility is to ensure that the Company practises good corporate governance, is sustainable and delivers on its corporate obligations and legislative requirements. Broadband Infraco's systems of solid and sound corporate governance principles are continually evolving as it strives for best practice amidst the developing needs and expectations of stakeholders.

The Company is a proudly South African State-Owned Company (SOC) and our governance, risk and compliance initiatives are driven by more than minimum requirements, but rather a firm belief that our licence to operate depends on being responsible corporate citizens. As such, we take decisions that enable our strategy and objectives, ensure our profitability and performance, and consider our risks, while striving to meet the legitimate interests and expectations of our stakeholders through actions that are socially and environmentally responsible.

Balancing these imperatives and ensuring a well-governed and ethical organisation is one of the Chief Executive Officer's key performance areas. This ensures that governance is aligned with the King III principles.

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

Board Structure

Broadband Infraco's Board of Directors is responsible for corporate governance and strategic direction of the Company and monitoring the Company's progress against the business strategy. The Board also drives the Company's goal to be a good corporate citizen and is assisted by the Executive Committee (Exco).

Board members have a diverse profile that includes telecommunications industry experts, business management, sciences, engineering, law, finance, auditing, project and corporate finance, enterprise risk management and accounting skills and expertise. The majority of the Board is made up of independent Non-Executive Directors who bring independence and provide a 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.

The Company's strategic direction is guided by a unitary Board (ie, a single Board with both Executive and Non-Executive Directors). The Chairperson and Chief Executive are independent of each other and not the same person.

The Profiles of the Board of Directors are reflected on page 9.

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 are achieved. The Board approves the Company's strategy, reviews Company performance, approves interim and Annual Financial Statements, determines internal treasury policies, risk management policies and approves major investments or disinvestments, amongst others.

Non-Executive Directors are provided with sufficient information timeously 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.

Application of King III

During 2015, Broadband Infraco continued to evolve its governance structures and practices to ensure we achieve our vision to deliver on our strategy and to our customers effectively, efficiently and transparently. The application of and adherence to the King III principles continue to be a key focus. In 2015, the Compliance Department reviewed the Company's application of the King III principles and was satisfied that it had substantially applied the King III principles.

Broadband Infraco is committed to applying the principles and practices in the King report on governance for South Africa 2009 (King III). The Compliance Office assesses the application of King III on a quarterly basis and provides reports to the Audit and Risk Committee for consideration.

Broadband Infraco believes it 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, and all relevant aspects of the Companies Act (Act 71 of 2008). The Company is committed to continue the process of integrating our reporting to stakeholders in a more meaningful and transparent way.

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.

Shareholders and Board of Directors

Broadband Infraco has two (2) shareholders namely; the DTPS and the IDC of South Africa. The Company reports to the Minister of Telecommunications and Postal Services as the "Executive Authority" (in terms of the PFMA) and the Shareholder Representative on behalf of the Government of the Republic of South Africa and also reports to the IDC Shareholder Representative.

Changes in Board Composition

During the period under review, there were no changes to the Non-Executive director appointments on the Board.

Cabinet approved the appointment of the new Chief Financial Officer of the Company, Mr Ian van Niekerk on 26 August 2015, and he commenced his duties and responsibilities on 15 September 2015. Mr van Niekerk was appointed as an Executive Director of the Board on 23 March 2016.

Director Induction

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

Meetings of the Non-Executive Directors

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.

Where a need arises, Non-Executive Directors meet and communicate independently via in-committee sessions, without Executive Directors present. Additional meetings are convened should any matter arise that requires consideration by the Board outside of scheduled meetings. The Chairman and CEO engage monthly or more often, as and when required, to discuss strategic and operational matters pertaining to the Company.

13. GOVERNANCE CONTINUED

Corporate Governance Framework

One of the essential components is the emphasis on the clarity of roles between the Board, shareholders and management.

Broadband Infraco's governance framework regulates the relationship between the shareholders, the Board and management, and includes the following:

- **Memorandum and Articles of Association**, which set out certain powers of the shareholders and the Board. Broadband Infraco's Memorandum of Incorporation (MoI) as required in terms of the Companies Act 71 of 2008, is in the process of being finalised between the Shareholders.
- **A strategic intent statement**, which sets out the agreed mandate and strategy for Broadband Infraco.
- **The Corporate Plan**, which forms the basis of Broadband Infraco's operations and outlines the Company's purpose, values and strategic objectives.
- **A Shareholders' Compact**, which sets out the objectives and annual key performance indicators and targets in support of the strategy. To the extent necessary, the shareholders' compact seeks to clarify the objectives of the Company.
- **Codes of good governance** such as King III and the Protocol on Corporate Governance in the Public Sector. Broadband Infraco has endeavoured to apply the King III principles and practices.
- **Relevant legislation**, including the Companies Act, the Public Finance Management Act (PFMA), National Treasury Regulations, Broadband Infraco Act, and Independent Communications Authority of South Africa (ICASA) Regulations.
- **Significance and Materiality Framework (SMF)**, which sets out the requirements regarding matters needing approval. The SMF also sets out the financial thresholds and approvals limits of the Board, subcommittees and Executive Directors and indicates when Executive Authority approval is required for procuring services and goods as per the PFMA.

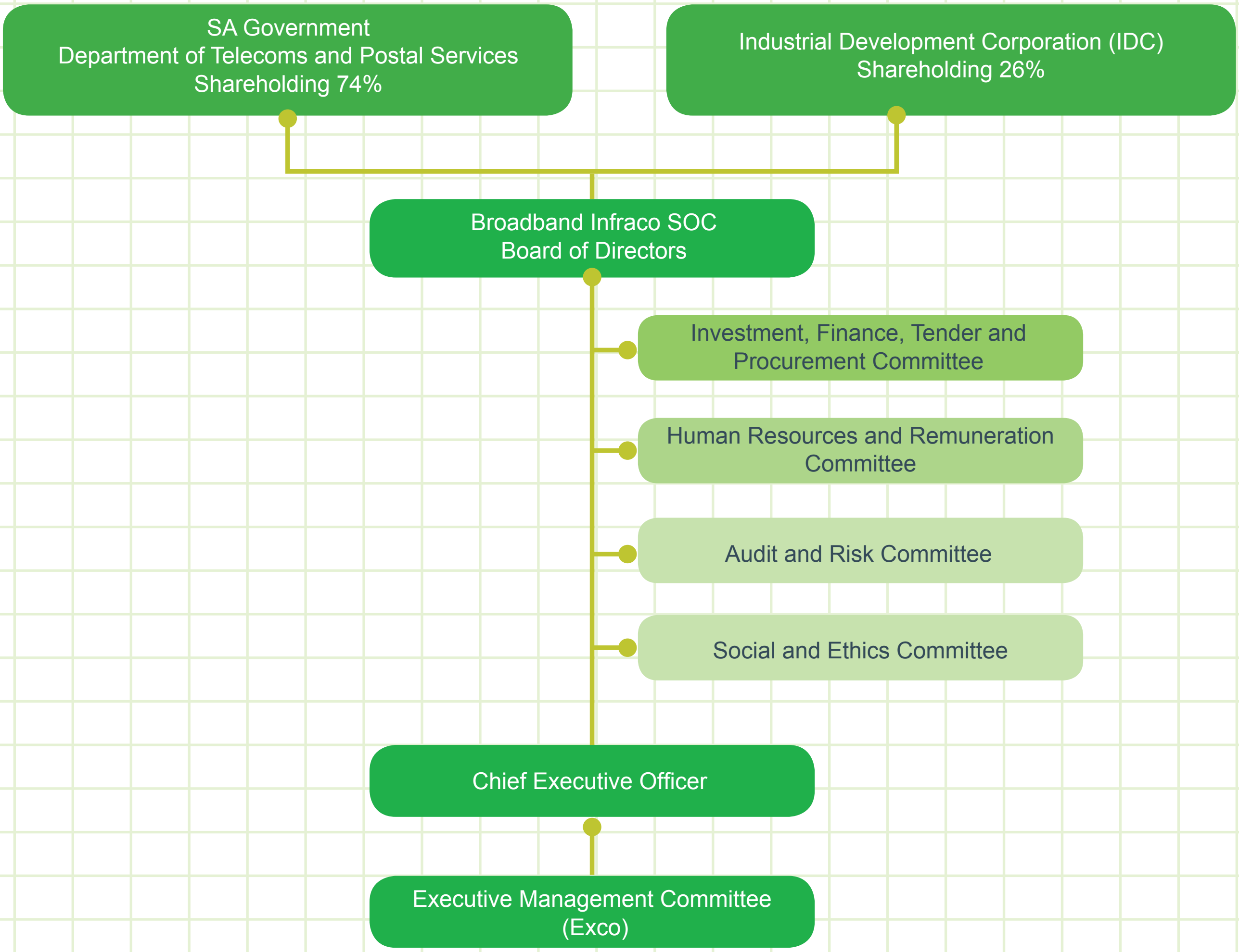
Relevant Policies and Procedures

- **Delegation of Authority Framework**, which delegates power and authority from the Board to committees and employees. The delegation of authority framework was approved by the Board and is being implemented.
- **Policy Approval Framework**, which sets out the Responsible, Accountable, Consulted and Informed (RACI) matrix for which policies need approval at which level, i.e. approval by the Board, committees or at Executive level.
- **Stakeholder Management Framework**, which sets out how employees engage interdepartmentally, with industry, non-profit organisations, community groups, stakeholders and shareholders. This is important as it allows for Broadband Infraco to operate in a way that optimises both interaction with government and the implementation of policy.

Committees

The Board's effectiveness is improved by the use of Board subcommittees, to which it delegates authority without diluting its own accountability. Board committees consist of a majority of independent Non-Executive Directors who exercise their authority in accordance with approved terms of reference, which are reviewed annually. These terms of reference define each committee's composition, role, responsibilities and authority, and are aligned with regulatory requirements and best-governance practices. The Board provides the strategic direction, while the Chief Executive, who is assisted by the Executive Committee, is accountable to the Board for implementing the strategy.

The diagram below sets out Broadband Infraco's key governance structures:



Internal Controls Including Security and Combined Assurance

Internal controls

The Board, through the Audit and Risk Committee, ensures that internal controls are effective and adequately reported on for auditing and regulatory purposes. In line with King III, Broadband Infraco applies a combined assurance model to give the audit and risk committee an overview of significant risks, as well as the effectiveness of critical controls to mitigate these risks. The principles for the combined assurance model are embedded in the Combined Assurance Framework. Broadband Infraco's internal audit function is managed by Executive: Compliance, Risk and Audit, who reports directly to the Audit and Risk Committee Chairperson.

Combined assurance

Combined assurance assists management in identifying duplication of assurance work, any potential assurance shortfall and improvement plans for those areas identified. It also helps focus assurance providers to better achieve consensus on the key risks the Company faces and reduces the risk of failing to identify significant risks.

Compliance with Laws, Rules, Codes and Standards

The Board ensures that Broadband Infraco complies with applicable laws and considers adherence to non-binding rules, codes and standards. As such, the Board has taken the necessary steps to approve all identified laws, rules, codes and standards applicable to the Company, by adopting the Company's Compliance/Regulatory universe

13. GOVERNANCE CONTINUED

and align it to the Corporate Compliance Plan. The Board has ensured that the Company has a Compliance Policy Framework and processes in place. Management has ensured that the approved compliance policy and framework are embedded Company-wide.

Compliance is then achieved through integration with business/organisational policies, processes, ethics and culture. A delegated compliance function is in place and ensures that the Company is in compliance with applicable laws, rules, codes and standards as well as included as a regular item on the agenda of the Audit and Risk Committee.

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. Dates for Board meetings are set and approved by the Board in the final quarter of the financial year for the following year.

During the period under review, the Board convened ten (10) meetings. Five (5) meetings were 'ordinary' meetings as scheduled and the remaining five (5) meetings were 'special' meetings convened to discuss issues of critical importance to the business and shareholders alike.

The members' attendance at meetings is reflected in the table below:

No.	1	2	3	4	5	6	7	8	9	10	
Meeting Date Name of Director	14.04.15	26.05.15	29.06.15	10.07.15	15.09.15	26.10.15	18.12.15	27.01.16	23.02.16	17.03.16	Total
BMC Ngcobo[1]	√	√	√	√	√	√	√	√	√	√	10/10
MM Maponya	√	√	A	√	A	A	√	A	√	A	5/10
ST Mabalayo	√	√	√	√	√	√	√	A	√	√	9/10
N Selamolela	√	√	A	A	√	√	√	√	√	A	7/10
A Githiari	A	√	√	√	√	√	A	A	A	A	5/10
M Mosweu	√	A	A	√	A	√	√	√	√	√	7/10
P Kwele	√	√	√	√	√	√	√	√	√	√	10/10
Il van Niekerk*	–	–	–	–	–	√	√	√	√	√	5/5
T Pama (Acting CFO)**	√	√	√	√	–	–	–	–	–	–	4/4

Note: **Ms T Pama (Acting CFO) resigned from the Company and *Mr Ian van Niekerk was appointed and commenced his duties on 15 September 2015 and was appointed as an Executive Director of the Board on 23 March 2016.

[1] Chairperson of the Board **√** Attendance **A** Absent with apology

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 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 form, 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 consultation with the Shareholders and due to the challenges experienced by the Company in the 2015/16 financial year, it was agreed that an evaluation of the Board's Performance will be conducted every three (3) years to coincide with directors' appointments for a period of three (3) years.

Structure and 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, Finance, 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 chairs of the various committees are required to attend the annual general meeting to answer 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.

Executive Management Structures

The Board has delegated specific authorities to the CEO to ensure the effective day-to-day management of the Company. The CEO has established an Executive 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 Committee comprises the following members:

Puleng Kwele – Chief Executive Officer, Committee Chairman
Ian van Niekerk – Chief Financial Officer
Gift Zowa – Chief Technical Officer
Sammy Mafu – Chief Sales and Marketing Officer
Montseng Mopeli – Executive: Human Resources
Mike Mojapelo – Executive: Compliance, Risk and Audit

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

- The responsibility for day-to-day management of the Company and its divisions that report directly to the CEO.
- 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.
- Providing assurance to the CEO that the business strategy set by the Board is operating effectively.

The Executive Committee meets on a weekly basis. Additional ad hoc meetings are convened as and when necessary.

The Executive Committee has also established the Exco Procurement Subcommittee, Pricing Committee, Product Development Committee, and most recently the IT Oversight Committee. These committees convene on an ongoing basis and make approvals within their delegated powers limited as per their terms of references, or make recommendations to Exco for approval.

Reporting Controls

The Company has comprehensive monthly financial accounting and reporting routines for its operating divisions. Management of cash, banking relationships, human capital and property-related matters are centralised. Formal meetings are attended by the Executives to review performance, commercial and strategic issues. The Executive Committee also monitors the internal audit reports.

Board Committees and Attendance Reports

The committees or members are appointed by the Board of Directors to ensure that effective and efficient corporate governance precepts are fulfilled. The Board of Directors of Broadband Infraco has delegated some of its responsibilities to the Board committees. Broadband Infraco consists of the following committees:

- Audit and Risk Committee,
- Human Resources and Remuneration Committee,
- Investment, Finance, Tender and Procurement Committee; and
- Social and Ethics Committee.

The committees' responsibilities are clearly set out in their terms of reference and the approved Delegation of Authority Policy.

13. GOVERNANCE CONTINUED

Audit and Risk Committee Attendance 2015/16

The Members' attendance is reflected in the table below:

No.	1	2	3	4	
Meeting date / Name of Director	25.05.15	28.07.15	07.10.15	24.02.16	Total
MM Maponya[1]	√	√	√	√	4/4
ST Mabalayo	√	√	√	√	4/4
N Selamolela	√	A	√	√	3/4
A Githiari	A	A	√	√	2/4
Executives					
P Kwele	√	A	√	√	3/4
II van Niekerk*	–	–	–	√	1/1
T Pama**	√	√	–	–	2/2

[1] Chairperson √ Attendance A Absent with apology

* Mr Ian van Niekerk (CFO) commenced his employment on 15 September 2015

**Ms T Pama (Acting CFO) resigned from the Company

Human Resources and Remunerations Committee Attendance 2015/16

As the chairperson of the Human Resources and Remuneration Committee (HRRC), it is my pleasure to submit the committee report for the 2015/16 financial year.

During the period under review, the HRRC comprised of three (3) Independent Non-Executive Directors: Mr S Mabalayo (Chairperson), Mr M Ngcobo, and Ms M Mosweu.

In line with good corporate governance precepts, the chairperson of HRRC rotated and Mr Sydney Mabalayo was appointed Chairperson of HRRC in 2015. The Chief Executive Officer and the Executive: Human Resources are invited to attend the meetings of the HRRC and are excused from the meetings if there are any matters of potential conflicts of interest.

The main objectives of the HRRC are to address human resources-related matters. The committee approves, guides and influences key Human Resources (HR) policies and strategies. It monitors compliance with the HR Policies, Labour Relations Act, Employment Equity Act and Basic Conditions of Employment Act, amongst others. The committee further guides strategies to achieve equity in Broadband Infraco. It is also approves the principles regarding the reward and incentive schemes.

The HRRC further fulfils the role of the Board Nominations Committee and makes recommendations to the Board on matters pertaining to appointments, removals, and resignations of Executive and Non-Executive Directors.

The Committee was actively involved in the identification and recommendation of the current CFO's appointment during the financial year.

The HRRC convened five (5) times during the period under review. Refer to meeting attendance table below:

No.	1	2	3	4	5	
Meeting date / Committee member	18.05.15	24.11.15	23.02.16	23.02.16 (In-Committee)	17.0318 (In-Committee)	Total
ST Mabalayo[1]	√	√	√	√	√	5/5
BMC Ngcobo	√	√	√	√	A	4/5
M Mosweu	√	√	√	√	√	5/5
Executives:						
P Kwele	√	√	√	√	√	5/5
M Mopeli	√	√	√	–	–	3/3

[1] Chairperson √ Attendance A Absent with apology

I am delighted to report that the committee together with management was able to achieve a number of the set key performance objectives.

Further to the above, the HRRC also achieved the following:

- Reviewed and considered the Optimisation of HR Capacity.
- Reviewed the HR Quarterly Status Updates from management.
- Reviewed and approved the Executive Management Structure.
- Considered and recommended the approval of the appointment of the Chief Marketing and Sales Officer (CMSO).
- Reviewed and recommended the approval of the Executive Remuneration and Rewards Policy by the Board of Directors.
- Reviewed and revised the Company's Organisational Structure (Executive Management) in order to ensure capacity optimisation.
- Considered the Employment Equity Report for 2015/16.
- Approved the Reward and Recognition Policy.
- Approved the employee Cost of Living Adjustment 2016/17.
- Reviewed the HR Policies dashboard and noted the HR Compliance Analysis.
- Considered and made recommendations on managements relationship with the Communications Workers Union (CWU).
- Considered the employee Performance Management for the 2015/16 Financial Year.
- Considered and reviewed Human Resource Development (HRD) within the organisation.

- Actively participated and supported Management's drive for securing interns for the Company through the MICT SETA.
- Considered matters of Irregular, Fruitless and Wasteful Expenditure as recommended by the Audit and Risk Committee; and are in the process of finalising their reports.

It is my view, that the HRRC executed its roles and responsibilities as per its terms of reference as delegated to it by the Board of Directors in the best interest of the Company and its shareholders.

I would like to commend the HR Function and the Executive Management for their diligence in ensuring that the Company complies with legislation and for putting interventions in place to create a stable environment under difficult conditions.

Mr Sydney Mabalayo
Chairperson
Human Resources and Remuneration Committee

Investment, Finance, Tender and Procurement Committee Attendance 2015/16

Due to a freeze on new infrastructure spend in the 2015/16 financial year no IFTP Committee meeting was convened.

Social and Ethics Committee Report for the year 2015/16

The Social and Ethics Committee did not convene during the 2015/16 financial year.

Ethics

Broadband Infraco has adopted a Code of Ethics to ensure the Company operates, in all respects, as a good corporate citizen. The code requires Company employees to perform their duties in good faith, to be uncompromisingly honest in all their dealings with customers, suppliers, each other and all other stakeholders, thereby maintaining a reputation for integrity and responsible behaviour.

The Company continues to adopt a zero-tolerance approach to theft, fraud and offering or accepting bribes and/or favours.

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.

Compliance, Risk and Audit

Business Process Management (BPM)

The Business Process Management (BPM) function continuously engages business units to ensure that the Company's operational efficiency and effectiveness is achieved. This is done through facilitating the establishment of operational controls, and optimising end to end processes between critical interdependent business functions. It further engages in the Building Enterprise Effectiveness programme that ensures that legislative, mandatory policies and processes are formalised, standardised and embedded in the organisation. During the year under review, BPM has concentrated in the following areas:

- **Enhancing Enterprise Process Capability**

The Business Process Management (BPM) function has facilitated the development and approval of business processes identified within the Enterprise Operating Model. In the period under review, BPM managed to advance the completion and finalisation of outstanding business processes. It also facilitated the optimisation of approved business processes and compliance with applicable processes and policies. This has ensured that the Company has the ability to process its operational objectives within required time frames at optimised costs.

All the above interventions have resulted in significant improvement in operational controls. It has also enforced cross functional collaboration. The cross functional process meetings and workshops are focused on evaluating, monitoring and improving performance of business processess across the organisations.

Furthermore, BPM has identified ISO 9001 accreditation requirements, in parthership with the SHEQ team and has established an aproach to ensure that a quality management system is in place.

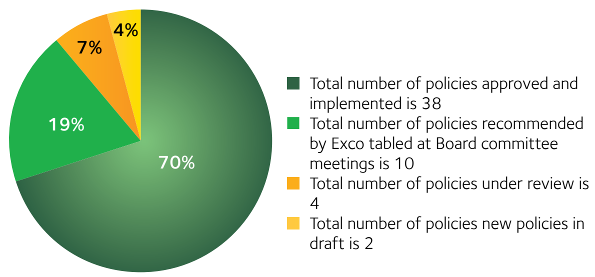
- **Institutionalisation of Policies and Procedures**

The enterprise-wide policy and operational frameworks register has been put in place in order to facilitate institutionalisation of policies and procedures, and to ensure there is compliance with applicable legislation and business requirements.

BPM has recorded a total number of 54 policies identified, 38 policies approved and implemented, ten (10) policies recommended by Exco to be tabled at Board committee, four (4) under review and two (2) new policies in draft.

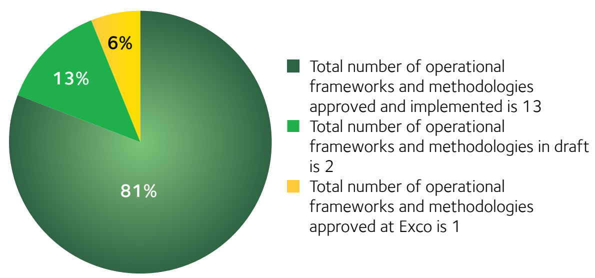
13. GOVERNANCE CONTINUED

Enterprise-wide Policy Register



BPM has recorded a total number of 16 operational frameworks and methodologies, 13 operational frameworks were approved and implemented, two (2) operational frameworks and methodologies are under review and in draft and one (1) operational framework and methodology approved at Exco.

Enterprise-wide Framework and Methodology Register



- **Establishment of Information Security Platform**

The Company established the Information Technology Oversight committee facilitated by the BPM department with the aim of ensuring that the Company information is secured. The objectives of the committee include amongst others: minimise operational risk, compliance with laws and regulations assurance of operational continuity, safeguarding the confidentiality, integrity and availability information.

Internal Controls including Security and Combined Assurance

Internal controls

The Company has established internal controls, which include all of the processes and procedures to help make sure that its assets are protected and that Company activities are conducted in accordance with the Company's policies and procedures.

To ensure effective internal control, an integrated assurance framework has been put in place to assist in structuring and evaluating controls that address a broad range of risks. The framework defines internal control as a process, effected by an entity's Board of Directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

Integrated Assurance

Broadband Infraco has adopted a principle of integrated assurance process that integrates risk and assurance arrangements and provides a platform from which to support governance and regulatory reporting such as Integrated Reporting. The Company has embedded integrated assurance as a process that leverages off the Company's enterprise risk management systems and the associated value drivers. As such, there is direct extension of the ERM arrangements into the sphere of assurance activity, optimising the cost and quality of assurance across all the lines of defence (Exco, Exco subcommittees; SHEQ; Risk, Compliance Department and Internal Audit) and cater for consolidating a conclusion based on the results of all the assurance providers across multiple assurance years.

The Integrated Assurance allowed Management and oversight structures such as the Audit and Risk Committee to focus on the business value of assurance activities, i.e. whether the control structures are adequate to mitigate risk exposures to acceptable levels.

Compliance with Laws, Rules, Codes and Standards

Compliance forms an integral component of the Broadband Infraco governance structures and the Company considers non-compliance with the legislative requirements as a key risk, as it not only exposes the Company to fines and civil claims, but can also result in the loss of operational licences and reputational harm. The Board ensures that Broadband Infraco complies with applicable laws and considers adherence to non-binding rules, codes and standards. As such, management has taken the necessary steps to identify all laws, rules, codes and standards applicable to the Company. The Board then approves the Company wide regulatory universe which is aligned to the corporate compliance plan.

The Board has ensured that the Company has a compliance framework and processes in place. Management has ensured that the approved compliance policy and framework are embedded company wide. The Company has established a formal Compliance Function that reports to Executive: Compliance, Risk and Audit. The Company's Compliance Policy is reviewed annually or updated as and when necessary. The Compliance Policy forms the foundation of the Company's Compliance Framework.

Internal Control Environment

The Board, management and other personnel took ownership and effected processes to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations.
2. Reliability of financial reporting.
3. Compliance with applicable laws and regulations.

The control environment developed ensured that the tone set, influenced the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

The control environment includes factors such as the integrity, ethical values, organisational culture, competence of people, management's philosophy and operating style, delegation of authority and responsibility, as well as the intention and direction provided by the Board.

Broadband Infraco complied with the Auditor-General Dashboard, using the following key control environment pillars:

- Leadership.
- Finance and performance management.
- Governance.

The Internal Audit Function provided quarterly assurance to management and the Board on the adequacy and effectiveness of these control pillars using the following assessment drivers:

- Financial.
- Performance.
- Compliance.

Progress reports were submitted to Exco and the Audit and Risk Committee on a quarterly basis. The overall control environment rating for Broadband Infraco was regarded as good.

Internal Audit

Broadband Infraco has an independent internal audit department, which has direct access to the Board's Chairperson and the Audit and Risk Committee. The department reports functionally to the Audit and Risk Committee and administratively to the CEO. The internal audit function has the necessary resources, budget, and standing authority within the Company to enable it to discharge its authority.

The internal audit function operated in accordance with a charter approved by the Audit and Risk Committee. The Internal Audit charter formally defines the purpose, authority and responsibility of the internal audit function. The charter is aligned with the Institute of Internal Auditors' principles and is reviewed annually by the Audit and Risk Committee.

The internal audit department operated in line with a Risk based internal audit plan discussed with management and approved by Audit and Risk Committee. The internal audit department forms an integral part of the combined assurance matrix and focuses on adding value to the operations of Broadband Infraco. It performs the following functions:

- Evaluates the appropriateness of and adherence to Company policies and procedures.
- Prevents fraud, unethical behaviour and irregularities.
- Produces quality management information.
- Ensures sound business processes and associated controls.

13. GOVERNANCE CONTINUED

The Manager: Internal Audit reports to the Executive: Compliance, Risk and Audit who attends all Audit and Risk Committee meetings and submits a report at each meeting.

Effectiveness and Adequacy of Internal Financial Controls

Internal Audit conducted a Critical Financial Reporting Controls review to test the adequacy and effectiveness of internal controls. The scope of the work covered the following key areas:

- Financial close process.
- Revenue and receivables.
- Procure to pay.
- Properties, plant and equipment.
- Payroll.

Internal Audit achieved 90% coverage for the period under review and completed all of the additional management requests, which formed part of consulting services. The planned audits were to test the adequacy and effectiveness of the system of internal control in order to manage and/or mitigate risk exposures.

Corrective action plans were recommended to management and agreed upon with Internal Audit in order to improve control weaknesses identified by Internal Audit.

Enterprise Risk Management

Broadband Infraco is committed to effective Enterprise-Wide Risk Management (ERM). ERM is an integrated approach that supports the alignment of strategy, processes, people and systems to allow the Broadband Infraco to identify, prioritise and efficiently manage risk.

The Company recognises that the management of business risk is crucial to continued growth and success and that ERM is central to the Broadband Infraco's business as a going concern. Broadband Infraco developed comprehensive systems and risk management processes to control and monitor all its activities. Whilst ultimate accountability for risk lies with the Board, risk is closely monitored by the ERM division and the relevant risk management committees.

The Company fuses an ERM framework to implement the risk management strategy across the organisation. This is a structured and disciplined approach to risk management that aims to effectively balance risk and control. Aligning strategy, processes, people, technology and knowledge enables Broadband Infraco to evaluate and manage the opportunities, threats and uncertainties that it faces.

The framework consists of policies, methodologies, governance and reporting structures based on ISO 31000, the Committee of Sponsoring Organisations (COSO) governance principles, the King III Code, and the PFMA.

The primary objectives of the framework are to:

- Protect the Company against possible losses;
- Provide early warning of adverse risk conditions;
- Integrate risk management at all levels of decision-making;
- Anticipate and mitigate risk events before they occur;
- Ensure earnings stability; and
- Optimise the use of capital.

Broadband Infraco maintains and continuously develops its formal risk policies and frameworks to help management address categories of risk associated with its risk appetite and business operations.

Risk-Management Approach

The ERM framework and policy were enhanced and approved by the Audit and Risk Committee.

The ERM division oversees the risk management processes. The internal auditors assist the Audit and Risk Committee in evaluating the effectiveness of the risk management processes. Broadband Infraco's risk management frameworks – including projects risk management, compliance, IT governance and enterprise risk management – are continuously reviewed to ensure they conform to international best practice. The Company applies a practical and systematic methodology to identify, analyse, assess, mitigate and monitor all known risks that might affect the operations. The strategic risk identified in the period under review are stated in page 41 (table).

Broadband Infraco is responsible for the risk management processes, assisted by the Audit and Risk Committee. Management is responsible for managing risk and designing and discharging appropriate processes in support of this function.

Risk Governance

The ERM framework and the risk appetite framework ensure that Broadband Infraco has a well-structured approach to risk management. Risks are identified, measured, monitored and responded to through various control mechanisms. The risk management process is designed to ensure that:

- All relevant risks are identified and evaluated, based on their potential impact and likelihood of occurrence.
- Risks and the required processes and controls to manage them are assessed in line with the Company's risk appetite.
- Appropriate management information and monitoring. Processes are in place, so that necessary remedial action can be taken.
- Annual risk assessments are conducted with Business Units and quarterly risk reports are submitted to Exco and the Audit and Risk Committee.

Risk Management Mechanisms

Broadband Infraco has made considerable progress in implementing the risk mitigation strategies outlined in the Corporate Plan. Risk management implementation is monitored through risk management and governance mechanisms, as well as oversight bodies.

Risk Maturity

Broadband Infraco has made significant progress in embedding a risk management culture. However, more emphasis will be placed on prudent management of enterprise risk to achieve the 2016 Corporate Environment. Broadband Infraco has institutionalised risk management as follows:

- The Board champions the process of risk management.
- The Audit and Risk Committee oversees risk management processes.
- The Senior Manager Risk: coordinates risk management functions.
- The risk register is continually reviewed and aligned with corporate strategy.
- Thresholds for key indicators in risk appetite are reviewed annually.
- Internal and external audits review how the risk management strategy is being discharged.

Business Continuity Risk Management

The Business Continuity Management (BCM) strategy and policy are designed to provide a framework for operational resilience and to ensure the survival of the network operations in the event of natural disasters. Broadband Infraco has separate BCM processes for key operations such as IT and Network Operation Centre. A process is underway to integrate these separate processes.

No.	Vulnerability (Risk description)	Mitigating action plans to further address the residual risk exposure/ contingency actions
1	**Likelihood not to continue as a going concern**	1. a) Continue with the sales drive. b) Negotiate long-tenure revenue contracts. 2. a) Renegotiation of key supplier contracts. b) Rigorous cash management. 3. Continue to apply for funding from external parties.
2	**Limitations in resolving fulfilment value chain**	1. Embed the project management methodology and policy. 2. a) Process owners/ sponsors to formalise implementation of the current business process approved in their working environment. b) Business Process Management to conduct business process performance assessment to ascertain the effectiveness of approved and implemented business processes.
3	**Margin pressure**	1. Embed and continue to optimise pricing strategy. 2. Renegotiation of key supplier's contracts.
4	**The impact of Non ICT SOCs on the cost to communicate**	1. Continue to engage non ICT SOCs. 2. Engage the regulators to ensure that non ICT SOCs are governed by the regulations.
5	**Lack of awareness for new imperatives in privacy and security of information**	1. Set up the IT governance framework. 2. Reinforce the external communication protocol. 3. Formalise controls around logical and physical access. 4. Socialisation of information regulations and policies.
6	**Difficulty to raise funds**	1. Extended credit terms with major suppliers (rated and international suppliers). 2. Continue to apply for funding from external parties.
7	**Damage to the reputation of Broadband Infraco**	1. Reinforce the current communication strategy. 2. Harmonise the external communication with the Shareholders. 3. Continuous engagement with journalist.
8	**Lack of regulatory certainty on new market services**	1. Continue to provide inputs as per defined processes. 2. Acquire ECS licence.
9	**Slow evolution towards IP technology**	1. Roll out IP Network by utilising possible OEM funding.
10	**Difficulty to retain and attract the required skills**	1. Roll out of Internship programme to include both core and non-core units. 2. Continue with employee engagement strategy.

14. LEGAL AND REGULATORY

ECS Licence

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

Broadband Infraco's socio-economic mandate stipulates that the Company shall expand the availability of access to electronic communications, including, but not limited to, underdeveloped and underserviced areas in accordance with the ECA. The Company has, in fulfilment of this mandate and as part of delivering on its Universal Access obligations contained in its Individual Electronic Communications Network Service ("I-ECNS") licence, rolled out 28 PoPs in underserviced communities. However, most of these PoPs are currently utilised for diversifying the movement of traffic on the network and do not have any traffic initiated from them due to a lack of interest from commercial operators. Commercial operators regard underserviced areas as unviable business ventures, which do not generate sufficient returns on investment.

With the acquisition of an I-ECS licence, Broadband Infraco would be able to enter into Public-Private-Partnerships (PPP) with unlicensed SMMEs/ISPs located in these areas. That is, the Company would sell its capacity to the SMMEs/ISPs who would then package and re-sell it to end-users. Therefore, Broadband Infraco will, with the acquisition of an I-ECS licence, give tangible effect to the objectives of the National Broadband Policy by, not only extending internet connectivity to underserviced communities, but also by stimulating the growth of (unlicensed) SMMEs located in these areas.

Broadband Infraco has, through the deployment of infrastructure, established interconnections with South Africa's neighbouring countries such as Mozambique, Namibia, Lesotho, Swaziland, Zimbabwe and Botswana. State-owned operators licensed in these countries (and who do not possess South African licences) are increasingly approaching the Company with a request to terminate the traffic in the country. Broadband Infraco will, with an I-ECS licence, be in a position to fulfil this requirement, thereby expanding its revenue base as well as enhancing regional connectivity.

As mentioned, Broadband Infraco is also a Tier-1 investor in the WACS. The Company utilises its WACS capacity to not only provide connectivity to projects of national importance, but also to attract international operators who have established a presence in the South African market. An I-ECS licence will enable the Company to bundle its WACS offering with its national distance products, thereby offering an end-to-end solution to its unlicensed international customers.

State-Owned Company (SOC) Rationalisation

Broadband Infraco fully supports the process of rationalisation of SOCs as outlined by the Department of Telecommunication and Postal Services.

The objectives of SOCs rationalisation includes the need to ensure that the ICT sector is fundamentally transformed and placed in its rightful position to support economic growth and to rationalise the roles and responsibilities of SOCs in the rollout of various aspects of the broadband capability.

Broadband Infraco will endeavour to ensure the value of the Company is preserved.

Regulatory Developments

National Integrated ICT Policy Discussion Document

During the 2015/16 financial year, the principal regulatory development was the Department of Telecommunications and Postal Services' finalisation of the National Integrated Paper on Information Communications Technology, ("the draft White Paper on ICT"). The draft White Paper aims to provide the necessary policy certainty to incentivise private and public investment in the ICT sector.

The Scope of the draft White Paper is to accomplish the following:

- Review the functioning of the policy and regulatory framework of telecommunication, broadcasting, postal and e-commerce in South Africa and assess its effectiveness in achieving appropriate policy objectives for the knowledge-based society.
- Review the structure of the broadcasting, telecommunications, content, postal and e-commerce industries in South Africa, and the role of the Independent Communications Authority of South Africa and take into account the views and expectations of the public in general.
- Determine policy goals and strategies for ICT Research and Development, applications development promotion, human capital development, investment in ICT market for growth and development.
- Propose universal service and universal access policy goals for South Africa, including methods of policy execution.
- Propose ICT market regulation, and structures, institutional alignment for delivering universal access and universal service policy goals.

Given its scope and objectives, the draft White Paper will fundamentally change how business is done in the sector and how the sector is structured and regulated.

The draft White Paper is due to be tabled before Cabinet in the near future before being published for public comment.

Neotel Arbitration

The Neotel arbitration matter was settled on 27 May 2016 after a mutual agreement was negotiated and reached.

15. PEOPLE MANAGEMENT

Executive Summary

Our Human Resource (HR) Strategy 2015/16 has been the blueprint for our strategic and operational outputs ensuring the implementation of the key strategic objectives aimed at enabling the organisation to renew and reenergise itself through effective human capital revitalisation strategies.

The Human Resource department has managed to address the challenges of balancing the Company's capacity and capability requirements for the execution of the critical aspects of the business and the balancing of financial resources to afford imperatives. Among the most significant were the following:

- Advancing the implementation of human resources development strategies to sharpen existing skills and build new competency requirements in critical areas of work.
- Retaining the skills base, workplace morale and accolades that are important for business reputation, like contribution to B-BBEE ratings (Employment Equity Plan, Workplace Skills Plan and Study Assistance Programme).
- Exploring and implementing creative ways of optimising human resources capacity to avoid possible job losses and to monitor labour costs within the confines of the Company's financial circumstances.
- Taking advantage of the rotation, secondment and temporary deployments to multi-skill and intensify talent development for succession planning and career advancement at various levels of the organisational structure.

Among the imperatives that were instrumental in bolstering the enhancement of people management practices in the organisation were the following:

- Approval of the framework for implementation of the temporary deployment strategy for effective HR optimisation.
- Continuation of the realignment of critical divisional structures for optimisation and operational effectiveness for departments such as Information Technology.
- Implementation of the automated performance management system.

Background

HR Strategic Undertaking

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

HR Strategic Objectives

In its role as a strategic business support function, HR has set itself milestones to ensure successful execution of the mandate and the primary business strategic goals:

- Optimisation of organisational capacity and capability.
- Inculcation of a culture of high performance and individual accountability.
- Attraction and retention of key talent.
- Provision of an environment for sound employee engagement and effective stakeholder relations.

15. PEOPLE MANAGEMENT CONTINUED

Headcount Statistics

Staff complement

Below is the headcount calculation for the 2015/16 financial year.

Headcount Calculation Categories	Q1	Q2	Q3	Q4	FY 2015/16
Opening Balance	**185**	**174**	**166**	**154**	**185**
Permanent Staff	175	172	164	152	175
Contract(s)	0	0	1	1	0
Internship Students	10	2	1	1	10
Appointments	**0**	**1**	**0**	**2**	**3**
Permanent Staff	0	0	0	1	1
Contract(s)	0	1	0	1	2
Internship Students	0	0	0	0	0
Losses	**(11)**	**(9)**	**(12)**	**(5)**	**(37)**
Resignations	3	8	10	4	25
Internship Students	8	1	0	1	10
Involuntary Reductions	0	0	2	0	2
Closing Headcount	**174**	**166**	**154**	**151**	**151**
Permanent Staff	172	164	152	149	149
Contracts	0	1	1	2	2
Internship Students	2	1	1	0	0

Talent Sourcing

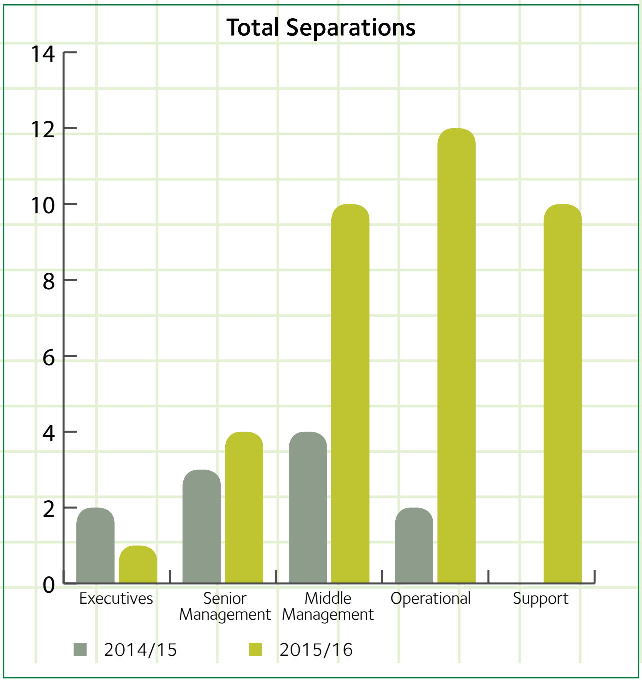
The Company continued the headcount freeze strategy to contain costs and this led to minimal activity in terms of talent sourcing. Two crucial positions were filled externally and one internally. Two (2) of the appointments were in the finance environment, which included the critical appointment of the Chief Financial Officer.

Terminations

A total of 37 terminations were processed during the financial year and of those, ten (10) were expiry of intern contracts, 25 voluntary and two (2) involuntary separations.

Age Profile By Job Level

Job Levels	Average Age
Executives	47
Senior Management	44
Professional Specialist and Middle Management	42
Supervisory and Junior Management	38
Support	35
Average Company Age Profile	40



With the exclusion of separations due to the expiry of contracts, reasons provided for the resignations were mainly career advancement, better salaries and benefits. The Company's future uncertainty has also been the key reason cited by employees leaving the organisation.

Labour turnover

Labour turnover	Q1	Q2	Q3	Q4	FY 2015/16
Average number of employees (opening + closing/2)	180	170	160	153	168
Labour turnover (losses/average)	2%	5%	6%	3%	15%
Resignations	3	8	10	4	25

Performance Management

In the 2015/16 financial year the HR Department worked tirelessly to automate the performance management system. This led to the final review process being implemented through the HR Information System and the contracting process for 2016/17 will thus be performed through the automated system. The performance agreement submission rate showed an improvement with well over 90% of the total staff complement participating. The HR Department continues to provide support to staff in respect of performance management systems support. It is HR's desire to reach a point where the quality of the agreements is also improved.

15. PEOPLE MANAGEMENT CONTINUED

Human Resources Development

Despite the cost containment programme implemented across the business, the Human Resource department focused on the most critical and urgent training interventions required by the business. This is indicative of the Company's commitment towards human capital development and capacitating the most key functions of the business.

In the financial year 2015/16, the Company continued with its study assistance programme and awarded financial study assistance to 13 employees inclusive of new applications and those who were continuing to further their academic studies. Three of those awarded study assistance, left the services of the Company and costs were recovered in accordance with the policy. Four beneficiaries are still in the Company's employ as they were either not successful with their studies, or did not sit for their exams. The amounts awarded were recovered in accordance with the policy. Two (2) completed their studies; the other four (4) passed and are continuing with their studies.

Internship Programme

The business had ten (10) students and graduates who completed their internship programme during the financial year under review. Due to financial constraints, Broadband Infraco could only absorb one intern as of March 2016. Owing to the intensive training that they received from the Company's technical environment, the rest of the interns managed to immediately secure permanent employment in the job market.

Human Resource Information Systems (HRIS)

The implementation of the HRIS system continued to be a critical milestone within the Human Resources department. During the period under review, the HR division had managed to implement 80% of the e-performance management system, implemented the training for managers and users, and ensured the capturing of data for the skills development module. A further achievement was the defining of the access control rights for the respective users within the Human Resources and Finance Departments in keeping with the segregation of responsibility principle. The implementation is work in progress to ensure that the HR function is executed seamlessly, effectively and efficiently.

Employee Remuneration And Benefits Management

Through the implementation of the second year of the three-year substantive agreement on remuneration and conditions of service, the Company reduced labour costs from 32% of revenue to 24% by the end of the financial year.

The Company's referred dispute to the Pension Fund Adjudicator arising from the Fund Administrator's challenges of administrating the Fund were finally resolved on 31 March 2016. The next process to be undertaken by the Fund Administrator is the allocation of respective member investment losses to each of the affected employees and this process will be finalised in the financial year 2016/17.

Employee Relations Environment

Employee relations climate

The relationship between the recognised organised trade union officials and management continues to mature from the adversarial level to cooperative stage.

During the period under review, two (2) disciplinary hearings were held ending in the dismissal of two (2) employees. These were subsequently referred to the The Commission for Conciliation, Mediation and Arbitration (CCMA) resulting in the matters settled at conciliation stage. No formal grievance was lodged in the period under review. The stable industrial peace is reached through communication and engagement with key stakeholders and ensuring adherence to the legislative prescripts.

Legislative Compliance

The Employment Equity (EE) Report was submitted on 15 January 2016 following the consultative process with the Employment Equity Committee. The Organisation has complied with legislative requirements in so far as the related required annual submissions are concerned. The Workplace Skills Plan 2016/17 financial year and the Annual Training Report 2016/17 financial year were submitted to the MICT SETA.

16. SUPPLY CHAIN MANAGEMENT

The SCM department has continuously succeeded in maintaining its efforts to empower and distribute wealth to previously disadvantaged groups. The department has significantly exceeded its targeted spend on both Black-owned and Black-women-owned enterprises. More jobs were created in this financial year compared to the previous year.

As a strategic business partner, SCM continues to have a great impact on the delivery of the Company's objectives and mandate. SCM has upheld standards to ensure adherence to compliance to the legislative requirements. To this end, it has consistently achieved clean audits.

The total procurement costs for the year are R318 million. The focus for the year has been on sustaining efficiency in supply chain practices and compliance to legislative requirements. These have yielded results that are indicated below:

Procurement and B-BBEE Spend

Total B-BBEE spend **114%**	Black-owned enterprises **54%**	Black-women-owned **45%**
Black-youth-owned enterprises **11%**	Expenditure on people with disabilities **0,1%**	Total number of indirect jobs created **686**

The focus going forward is to strive to empower Black-owned and value-adding enterprises, maintain efficiency in supply chain practices and compliance to legislative requirements.

17. SAFETY, HEALTH, ENVIRONMENT AND QUALITY PERFORMANCE

1. Safety, Health, Environment and Quality

There were no repeat audit findings from external audits conducted this financial year within Broadband Infraco pertaining to the SHEQ systems.

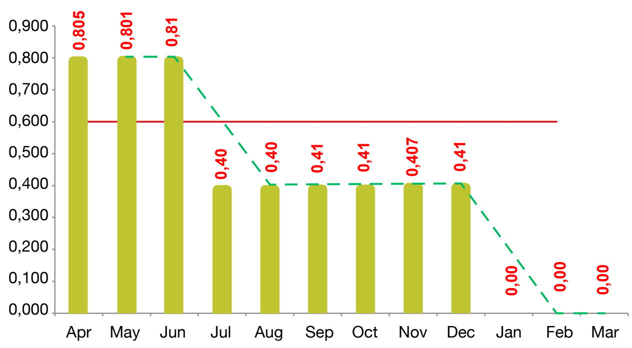
2. Lost-time injury frequency rate

Definition and calculation of lost-time injury frequency rates (LTIFR):

- The lost-time injury frequency rate is the number of lost-time injuries within a given accounting period relative to the total number of hours worked in the same accounting period.

The graph below shows the performance of the organisation over the whole year. The graph trajectory has been going downwards, culminating in a zero-rating in the last quarter of the year. This is a great achievement, which shows how Broadband Infraco values and prioritises statutory requirements pertaining to human capital.

BBI – LTIFR % (Lost-Time Frequency Injury Rates) 2015/16



As part of self-improvement for the organisation, a rigorous quality system project has been initiated for implementation over the next couple of years. All roles and responsibilities as well as processes and procedures have been identified for action. As a result of this focus, no safety, environment or quality-related incidents have been reported.

Broadband Infraco SOC Limited Annual Financial Statements for the year ended 31 March 2016

The Company's Annual Financial Statements were audited in terms of the Companies Act No.71 of 2008.

The preparation of the Company's Annual Financial Statements were supervised by the Chief Financial Officer, Ian van Niekerk.

These Annual Financial Statements were authorised by the Board of Directors on 21 July 2016.

The reports and statements set out below comprise the Annual Financial Statements presented to the members.

CONTENTS

REPORT OF THE AUDIT AND RISK COMMITTEE

Audit And Risk Committee Report For The 2015/16 Financial Year

The Audit and Risk Committee is an independent committee constituted to review the control, governance and risk management of the Company in terms of regulation 27(1) of the Public Finance Management Act (1999) (PFMA), as amended; the Audit and Risk Committee reports that it has discharged its responsibilities as contained in the Audit and Risk Committee terms of reference.

The committee comprised Ms Meta Maponya (Chairperson and Independent Non-Executive Director), Ms Nokuthula Selamolela (Non-Executive Director), Mr Sydney Mabalayo (Non-Executive Director) and Dr Anthony Githiari (Non-Executive Director). The Audit and Risk Committee was in place for the 2015/16 financial year and the members were re-appointed by the Shareholders at the Company's AGM on 23 March 2016 as required in terms of section 94(2) the Companies Act 7 of 2008.

The Audit and Risk Committee meets at least four (4) times per annum, and has the authority to convene additional meetings as and when necessary. There were four (4) meetings held during financial year ended 2015/16. Critical issues were discussed and minutes were recorded. The minutes of the Audit and Risk Committee meetings were made available to the Board on request.

No.	1	2	3	4	
Meeting date / Name of Director	25.05.15	28.07.15	07.07.15	24.02.16	Total
MM Maponya[1]	√	√	√	√	4/4
ST Mabalayo	√	√	√	√	4/4
N Selamolela	√	A	√	√	3/4
A Githiari	A	A	√	√	2/4
Executives					
P Kwele	√	A	√	√	3/4
II van Niekerk	–	–	–	√	1/1

1 Chairperson √ Attendance A Absent with apology

** Mr Ian van Niekerk (CFO) commenced his employment on 15 September 2015

During the 2015/16 financial year, the Audit and Risk Committee:

- Reviewed the effectiveness of internal control systems by approving the internal audit plan, internal audit charter and reviewing quarterly internal audit reports submitted;
- Considered the risk areas of the operations covered in the scope of internal and external audits;
- Considered accounting and auditing concerns identified as a result of internal and external audits;
- Assessed the adequacy, reliability and accuracy of financial information provided by management;
- Assessed compliance with applicable legal and regulatory requirements;
- Reviewed the effectiveness of the internal audit function, compliance and risk departments, through assessments of the quality of the reports submitted to Audit and Risk Committee;
- Reviewed the financial statements and reporting for proper and complete disclosure of timely, reliable and consistent information and confirmed that accounting policies used are appropriate;
- Reviewed the expertise, resources and experience of the Company's finance function;
- Reviewed the quarterly progress and update on litigations;
- Provided a channel of communication between the Board and management, the risk division, internal auditors, external auditors and the compliance officer;
- Received regular reporting from each of the above functions and monitored timely resolutions of issues or concerns raised by management;
- Liaised with the Board Committees and met as required with the regulators and separately with internal and external auditors;
- Ensured that the combined assurance model was applied to provide a coordinated approach to all assurance activities; and
- Ensured that the combined assurance received was appropriate to address all significant risks faced by the Company.

The Audit and Risk Committee ensured that the Company's Internal Audit function was independent and had the necessary resources, and standing authority in order to enable the Internal Audit department to discharge its duties.

Having considered, analysed and reviewed the information provided by management, Internal Audit, External Audit and the Risk and Combined Assurance Committee, the Audit and Risk Committee confirms that:

- The internal controls of the Company were effective in most material aspects throughout the year under review;
- Appropriate policies, supported by reasonable and prudent judgements and estimates were applied;
- Proper accounting records were maintained;
- The adequacy and effectiveness of controls that are in place safeguarded the assets;
- The financial statements comply, in all material respects, with the relevant provisions of the PFMA and International Financial Reporting Standards; and
- The skills, independence, audit plan reporting and overall performance of the external auditors were acceptable.

REPORT OF THE AUDIT AND RISK COMMITTEE CONTINUED

The Audit and Risk Committee noted the emphasis of matter on going concern by the external auditors and is satisfied with management interventions of cost optimisation and revenue drive. The Company continues on its effort to raise funding from external sources.

The Audit and Risk Committee has noted paragraph 19 and 22 of the external auditors report relating to material misstatements and perceived inadequate management review on performance information. The Audit and Risk Committee is satisfied that management was reviewing the performance information reports on a quarterly basis against both the approved annual performance plan that was tabled in parliament and the shareholders approved stretch target.

Meta Maponya
Chairperson Audit and Risk Committee

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.

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

F Mohamed
Company Secretary

DIRECTORS' RESPONSIBILITIES AND APPROVAL

for the year ended 31 March 2016

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report. It is their responsibility to ensure that the Annual Financial Statements fairly present the state of affairs of the Company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the Annual Financial Statements.

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

The directors acknowledge that they are ultimately responsible for the system of internal financial 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 financial 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 2016.

The Board of Directors has considered whether the going concern assumption is appropriate for the Company in the preparation of the Annual Financial Statements. The directors have reviewed the Company's forecasted financial performance for the year 31 March 2017 as well as 31 March 2018. In light of this review and the current financial position, they are satisfied that the Company has access to adequate resources to continue its operational existence for the foreseeable future.

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

The external auditors are responsible for independently auditing and reporting on the Company's Annual Financial Statements. The Annual Financial Statements have been examined by the Company's external auditors and their report is presented on the latter section of the report.

The Annual Financial Statements set out on pages 58 to 88, which have been prepared on the going concern basis, under the supervision of Ian van Niekerk, were approved by the board on 21 July 2016 and were signed on their behalf by:

BMC Ngcobo	**P Kwele**
Chairman of the Board	Chief Executive Officer

SECTION 2

DIRECTORS' REPORT

for the year ended 31 March 2016

The directors have pleasure in submitting their report on the Annual Financial Statements of Broadband Infraco SOC Limited for the year ended 31 March 2016.

1. Review of financial results and activities

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act 71 of 2008. The accounting policies have been applied consistently compared to the prior year. All amounts are in South African thousand Rands.

The Company recorded a net loss after tax for the year ended 31 March 2016 of R91,394. This represented a decrease of 63% from the net loss after tax of the prior year of R244,693.

Company revenue increased by 24% from R365,511 in the prior year to R451,650 for the year ended 31 March 2016 mainly due to additional revenue from existing customers.

Company cash flows from operating activities increased by 190% from (R152,532) in the prior year to R137,163 for the year ended 31 March 2016.

Broadband Infraco continues to drive cost optimisations in both cost of sales and operational costs.

2. Share capital

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

3. Directorate

The directors in office at the date of this report are as follows:

Directors	Office	Designation	Changes
BMC Ngcobo	Chairperson	Non-Executive Director	
SD Mabalayo	Other	Non-Executive Director	
MM Maponya	Other	Non-Executive Director	
N Selamolela	Other	Non-Executive Director	
A Githiari	Other	Non-Executive Director	
M Mosweu	Other	Non-Executive Director	
P Kwele	Chief Executive Officer	Executive Director	
II van Niekerk	Chief Financial Officer	Executive Director	Appointed 23 March 2016

4. Events after the reporting period

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

5. Going concern

The Annual Financial Statements have been prepared on the basis of accounting policies applicable to a going concern. More details around the going concern principles applied are in note 26 of the Annual Financial Statements section.

6. Auditors

Nexia SAB&T continued in office as auditors for the Company for 2016.

7. Secretary

The Company Secretary is Mr Fahim Mohamed.

BMC 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 TELECOMMUNICATIONS AND POSTAL SERVICES AND THE INDUSTRIAL DEVELOPMENT CORPORATION OF SOUTH AFRICA ON BROADBAND INFRACO SOC LIMITED

Report on the Annual Financial Statements

Introduction

1. We have audited the Annual Financial Statements of Broadband Infraco SOC Limited (Infraco) set out on pages 58 to 88 which comprise the statement of financial position as at 31 March 2016, the statement of profit or loss and other 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 Annual Financial Statements

2. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these Annual 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, 2008 (Act No. 71 of 2008) (Companies Act), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

3. Our responsibility is to express an opinion on these financial statements based on my audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. 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 Annual 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.

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

Opinion

6. In our opinion, the Annual Financial Statements present fairly, in all material respects, the financial position of Infraco as at 31 March 2016 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.

Emphasis of matter

7. We draw attention to the matter below. Our opinion is not modified in respect of this matter.

Going concern

8. We draw attention to note 26 on page 85 of the Annual Financial Statements, which indicates that Infraco incurred a net loss during the year ended 31 March 2016 and prior years and Infraco is currently trading at a monthly cash shortfall. These conditions, along with other matters as set forth in the Annual Financial Statements, indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to operate as a going concern.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Additional matters

9. We draw attention to the matters below. Our opinion is not modified in respect of these matters.

Other reports required by the Companies Act

10. As part of our audit of the financial statements for the year ended 31 March 2016, 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.

Audit tenure

11. In terms of the IRBA Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that Nexia SAB&T has been the auditor of Infraco for four years.

Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, we have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of our tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

Predetermined objectives

13. We 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 Infraco for the year ended 31 March 2016:

    Objective 1: Ensure business sustainability on pages 18 to 19
    Objective 2: Network saleability on pages 18 to 19
    Objective 3: Network improvement on pages 18 to 19
    Objective 4: Economic transformation on pages 18 to 19

14. We 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. We 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).

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

16. We did not identify any material findings on the usefulness and reliability of the reported performance information for the following programmes:

    Objective 1: Ensure business sustainability on pages 18 to 19
    Objective 2: Network saleability on pages 18 to 19
    Objective 3: Network improvement on pages 18 to 19
    Objective 4: Economic transformation on pages 18 to 19

Broadband Infraco

Additional matter

17. We draw attention to the matters below. Our opinion is not modified in respect of these matters.

Achievement of planned targets

18. Refer to the annual performance report on pages 18 to 19 for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

19. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Objective 1: Ensure business sustainability, Objective 2: Network saleability and Objective 3: Network improvement. As management subsequently corrected the misstatements, we did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

20. We performed procedures to obtain evidence that Infraco had complied with applicable legislation regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

21. We 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 our opinion, the findings on the annual performance report included in this report.

Financial and performance management

22. After the tabling of the Corporate Plan in Parliament, the shareholder changed the performance targets for the Company. These stretched targets, presented on pages 20 and 21, were used by management when presenting the Company's performance in the quarterly reports submitted for the 2015/16 financial year. As a result, significant material misstatements were noted between the approved corporate plan and reported predetermined objectives.

Nexia SAB&T

Nexia SAB&T
Per: TJ De Kock
Director
Registered Auditor
21 July 2016

STATEMENT OF FINANCIAL POSITION

at 31 March 2016

	Note	2016 R'000	2015 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	3	**1 297 319**	1 304 152
Intangible assets	4	**57 149**	19 348
Trade and other receivables	6	**13 587**	14 715
		1 368 055	**1 338 215**
Current assets			
Trade and other receivables	6	**48 729**	256 583
Cash and cash equivalents	7	**141 626**	156 668
		190 355	413 251
Total assets		**1 558 410**	**1 751 466**
EQUITY AND LIABILITIES			
Equity			
Share capital	8	**–**	–
Shareholders' loans	9	**1 829 530**	1 829 530
Accumulated deficit		**(957 266)**	(865 872)
		872 264	**963 658**
LIABILITIES			
Non-current liabilities			
Deferred income	12	**502 857**	**546 830**
Current liabilities			
Trade and other payables	11	**99 067**	158 536
Deferred income	12	**71 759**	70 529
Provisions	10	**12 463**	11 913
		183 289	**240 978**
Total liabilities		**686 146**	**787 808**
Total equity and liabilities		**1 558 410**	**1 751 466**

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2016

	Note	2016 R'000	2015 R'000
REVENUE	13	**451 650**	365 511
Cost of sales	14	**(259 573)**	(314 849)
Gross profit		**192 077**	**50 662**
Operating expenses	15	**(292 130)**	(310 622)
Operating loss		**(100 053)**	**(259 960)**
Investment revenue	16	**8 808**	15 269
Finance costs	17	**(149)**	(2)
Loss for the year		**(91 394)**	**(244 693)**
Taxation	18	–	–
Loss for the year after tax		**(91 394)**	**(244 693)**
Other comprehensive income		**–**	**–**
Total comprehensive loss for the year		**(91 394)**	**(244 693)**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2016

Note	Shareholders' loans R'000	Accumulated loss R'000	Total equity R'000
Balance at 01 April 2014	**1 829 530**	**(621 179)**	**1 208 351**
Loss for the year	–	(244 693)	(244 693)
Other comprehensive income	–	**–**	–
Total comprehensive loss for the year	**–**	**(244 693)**	**(244 693)**
Balance at 01 April 2015	**1 829 530**	**(865 872)**	**963 658**
Loss for the year	–	(91 394)	(91 394)
Other comprehensive income	–	–	–
Total comprehensive loss for the year	–	**(91 394)**	**(91 394)**
Balance at 31 March 2016	**1 829 530**	**(957 266)**	**872 264**

9

STATEMENT OF CASH FLOWS

for the year ended 31 March 2016

	Note	2016 R'000	2015 R'000
Cash flows from operating activities			
Cash generated from operations	21	137 312	(152 530)
Finance costs	17	(149)	(2)
Net cash from operating activities		**137 163**	**(152 532)**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(118 409)	(136 310)
Purchase of other intangible assets	4	(42 604)	(11 587)
Interest income	16	8 808	15 269
Net cash from investing activities		**(152 205)**	**(132 628)**
Total cash movement for the year		**(15 042)**	**(285 160)**
Cash at the beginning of the year		156 668	441 828
Total cash at end of the year	7	**141 626**	**156 668**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

1. Presentation of Annual Financial Statements

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards, and the Companies Act 71 of 2008. The Annual Financial Statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. They are presented in South African thousand Rands.

These accounting policies are consistent with the previous period.

1.1 Corporate information

Broadband Infraco SOC Limited 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 Functional and presentation currency

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

1.3 Significant judgements and sources of estimation uncertainty

In preparing the Annual Financial Statements, management is required to make estimates and assumptions that affect the amounts represented in the Annual Financial Statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the Annual Financial Statements. Significant judgements include:

Trade receivables and loans and receivables

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

Impairment testing

The Company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for the assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 10 - Provisions.

1.4 Property, plant and equipment

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

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

Property, plant and equipment are initially measured at cost. Cost includes all of the expenditure, which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets.

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

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

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

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

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

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

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

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

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

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.

1.5 Intangible assets

An intangible asset is recognised when:

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

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

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

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

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2016

1.6 Financial instruments

Classification

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

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

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

Derecognition

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

Impairment of financial assets

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

For amounts due to the Company, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in profit or loss.

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

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

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

1.7 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

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

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

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

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

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

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

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

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

1.8 Leases

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

Operating leases – lessee

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

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

1.9 Impairment of assets

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

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

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

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

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

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2016

1.10 Share capital and equity

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

1.11 Shareholders' loans

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

1.12 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

1.13 Provisions and contingencies

Provisions are recognised when:

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

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

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

1.14 Revenue

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 end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Company.
- The stage of completion of the transaction at the end of the reporting period can be measured reliably.
- 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 is 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.

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

1.15 Cost of sales

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

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

1.16 Translation of foreign currencies

Foreign currency transactions

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

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

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

1.17 Related parties

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

1.18 Offset

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

1.19 Deferred revenue

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

1.20 Operating segments

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

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Amendment to IAS 24: Related-party disclosures: annual improvements project

The definition of a related party has been amended to include an entity, or any member of a group of which it is a part, which provides key management personnel services to the reporting entity or to the parent of the reporting entity ("management entity"). Disclosure is required of payments made to the management entity for these services but not of payments made by the management entity to its directors or employees.

The effect of the Annual Financial Statements have not been material.

2.2 Standards and interpretations not yet effective and adopted in the current year

The Company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for accounting periods beginning on or after 1 January 2016 or later periods:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2016

IFRS 16: Leases

New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows.

IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.

IFRS 16 supersedes the following Standards and Interpretations:

(a) IAS 17 Leases.
(b) IFRIC 4 Determining whether an Arrangement contains a Lease.
(c) SIC-15 Operating Leases – Incentives.
(d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

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

The Company expects to adopt the amendment for the first time in the 2020 Annual Financial Statements.

The Directors are assessing the impact of this standard on the Company's Annual Financial Statements.

Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation

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

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

The Company expects to adopt the amendment for the first time in the 2017 Annual Financial Statements.

It is unlikely that the amendment will have a material impact on the Company's Annual Financial Statements.

Disclosure initiative: amendment to IAS 1: presentation of financial statements

The amendment provides new requirements when an entity presents subtotals in addition to those required by IAS 1 in its Annual Financial Statements. It also provides amended guidance concerning the order of presentation of the notes in the Annual Financial Statements, as well as guidance for identifying which accounting policies should be included. It further clarifies that an entity's share of comprehensive income of an associate or joint venture under the equity method shall be presented separately into its share of items that a) will not be reclassified subsequently to profit or loss and b) that will be reclassified subsequently to profit or loss.

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

The Company expects to adopt the amendment for the first time in the 2017 Annual Financial Statements.

It is unlikely that the amendment will have a material impact on the Company's Annual Financial Statements.

IFRS 9 Financial instruments

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

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three (3) types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

The Company expects to adopt the standard for the first time in the 2019 Annual Financial Statements.

It is unlikely that the standard will have a material impact on the Company's Annual Financial Statements.

IFRS 15 Revenue from contracts with customers

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

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

- Identify the contract(s) with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognise revenue when (or as) the entity satisfies a performance obligation. IFRS 15 also includes extensive new disclosure requirements.

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

The Company expects to adopt the standard for the first time in the 2019 Annual Financial Statements.

It is unlikely that the standard will have a material impact on the Company's Annual Financial Statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2016

3. Property, plant and equipment

	2016 R'000			2015 R'000		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value revaluation
Motor vehicles	5 950	(1 328)	4 622	5 168	(123)	5 045
Office equipment	10 356	(4 139)	6 217	10 320	(3 102)	7 218
Computer equipment	17 414	(14 444)	2 970	17 414	(13 120)	4 294
Network infrastructure	1 964 663	(846 753)	1 117 910	1 795 641	(724 615)	1 071 026
Spares and test equipment	15 920	(12 110)	3 810	14 878	(12 576)	2 302
Capital – work in progress	161 790	–	161 790	214 267	–	214 267
Total	**2 176 093**	**(878 774)**	**1 297 319**	**2 057 688**	**(753 536)**	**1 304 152**

Reconciliation of property, plant and equipment – 2016

R'000	Opening balance	Additions	Transfers	Depreciation	Total
Motor vehicles	5 045	782	–	(1 205)	4 622
Office equipment	7 218	36	–	(1 037)	6 217
Computer equipment	4 294	–	–	(1 324)	2 970
Network infrastructure	1 071 026	–	167 410	(120 526)	1 117 910
Spares and test equipment	2 302	–	2 658	(1 150)	3 810
Capital – work in progress	214 267	117 591	(170 068)	–	161 790
	1 304 152	**118 409**	**–**	**(125 242)**	**1 297 319**

Reconciliation of property, plant and equipment – 2015

R'000	Opening balance	Additions	Transfers	Depreciation	Impairment loss	Total
Motor vehicles	–	5 167	–	(122)	–	5 045
Office equipment	5 112	3 679	–	(879)	(694)	7 218
Computer equipment	6 072	948	–	(2 726)	–	4 294
Network infrastructure	1 068 517	12 715	97 581	(107 787)	–	1 071 026
Spares and test equipment	2 775	7	206	(686)	–	2 302
Capital – work in progress	198 260	113 794	(97 787)	–	–	214 267
	1 280 736	**136 310**	**–**	**(112 200)**	**(694)**	**1 304 152**

4. Intangible assets

	2016 R'000			2015 R'000		
	Cost/ Valuation	Accumulated amortisation	Carrying value	Cost/ Valuation	Accumulated amortisation	Carrying value
Computer software	59 496	(9 631)	49 865	16 892	(5 453)	11 439
Servitudes	12 487	(5 203)	7 284	12 487	(4 578)	7 909
Total	**71 983**	**(14 834)**	**57 149**	**29 379**	**(10 031)**	**19 348**

Reconciliation of intangible assets – 2016

R'000	Opening balance	Additions	Amortisation	Total
Computer software	11 439	42 604	(4 178)	49 865
Servitudes	7 909	–	(625)	7 284
	19 348	**42 604**	**(4 803)**	**57 149**

Reconciliation of intangible assets – 2015

R'000	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	1 686	265	11 322	(1 834)	11 439
Servitudes	8 532	–	–	(623)	7 909
Work in progress	–	11 322	(11 322)	–	–
	10 218	**11 587**	**–**	**(2 457)**	**19 348**

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

None of the intangible assets have been pledged as security.

There are no contractual commitments outstanding at the reporting period.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2016

		2016 R'000	2015 R'000
5.	**Deferred tax**		
	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.

	2016 R'000	2015 R'000
Reconciliation of deferred tax asset		
Movement in temporary differences	**11 187**	(24 261)
Deferred tax assets not recognised	**(11 187)**	24 261
At the end of the year	**–**	–

Deferred tax rates

The deferred tax rate applied was 28% (2015: 28%).

	2016 R'000	2015 R'000
Recognised		
Straight-lining of lease assets	**–**	302
Straight-lining of lease liabilities	**(29)**	75
Capital allowances	**(97 551)**	(44 396)
Prepayments	**(1 559)**	(692)
Provision for bad debts	**419**	645
Leave pay accrual	**1 114**	1 564
Bonus provision	**2 370**	2 216
Other provisions	**–**	1 120
Deferred income	**161 194**	125 642
Deferred tax asset not recognised	**(65 958)**	(86 476)
	–	–

6. Trade and other receivables

Trade and other receivables consists of: Long-term and current trade receivables and prepayments.

	2016 R'000	2015 R'000
Non-current assets		
Prepayments – Irrefutable Rights of Use	**13 587**	**14 715**
Current assets		
Trade receivables	**36 152**	247 972
Prepayments	**5 460**	2 375
Deposits	**2 162**	2 521
VAT	**1 286**	–
Foreign tax credits	**3 041**	3 041
Accrued interest	**526**	674
Straight lining of operating leases	**102**	–
Trade and other receivables pledged as security	**48 729**	**256 583**

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

	2016 R'000	2015 R'000
6. Trade and other receivables (continued)		
Trade and other receivables that are past due but have not been impaired are as follows:		
Trade receivables	**596**	168 252
Deposits	**2 162**	2 521
	2 758	**170 773**

Trade and other receivables impaired

As of 31 March 2016, trade and other receivables of R1 498 (2015: R2 305) were impaired and provided for.

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

	2016 R'000	2015 R'000
Movements of the doubtful debt allowance is as follows:		
Balance at the beginning of the year	**2 305**	2 454
Reversal of impairment loss from prior year	**(807)**	(149)
Balance at the end of the year	**1 498**	**2 305**

7. Cash and cash equivalents

	2016 R'000	2015 R'000
Cash and cash equivalents consist of the following:		
Current accounts – Standard Bank	**1 575**	512
Short-term deposits – First National Bank (bearing interest at 6% – 6.95%)	**30 348**	40 006
Short-term deposits – Nedbank (bearing interest at 6% – 6.8%)	**40 682**	40 000
Short-term deposits – Standard Bank (bearing interest at 5.9% – 6.5%)	**69 021**	76 150
	141 626	**156 668**

8. Share capital

	2016 R'000	2015 R'000
Authorised		
Ordinary	**1**	1
Issued		
Ordinary*	**–**	–

Shares are held as follows:

- 74 ordinary shares held by the State, represented by Department of Telecommunications and Postal Services.
- 26 ordinary shares held by the Industrial Development Corporation of South Africa.

Unissued shares are controlled by the Executive Authority.

* Amounts less than R1 000.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2016

	2016 R'000	2015 R'000
9. Shareholders' loans		
Department of Telecommunications and Postal Services	**1 351 130**	1 351 130
Industrial Development Corporation of South Africa	**478 400**	478 400
	1 829 530	**1 829 530**

The loans are unsecured 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.

10. Provisions

Reconciliation of provisions – 2016

R'000	Opening Balance	Additions	Total
Legal proceedings	4 000	–	4 000
Performance bonus	7 913	550	8 463
	11 913	**550**	**12 463**

Reconciliation of provisions – 2015

R'000	Opening Balance	Additions	Utilised during the year	Total
Legal proceedings	–	4 000	–	4 000
Performance bonus	8 250	8 125	(8 462)	7 913
	8 250	**12 125**	**(8 462)**	**11 913**

Legal proceedings

The provision raised relates to a fibre usage dispute with a key service provider on the network, where the quantum of services was not agreed. An out of court settlement agreement has been subsequently reached, however the provision made reflects the estimated legal fees that may arise from closing the matter.

Performance bonus

The performance bonus provision relates to performance agreements completed with qualifying personnel based on individuals' and Company's performance. Payouts are approved by the Board.

	2016 R'000	2015 R'000
11. Trade and other payables		
Trade payables	**75 767**	124 104
Trade payables – Neotel settlement	**15 789**	–
VAT	**–**	23 804
Straight lining of leases	**–**	270
Accrued leave pay	**3 978**	5 584
Services not commissioned	**154**	40
Internal audit	**–**	1 008
External audit	**1 000**	1 280
PAYE	**2 379**	2 446
	99 067	**158 536**

12. Deferred income

Deferred income relates to Irrefutable Rights of Use (IRU) contracts over various periods. These amounts are received in advance and revenue is recognised over the contract term as the services are being rendered.

	2016 R'000	2015 R'000
Non-current liabilities	**502 857**	546 830
Current liabilities	**71 759**	70 529
	574 616	**617 359**

13. Revenue

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

	2016 R'000	2015 R'000
Sale of broadband services	**381 052**	304 155
Irrefutable Right of Use income	**47 096**	33 981
Operations and maintenance	**23 502**	27 375
	451 650	**365 511**

14. Cost of sales

	2016 R'000	2015 R'000
Rendering of services	**259 573**	**314 849**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2016

		2016 R'000	2015 R'000
15.	**Operating expenses**		
	Operating expenses	**292 130**	**310 622**
	Employee expenses		
	Salaries	**102 300**	103 444
	Other benefits	**321**	11 500
		102 621	**114 944**
	Directors emoluments		
	Non-executive directors	**2 468**	2 570
	Executive directors	**4 316**	3 535
		6 784	**6 105**
	Service fees		
	Legal fees	**19 034**	9 628
	Consulting and professional fees	**2 168**	7 291
	External audit fees	**266**	871
	Internal audit fees	**(224)**	1 547
		21 244	**19 337**
	General and administrative expenses		
	Repairs and maintenance	**10 446**	12 700
	Marketing	**372**	3 353
	Travel costs	**2 375**	6 708
	Recoveries-travel reimbursement (WACS)	**(4 379)**	(831)
	Insurance	**957**	733
	Telephone and fax	**669**	732
	Training	**837**	1 991
	IT expenses	**3 855**	2 939
	Licence fees	**1 745**	1 563
	Other expenses – deductible	**6 390**	13 333
		23 267	**43 221**
	Operating leases		
	Lease rentals on operating lease	**8 169**	**11 665**
	Depreciation, amortisation, impairment and write-off		
	Property, plant and equipment	**125 242**	112 200
	Write off and impairment of equipment	**–**	694
	Intangible assets	**4 803**	2 457
		130 045	**115 350**

		2016 R'000	2015 R'000
16.	**Investment revenue**		
	Bank	8 808	15 269
17.	**Finance costs**		
	Realised loss/(profit) on foreign exchange transaction	146	(6)
	Interest paid	3	8
		149	2
18.	**Taxation**		
	Reconciliation of the tax expense		
	Reconciliation between accounting profit and tax expense		
	Accounting loss	(91 394)	(244 693)
	Tax at the applicable tax rate of 28% (2015: 28%)	(25 590)	(68 514)
	Tax effect of adjustments on taxable income		
	Tax losses recognised	15 629	61 303
	Permanent differences	(1 226)	(232)
	Deferred tax not recognised	11 187	7 443
		–	–
19.	**Auditors' remuneration**		
	External audit	266	871
	Internal audit	(224)	1 547
		42	2 418
20.	**Operating lease**		
	Non-cancellable operating lease rentals are payable as follows:		
	Less than one year	7 886	13 216
	Between one and five years	4 757	10 410
		12 643	23 626

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2016

	2016 R'000	2015 R'000
21. Cash generated from operations		
Loss before taxation	**(91 394)**	(244 693)
Adjustments for:		
Depreciation, amortisation and impairment	**130 045**	115 350
Interest received – investment	**(8 808)**	(15 269)
Finance costs	**149**	2
Movement in provision	**550**	3 662
Movement in deferred income	**(42 743)**	6 874
Changes in working capital:		
Trade and other receivables	**208 982**	88 993
Trade and other payables	**(59 469)**	(107 449)
	137 312	**(152 530)**

22. Related parties

Relationships

Ultimate holding Company	The State, represented by the Department of Telecommunications and Postal Services
Shareholder with significant influence	Industrial Development Corporation of South Africa
Major public entities	Telkom SA (SOC) Ltd, SITA (SOC) Ltd

Related party balances

	2016 R'000	2015 R'000
Loan accounts – Owing to related parties		
Department of Telecommunications and Postal Services	**(1 351 130)**	(1 351 130)
Industrial Development Corporation of South Africa	**(478 400)**	(478 400)
Amounts included in trade receivables/(trade Payable) regarding related parties		
Telkom SOC Limited	**(57)**	(30)
SITA SOC Limited	**11 703**	11 314
Related-party transactions		
Purchases from/(sales to) related parties		
SITA SOC Limited	**(147 045)**	(80 385)
Telkom SOC Limited	**422**	4 002
Compensation to directors and other key management		
Short-term employee benefits – Non-Executive Directors	**2 468**	2 570
Short-term employee benefits – Executive Directors	**4 316**	3 535
Short-term employee benefits – Key management	**9 510**	10 527
	16 294	**16 632**

23. Directors' and prescribed officer's emoluments

Executive

R'000	2016				
	Service as	Service period in months	Basic salary	Expenses and other allowances	Total
P Kwele	Chief Executive Officer**	12	2 674	30	**2 704**
T Pama	Interim Chief Financial Officer*	5	604	10	**614**
II van Niekerk	Chief Financial Officer	7	982	16	**998**
			4 260	**56**	**4 316**

*The basic salary is the net amount after the deduction of an early-termination penalty recovered.
**This includes three (3) years' retrospective cost of living adjustments.

R'000	2015				
	Service as	Service period in months	Basic salary	Expenses and other allowances	Total
P Kwele	Chief Executive Officer	12	2 343	30	**2 373**
T Pama	Interim Chief Financial Officer	5	768	13	**781**
II Hassen*	Interim Chief Financial Officer	2	381	–	**381**
			3 492	**43**	**3 535**

*Majority of the interim CFO remuneration was on a consultancy basis through Ernst & Young.

Non-Executive

R'000	2016			
	Service as	Service period in months	Directors' fees	Total
BMC Ngcobo	Board chairperson	12	803	**803**
SD Mabalayo	Board member	12	423	**423**
MM Maponya	Board member	12	332	**332**
A Githiari	Board member	12	288	**288**
N Selamolela	Board member	12	317	**317**
M Mosweu	Board member	12	305	**305**
			2 468	**2 468**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2016

23. Directors' and prescribed officer's emoluments (continued)

Non-Executive

R'000	2015			
	Position	Service period in months	Directors' fees	Total
BMC Ngcobo	Board chairperson	12	798	798
SD Mabalayo	Board member	12	372	372
MM Maponya	Board member	12	273	273
A Githiari	Board member	12	247	247
N Selamolela	Board member	12	267	267
SAU Meer*	Board member	6	133	133
M Mosweu*	Board member	6	126	126
SA Essa	Board member	6	166	166
X Kakana	Board member	6	188	188
			2 570	**2 570**

*Paid to the IDC as nominee director in terms of employment.

Key management

R'000	2016				
	Position	Service period in months	Basic salary	Expenses and other allowances	Total
G Zowa	Chief Technical Officer	12	1 994	30	2 024
V Maharaj	Executive: Capital Programme	12	1 854	30	1 884
K Motlhabane	Executive: Legal	12	1 663	30	1 692
ST Mafu	Acting Chief Marketing and Sales Officer	12	1 501	26	1 528
M Mopeli	Executive: Human Resources	12	1 177	30	1 207
M Mojapelo	Executive: Compliance, Risk and Audit	12	1145	30	1 175
			9 334	**176**	**9 510**

23. Directors' and prescribed officer's emoluments (continued)

Key management

R'000	Position	Service period in months	Basic salary	# Bonuses and commissions	Expenses and other allowances	Total
	2015					
G Zowa	Chief Technical Officer	12	1 916	305	30	2 251
V Maharaj	Executive: Capital Programme	12	1 748	249	30	2 027
K Motlhabane	Executive: Legal	12	1 571	240	30	1 841
ST Mafu	Acting Chief Marketing and Sales Officer	10	1 400	174	24	1 598
M Mopeli	Executive: Human Resources	12	1 223	194	30	1 447
M Mojapelo	Executive: Compliance, Risk and Audit	8	738	–	20	758
R Hamilton	Chief Marketing and Sales Officer*	2	602	–	3	605
			9 198	**1 162**	**167**	**10 527**

* The amount paid constitutes fixed salary for two (2) months paid to the Chief Marketing and Sales Officer and an additional four (4) months' gross earnings in lieu of a mutual seperation agreement.

\# The performance bonus payout in 2014/15 relates to the Company's performance for the 2013/14 financial year.

24. Categories of financial instruments – 2016

R'000	Note	Financial assets at amortised cost	Equity and non-financial assets and liabilities	Total
Assets				
Non-current assets				
Property, plant and equipment	3	–	1 297 319	1 297 319
Trade and other receivables	6	–	13 587	13 587
Intangible assets	4	–	57 149	57 149
Total non-current assets		**–**	**1 368 055**	**1 368 055**
Current assets				
Trade and other receivables	6	41 983	6 746	48 729
Cash and cash equivalents	7	141 626	–	141 626
Total current assets		**183 609**	**6 746**	**190 355**
Total assets		**183 609**	**1 374 801**	**1 558 410**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2016

24. Categories of financial instruments – 2016 (continued)

R'000	Note	Financial liabilities at amortised cost	Equity and non-financial assets and liabilities	Total
Equity and liabilities				
Equity				
Equity attributable to equity holders of parent:				
Shareholders' loans	9	–	1 829 530	1 829 530
Retained income		–	(957 266)	(957 266)
Total equity			**872 264**	**872 264**
Liabilities				
Non-current liabilities				
Deferred income	12	–	502 857	502 857
Current liabilities				
Trade and other payables	11	99 067	–	99 067
Deferred income	12	–	71 759	71 759
Provisions	10	–	12 463	12 463
Total current liabilities		**99 067**	**84 222**	**183 289**
Total liabilities		**99 067**	**587 079**	**686 146**
Total equity and liabilities		**99 067**	**1 459 342**	**1 558 410**

24. Categories of financial instruments – 2015

R'000	Note	Financial assets at amortised cost	Equity and non-financial assets and liabilities	Total
Assets				
Non-current assets				
Property, plant and equipment	3	–	1 304 152	1 304 152
Intangible assets	4	–	19 348	19 348
Trade and other receivables	6	–	14 715	14 715
Total non-current assets		**–**	**1 338 215**	**1 338 215**
Current assets				
Trade and other receivables	6	254 208	2 375	256 583
Cash and cash equivalents	7	156 668	–	156 668
Total current assets		**410 876**	**2 375**	**413 251**
Total assets		**410 876**	**1 340 590**	**1 751 466**

24. Categories of financial instruments – 2015 (continued)

R'000	Note	Financial liabilities at amortised cost	Equity and non-financial assets and liabilities	Total
Equity and liabilities				
Equity				
Equity attributable to equity holders of parent:				
Shareholders' loans	9	–	1 829 530	1 829 530
Retained income		–	(865 872)	(865 872)
Total equity			**963 658**	**963 658**
Liabilities				
Non-current liabilities				
Deferred income	12	–	546 830	546 830
Current liabilities				
Trade and other payables	11	158 536	–	158 536
Deferred income	12	–	70 529	70 529
Provisions	10	–	11 913	11 913
Total current liabilities		**158 536**	**82 442**	**240 978**
Total liabilities		**158 536**	**629 272**	**787 808**
Total equity and liabilities		**158 536**	**1 592 930**	**1 751 466**

25. Risk management

Financial risk management

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

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

Liquidity risk

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2016

25. Risk management (continued)

The following are the contractual maturities of financial liabilities.

R'000	Carrying amount	Contractual cash flows	6 months or less	6–12 months
2016				
Trade and other payables	**99 067**	**99 067**	**(99 067)**	**–**
2015				
Trade and other payables	158 536	158 536	(152 952)	(5 584)

Interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The Company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Management evaluated credit risk relating to customers on an ongoing basis. Customers are required to undergo a vetting process where their liquidity is investigated. The Company also perform monthly follow ups with debtors to ensure that they pay within agreed payment terms, this is evident by the 98% of debtors that are within 60 days.

Financial assets exposed to credit risk at year end were as follows:

By geographical area

	2016 R'000	2015 R'000
By geographical area		
Domestic	**35 834**	81 190
International	**318**	712
	36 152	**81 902**
By customer type		
Telecom service provider companies	**36 152**	**81 902**
Ageing		
Not past due	**35 556**	79 544
60 days	**17**	17
90 days	**579**	2 341
	36 152	**81 902**

25. Risk management (continued)

Foreign exchange risk

The Company operates predominantly in its functional currency of South African Rand (ZAR). Certain transactions take place in foreign currencies, primarily with respect to the US Dollar. The Company's main US Dollar exposure is in respect of its ongoing investment in the West African Cable System. The Company is exposed to the risk of fluctuating exchange rates and seeks to manage this exposure with 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.

	2016 8% strengthening	2016 8% depreciation	2015 8% depreciation	2015 8% depreciation
Foreign debtors				
South African Rands	(25)	25	(23)	23

	2016	2015
US Dollar Rates Used:		
Closing Rate	R14,82	R12,15
Average Rate	R13,77	R11,06

26. Going concern

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

Broadband Infraco SOC, has prepared its financial statements for the year ended 31 March 2016 on the basis that it will continue as a going concern for the foreseeable future, thus at least the next 12 months.

This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The Board of Directors has considered whether the going concern assumption is appropriate for the Company in the preparation of the Annual Financial Statements. The directors have reviewed the Company's forecast financial performance for the year 31 March 2017 as well as 31 March 2018 and in light of this review and the current financial position, they are satisfied that the Company has access to adequate resources to continue in operational existence for the foreseeable future, taking into account access to some funding in the medium term is obtained.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2016

26. Going concern (continued)

Management intervention on operations for the year ended 31 March 2016

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

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

The assessment considered below examines interventions by the Company and shareholders to substantiate why the going concern assumption in preparing the Annual Financial Statements for the year ended 31 March 2016 is considered appropriate.

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

During the past 12 months management undertook several optimisation exercises to reduce cost of sales and operational costs. This resulted in significant sustainable reduction of cost of sales and operational costs as can be seen in the Annual Financial Statements.

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

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

The total new sales concluded during the first quarter of the new financial year totalled almost R65 million. R12 million of this that can be recognised as revenue during the new financial year. Management is working and driving sales hard to ensure this momentum continues.

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

27. Capital commitments

	2016 R'000	2015 R'000
Capital commitments approved and contracted	5 205	89 434

28. Events after the reporting period

There has not been any significant events between 1 April 2016 and 21 July 2016.

29. Irregular, fruitless and wasteful expenditure

Irregular expenditure

Section 1 of the Public Finance Management Act No. 1 of 1999, as amended, defines irregular expenditure as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not incurred in accordance with a requirement of any applicable legislation. The following amounts have been disclosed as being irregular expenditure, in terms of Section 55(2)(b) of the Public Finance Management Act. No. 1 of 1999.

29. Irregular, fruitless and wasteful expenditure (continued)

Irregular expenditure

	2016 R'000	2015 R'000
Irregular expenditure		
Opening balance	**3 010**	136 544
Incurred in the current year	**–**	38
Identified in the current year relating to previous years	**118**	80
Removal from register	**(926)**	–
Condoned during the year	**(372)**	(133 652)
Closing balance*	**1 830**	**3 010**

*Internal processes to resolve these matters are in progress.

Irregular expenditure detail 2016

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

Irregular expenditure detail 2015

R'000	Action	Expenditure identified	Amounts condoned	Remaining expenditure
Expenditure identified and/or incurred in the current year				
Expenditure incurred in transgression of commercial processes, policies	Matters are in the process of being ratified	118	–	118
Identified in previous years				
Expenditure incurred in transgression of commercial processes, policies	Matters are in the process of being ratified	136 544	(133 652)	2 892
		136 662	**(133 652)**	**3 010**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2016

29. Irregular, fruitless and wasteful expenditure (continued)

Fruitless and wasteful expenditure

Losses recovered or written off

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

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

	2016 R'000	2015 R'000
Fruitless and wasteful expenditure		
Opening balance	**–**	377
Identified in the current year	**3**	8
Written off	**(3)**	**(8)**
Removal from register	**–**	(377)
	–	–

R'000	Action	Losses identified	Losses written off
Fruitless and wasteful expenditure in detail 2016			
Interest incurred from suppliers	Losses written off	3	(3)
Fruitless and wasteful expenditure in detail 2015			
Opening balance	Losses written off	377	(377)
Interest incurred from suppliers	Losses written off	8	(8)
		385	**(385)**

ACRONYMS AND ABBREVIATIONS

AGM	Annual General Meeting
ARC	Audit and Risk Committee
BCM	Business Continuity Management
BEE	Black Economic Empowerment
B-BBEE	Broad-Based Black Economic Empowerment
BYO	Black-Youth-Owned
BWO	Black-Women-Owned
BPM	Business Process Management
CAPS	Curriculum and Assessment Policy Statement
CCMA	The Commission for Conciliation, Mediation and Arbitration
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMSO	Chief Marketing and Sales Officer
COSO	Committee of Sponsoring Organisation
CPM	Capital Programme Management
CPTD	Continuing Professional Teacher Development
CSI	Corporate Social Investment
CTO	Chief Technical Officer
CWU	Communications Workers Union
DFI's	Development Finance Institutions
DST	Department of Science and Technology
DTPS	Department of Telecommunications and Postal Services
DWDM	Dense Wavelength Division Multiplexing
EBITDA	Earnings Before Interest, Taxes, Depreciation, Amortisation
ED	Enterprise Development
EE	Employment Equity
ERM	Enterprise Risk Management
Exco	Executive Committee
EXCOPs	Executive Committee Procurement Subcommittee
ECA	Electronic Communications Act
ECNS	Electronic Communications Network Services
FMPPI	Framework for Managing Programme for Performance Information
FOC	Fibre-Optic Cable
GRI	Global Reporting Initiatives
HRIS	Human Resources Information System
HRRC	Human Resources and Remuneration Committee
IAS	Internal Accounting Standards
ICASA	Independent Communications Authority of South Africa
ICT	Information Communications Technology
I-ECNS	Individual Electronic Communications Network Services
I-ECS	Individual Electronic Communications Services
IDC	Industrial Development Corporation
IFC	Investment and Finance Committee
IFRS	International Financial Reporting Standards
IFTPC	Investment Finance Tender and Procurement Committee
INX-ZA	Internet Exchange – South Africa
IP	Internet Protocol
IRBA	Independent Regulatory Board of Auditors
ISPs	Internet Service Providers

ACRONYMS AND ABBREVIATIONS CONTINUED

IRU	Indefeasible Rights of Use
ISO	International Standards Organisation
ISPA	Internet Service Providers Association
KAMs	Key Accounts Managers
KPA	Key Performance Area
KPI	Key Performance Indicator
MoU	Memorandum of Understanding
MSA	Master Services Agreement
MTEF	Medium-Term Expenditure Framework
MTTR	Mean Time To Repair
MTS	Multiwavelength Transport Services
LD	Long Distance
LEDET	Limpopo Department of Economic Development, Environment and Tourism
LTIFR	Lost-Time Injury Frequency Rate
MICT SETA	Media, Information and Communication Technologies Sector Education and Training Authority
NDP	National Development Plan
NT	National Treasury
NED	Non-Executive Director
NOC	Network Operations Centre
NOSA	National Occupational Safety Association
PAA	Public Audit Act
PAYE	Pay as You Earn
PFMA	Public Finance Management Act No. 1 of 1999 as amended
PoP	Point of Presence
PoPI	Protection of Personal Information Act
PWD	People Living with Disabilities
RSA	Republic of South Africa
RACI	Responsible, Accountable, Consulted and Informed
SACE	South African Council of Educators
S&E	Social and Ethics
SADC	Southern African Development Community
SDH	Synchronous Digital Hierarchy
SHEQ	Safety, Health, Environment and Quality
SIP	Strategic Infrastructure Project
SITA	State Information Technology Agency
SKA	Square Kilometre Array
SLA	Service Level Agreement
SMF	Significance and Materiality Framework
SNO	Second Network Operator
SOC	State-Owned Company
STM	Synchronous Transport Module
T&P	Tender and Procurement
USD	United States Dollars
WACS	West Africa Cable System
WiP	Work in Progress
WSP	Workplace Skills Planning
VAT	Value Added Tax
YoY	Year-on-Year
ZAR	South African Rand

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