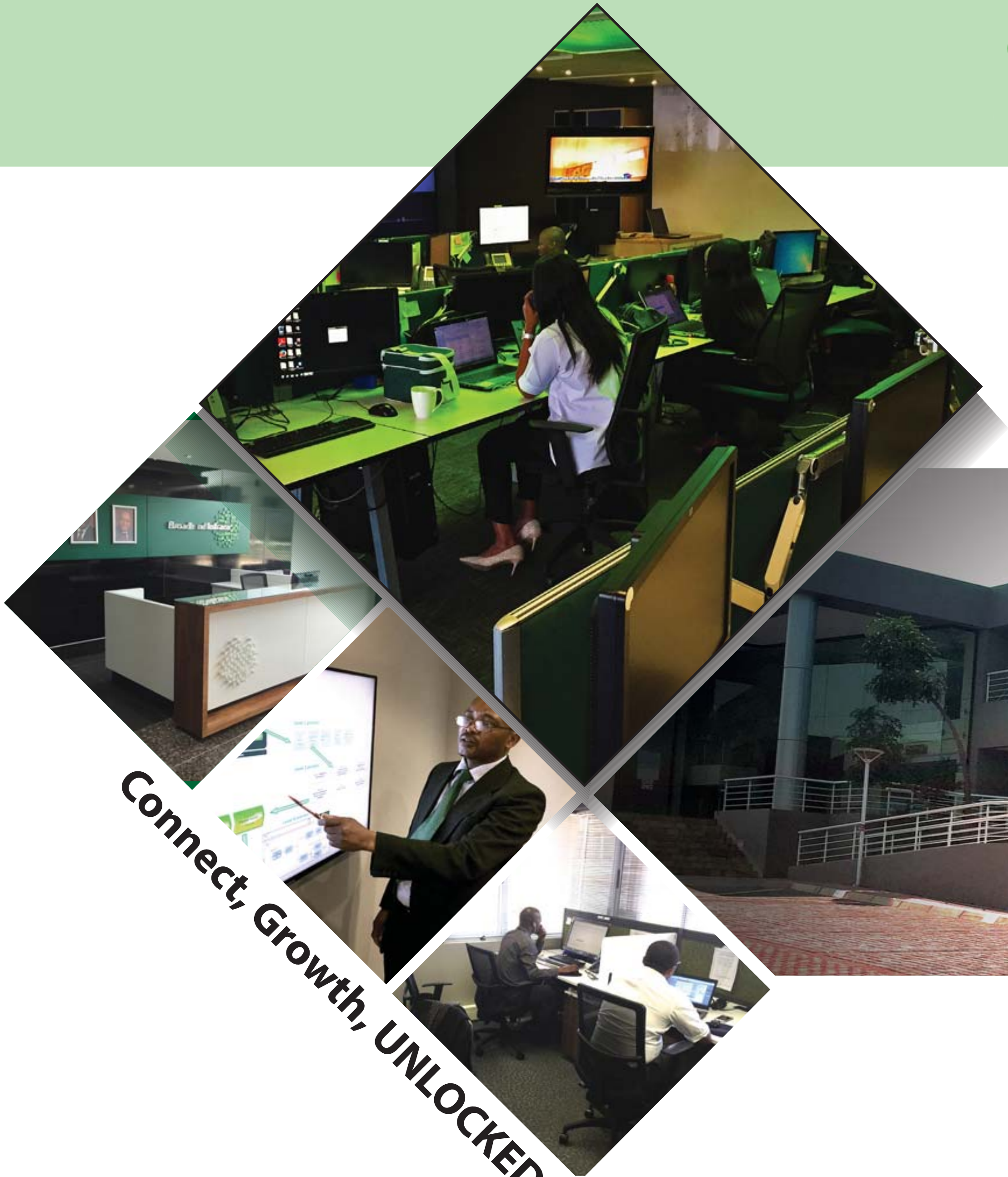
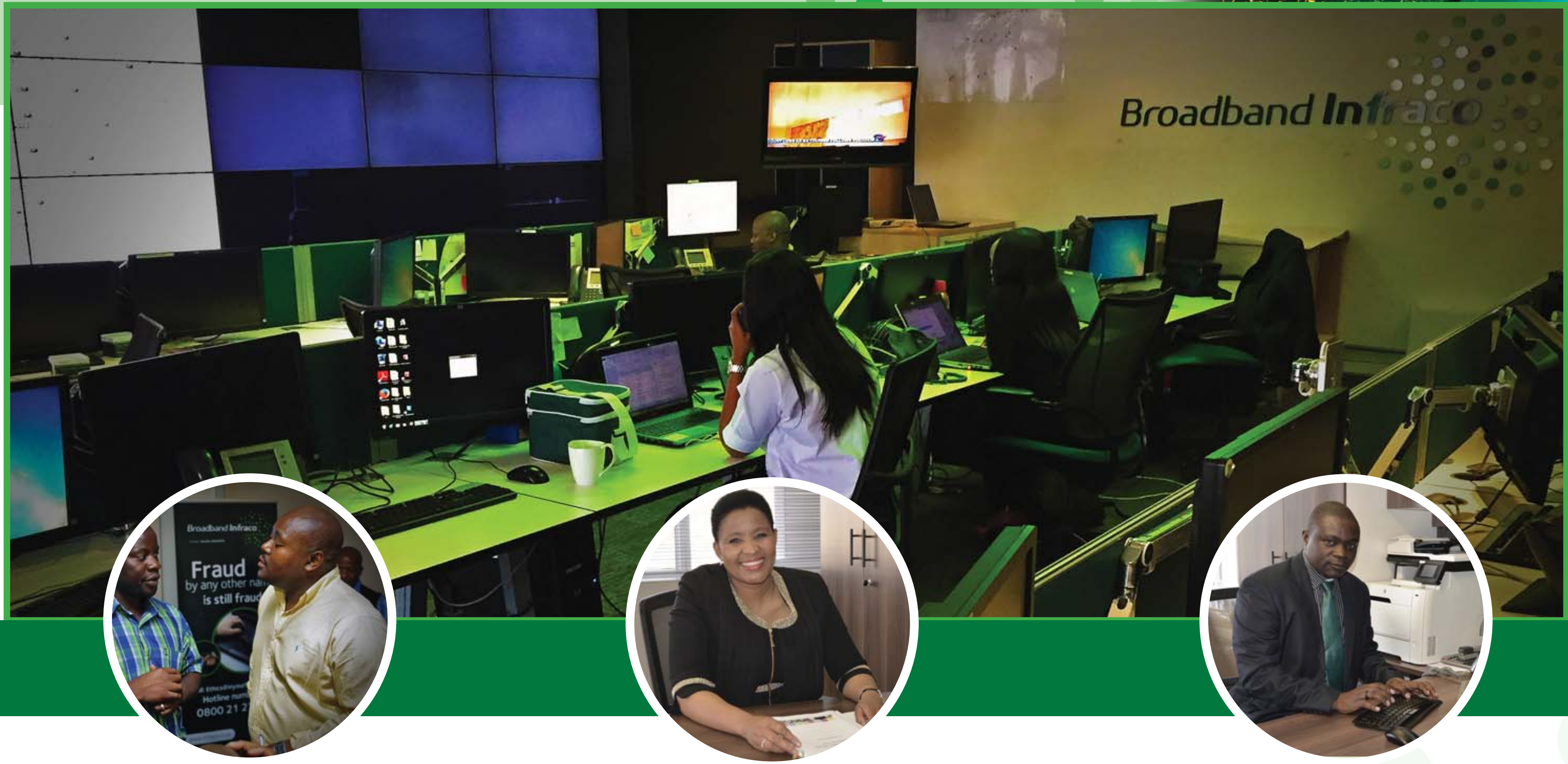
Broadband **Infraco**



Connect, Growth, UNLOCKED

Integrated Report 2015

Building South Africa's Broadband Infrastructure



2012

West Africa Cable System launched; first above-marketing campaign.

2013

End of the rights of use with Neotel.

2014

- Second anchor client acquired; five (5) open access PoPs completed, National Broadband Policy Gazetted.
- 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.

FINANCIAL AND NON-FINANCIAL INDICATORS

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

SHAREHOLDER COMPACT		82.35% ACHIEVED
REVENUE: R366M		21% YEAR-ON-YEAR GROWTH ACHIEVED
YEAR-ON-YEAR CUSTOMERS		FROM 11 TO 18 GROWTH
CORPORATE SOCIAL INVESTMENT		MATHS AND SCIENCE SUPPORT BOUQUET OF SERVICES DELIVERED TO TWO HIGH SCHOOLS
NETWORK AUTONOMY		5 OPEN ACCESS PoPS COMPLETED
PRODUCT DEVELOPMENT		ABOVE INDUSTRY NORM OF 99.9% EXCEEDING CUSTOMER TARGETS IN ALL QUARTERS

FINANCIAL AND NON-FINANCIAL INDICATORS CONTINUED

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

	ACHIEVEMENT AND AWARDS ON GOVERNANCE	▲	OVERALL AWARD AND "A" RATING IN COMPLIANCE "A" RATING INTERNAL AUDIT AND INTERNAL CONTROL
	EMPLOYEE SATISFACTION SURVEY	▲	74% EMPLOYEES PARTICIPATED AND 70% WERE SATISFIED
	RECYCLE MATERIALS	▲	INCREASE PERCENTAGE USE OF RECYCLE MATERIALS
	SHEQ TRAINING	▲	95% OF EMPLOYEES WERE TRAINED ON SHEQ
	WATER CONSUMPTION	▼	REDUCTION IN WATER CONSUMPTION IN PROJECTS
	ENERGY CONSUMPTION	▼	REDUCTION IN DIRECT ENERGY CONSUMPTION

CONTENTS

SECTION 1

SECTION 2

1. ABOUT THIS REPORT

The Board and Executive Management of Broadband Infraco SOC Limited ("the Company") are pleased to present the Integrated Report of the Company for 2015. 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 Shareholder Representative on behalf of the Government of South Africa, and to the Industrial Development Corporation (IDC) of South Africa, as the minority Shareholder. On 19 September 2014, the President of the Republic of South Africa signed a proclamation transferring Broadband Infraco from the Department of Public Enterprises to the Department of Telecommunications and Postal Services.

The Company's main accountability instruments are the Corporate Plan, Annual Report, Quarterly Reports, Annual Financial Statements and any other information that may be requested by the Shareholders from time to time. The Annual 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 to Broadband Infraco, its value proposition and strategy, opportunities and risks, the 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 decisive turnaround in the Company, manifested among others by the following watershed variables:

Economic and Strategy Performance Indicators:

a. Significant growth in active customers from 11 to 18, including signing on a second anchor customer.
b. Positive cash flow generated from internal operations.
c. An increase in revenue compared to the previous year.
d. Successful application for a development grant from the African Development Bank (AfDB). This grant will be used to develop a 10-year Strategic Corporate Plan that consists of bankable projects.
e. Expended significant capital expenditure to enable connectivity to private and public customers.
f. Upgrades of its network infrastructure and transmission equipment for modern, world-class connectivity.
g. Consistently exceeding its network Service Level Agreement (SLA) targets against contracted values.
h. Training up to 95% of employees on Safety, Health, Environment & Quality (SHEQ).
i. Plans to get full accreditation on the three (3) SHEQ systems (OSHAS 18001 , ISO 14001 and ISO 9001) are in the implementation phase.

Environmental Performance:

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

Social Performance Indicators:

a. The implementation of the first Corporate Social Investment Programme benefiting two (2) rural schools to endeavour to promote Information and Communication Technology (ICT) skills among the youth.

b. Increased utilisation of its network capacity for wider socio-economic benefit.

c. A steady increase in work force as a direct result of operational performance, with representation across the target demographic segments.

d. Establishing an above-average benchmark for the first fully-fledged Customer Satisfaction Survey, as well as the Employee Perception Survey.

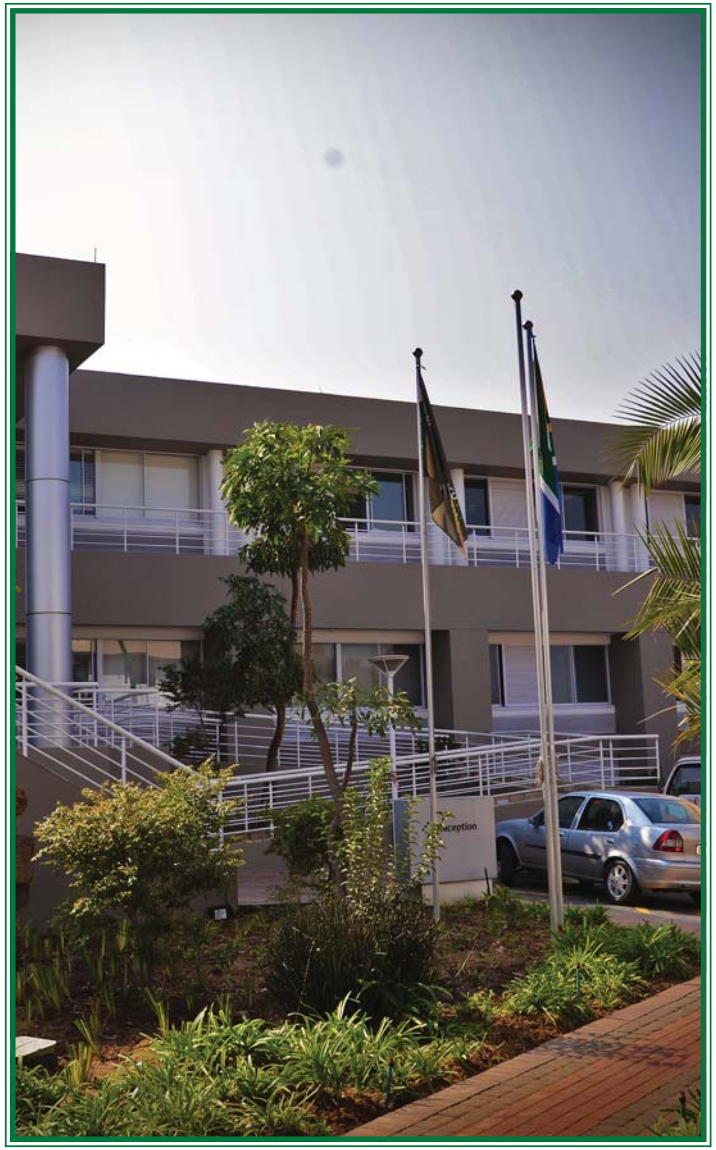
e. Marketing and Communications: Industry appropriate participation.

f. Total number of incidents of non-compliance with regulations.

g. Consolidation of all internal governance controls.

These specific integrated reporting indicators are contained in the subsequent sections, in particular Sections 9 to 20. The two (2) essential concepts of integrated reporting of capital formation, and the value-creation process permeate this Report.

2. WHO WE ARE



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 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) as its Executive authority in terms of the PFMA and the Industrial Development Corporation as its Shareholders in terms of the PFMA.

Broadband Infraco's mandate also resonates with Strategic Infrastructure Project (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 is focusing on regional Integration for African co-operation and development. Availing the capacity of the West Africa Cable System (WACS) to the Department of Science and Technology (DST) is at the core of SIP 17, while the company has an obligation to connecting neighbouring countries addressing ICT infrastructure requirements for SIP 17.

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

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

Broadband Infraco has in excess of 14 000 km of fibre network countrywide and 158 Points of Presence (PoPs). The national long distance fibre-optic network currently utilises Dense Wavelength Division Multiplexing (DWDM) equipment, providing a number of 2.5 Gigabits, 10 Gigabits and 40 Gigabits lambdas along the majority of fibre routes. The Company plans to broaden its footprint in order to fulfil its mandate of providing broadband connectivity to all, by the year 2020.

2.2 Vision Statement

Broad Infraco's vision:

> "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.
- Connect to all six (6) neighbouring countries of South Africa.
- Connect countries on the West Coast of Africa to the West Africa Cable System.

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 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 understand 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 they deserve.

2.5 Opportunity Overview

The approved South African National Broadband Policy considers broadband an eco-system 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 the second largest commercial national long-distance optic- fibre network in South Africa with over 14 000 km.

Broadband Infraco's activities are 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.
- Government departments that are ready to leverage Broadband Infraco service delivery through the use of broadband applications.
- Co-operating with different partners to harvest broadband networks that will grow the use of broadband services.

Organisational Development

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

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

2.6 Development Cycle

In terms of the development lifecycle and the historical evolution, Broadband Infraco was issued with an I-ECNS license in 2009 which commercial clients had to acquire as from 2010, and continues developing the required capability and capacity to perform its business effectively and efficiently. The chosen operating model is customer-centric and mandate-based, and with major strategic focuses including:

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

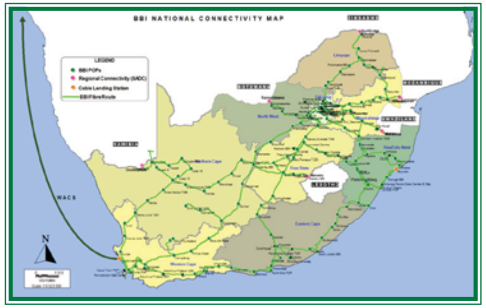
3. WHAT WE DO

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 PoP to PoP within our National Long Distance fibre optic network.

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

3.1 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 approximately 14 000 km of fibre. The total capacity of the network is 12 441 STM1 equivalent. This will go up dramatically once the current upgrades are completed. The Company is moving to Synchronous Digital Hierarchy (SDH) and Internet Protocol (IP) technology, which is the latest technology.

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.

3.2 Regional Connectivity

Network extensions have also been implemented to provide fibre connectivity to the neighbouring countries of Lesotho, Mozambique, Namibia, Swaziland and Zimbabwe. Connectivity in Botswana was completed in the previous financial year. Broadband Infraco can link the West Coast and East Coast international cable systems. In line with the Southern African Development Community (SADC) Protocol alignment, Broadband Infraco has connected all the SADC points of presence.

3.3 International Connectivity

Broadband Infraco is a tier-1 core investor of the WACS cable initiative, which brought all the parties together to address the need for international connectivity. Through Broadband Infraco, the South African government has international connectivity, which:

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


Broadband Infraco

4. OUR LEADERSHIP

Broadband Infraco's Board of Directors

BMC Ngcobo

Black, Male

Date Reappointed: 23 March 2015

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

Expertise: Telecommunications and Business Management

Chairperson: Board of Directors

A Githiari

Black, Male

Date Reappointed: 23 March 2015

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

Expertise: Telecommunications Industry Specialist

Chairperson: Investment and Finance Commmittee

M Maponya

Black, Female

Date Reappointed: 23 March 2015

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

Expertise: Auditing, Corporate Finance and General Management

Chairperson: Audit and Risk Committee

S Mabalayo

Black, Male

Date Reappointed: 4 October 2014

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

Expertise: Project Management and General Management

Chairperson: Human Resources and Remuneration Committee

N Selamolela

Black, Female

Date Reappointed: 23 March 2015

Qualifications: BCom (Accounting) Northwest University, BCom (Hons) UKZN

Expertise: Telecommunications and General Management

Chairperson: Investment, Finance, Tender and Procurement Committee

M Mosweu

Black, Female

Date Appointed: 14 October 2014

Qualifications: CA (SA) BCom (Accounting) UWC, BCompt (Hons) Unisa

Expertise: Telecommunications, Finance and General Management

Chairperson: Social and Ethics Committee

P Kwele

Black, Female

Date Appointed: 20 June 2012

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

Expertise: Telecommunications and Business Management

Chairperson: Executive Committee

Standing: (from left to right) : Klaas Motlhabane, Sammy Mafu, Gift Zowa, Mike Mojapelo and Vishen Maharaj
Seated: (from left to right) : Thandi Pama, Montšeng Mopeli and Puleng Kwele

5. REPORT FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

BMC Ngcobo Chairman of the Board

Puleng Kwele Chief Executive Officer

On behalf of the Board of Directors, the Chairperson and Chief Executive Officer, we wish to present the second Integrated Report for the year ended 31 March 2015.

This Integrated Report covers the total performance of the Company, its financial and other resources and the Company's view of how the announced SOC Rationalisation could unfold. This Report reflects progressive year-on-year improvement on revenue over the past three years, which is considered as having put in place the critical blueprint to enable lasting sustainability. The execution of the strategic themes has resulted in an increase in revenue generated (R366 million against R302 million for the previous financial year).

5. REPORT FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

5.1 The past three (3) years: The building blocks to enable sustainability

Broadband Infraco has over the past three (3) years executed its “Build, Grow and Expand Strategy”, which has ensured that a solid platform is in place to create momentum towards lasting sustainability and preserving the value of the Company. This is reflected in the following trajectory:

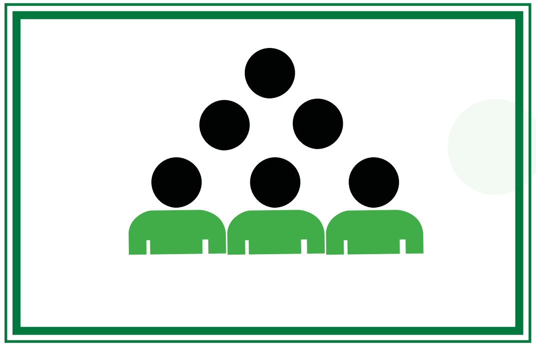
- Consistently achieving in excess of 80% Shareholder Compact deliverables (96% for 2013/2014); (82.35% for 2014 / 2015);

  Consistently increased revenue by double-digits year-on-year (R237m in 2013 to R302m in 2014 and R366m in 2015);
- Consistently generated a gross profit (R65m in 2013, R149m in 2014 and R50.6m in 2015). The decrease in gross profit is a result of increased cost of acquisitions, which should be reduced once migration processes are complete; and
- Consistently invested significantly capital expenditure in the extensions and refurbishment of its National Long Distance Networks (R142m in 2013, R199m in 2014 and R136m in 2015).

The deployment of network infrastructure is consistent with Broadband Infraco’s mandate of enabling access to broadband infrastructure for all.

The execution of Company’s overall strategy over the period has enabled it to align to new conditions and to better capture emerging opportunities. The key drivers of the strategy are listed below:

- Diversification from reliance on one (1) anchor customer to growing the total customer base to 18, including the acquisition of additional two (2) anchor customers.
- Evolving the sales approach to a more strategic and robust engagement at the highest level with customers. This has resulted in increased revenue.
- Cost of Sales: From accepting fixed expenses as immutable; to robustly re-engaging with leasing partners to extract real value for money and cost reductions. This includes constantly assessing the most feasible option for deploying infrastructure.
- Infrastructure Management and Maintenance: Comprehensive planning of an autonomous network has resulted in the completion of several Open Access Points of Presence and reduced reliance on colocation with third parties.
- Human Capital: A constant critical review of productivity and performance contracting enables honest conversations in areas of improvement.



GROWING THE TOTAL CUSTOMER BASE TO 18

5.2 Results of the year under review

Shareholder Compact

Broadband Infraco has achieved 82.35% of its Shareholder Compact for the financial year under review. The three (3) non-achievements are due to non-attainment of EBITDA, total spending on Black-Owned Enterprises and Youth-Owned Enterprise targets.

Revenue

Revenue for the year ended 31 March 2015 amounts to R366 million, which is a 22% increase compared to the previous year of R302 million. The growth in revenue is as a result of an addition of State Information Technology Agency (SITA) to the anchor customer base.

The total customer base has also grown from 11 in the previous year to 18 in the current year.

Cost of Sales

Cost of Sales is 61% higher than the previous year as a result of two (2) additional anchor customers. Fibre was leased from a third party as part of customer migration for services of both anchor clients. Fibre lease costs associated with these clients are expected to reduce post the migration phase. Another key driver for the increased Cost of Sales is costs incurred for colocation. The colocation costs were historically accounted for within the Rights of Use agreement. With the expiry of that contract there is a drive to ensure autonomy of the Broadband Infraco network from the Second Network Operator (SNO) and these costs are expected to be reduced going forward.

Cash Flow Position

Cash utilised from operating activities of (R137.3 million) has materially deteriorated due to increased Cost of Sales associated with the new anchor clients in the current year as well as addressing network integration legacy issues. The closing cash balance as a result is at R156.7 million compared to the previous year, which was at R441.8 million, which represents a decrease of R285.1 million.

Optimisation Interventions

The Company has instituted revenue and cost optimisation interventions which should result in an improved gross profit and cash-flow position. These key interventions include:

- **Cost of Sales optimisation** – The first phase of migration of one the new anchor customer backhaul services is complete. This will reduce future Cost of Sales costs. The completion of the first phase of deployment of infrastructure will also add to the reduction of future Cost of Sales.
- **Labour Costs** – a three-year substantive agreement was concluded in 2014, which aims to provide certainty and predictability of salary costs to ensure that salary costs are contained during this period.
- **Labour Costs Capitalisation** – Management has put controls in place to ensure that labour costs incurred in the implementation of capital projects are administered and accounted for correctly.

Gross Profit

The Company's gross profit has reduced by 61% year-on-year due to increase in Cost of Sales.

Capital Projects Completed

The majority of the planned projects were completed on time during the year under review. These included:

- The acquisition of two (2) new anchor clients has enabled Broadband Infraco to build independent open access PoPs in Port Elizabeth, Bloemfontein and Upington, thus reducing the reliance on third parties.
- An access point being deployed within the borders of South Africa to provide diversity to the existing PoP that is in Maseru.
- As part of the fulfillment of license obligations, an access point was established in Stanger in KwaZulu-Natal.
- A network laboratory at Minerva has been established as an intermediate measure.

An amount of R98 million of work in progress was capitalised for the year.

Product Portfolio Enhancement

Broadband Infraco has successfully embarked on introducing IP Peering and Remote Peering as a product. A successful Remote Peering trial was concluded with an independent Internet Service Provider.

Update on SHEQ

The implementation and maintenance of SHEQ systems is the core of the Company's strategy. The implementation of the systems and training of the employees has yielded positive results with the following highlights for the year under review:

- OSHAS18001:2007, stage one and stage two audits have been completed and all external audit findings have been resolved.
- As with previous periods, this has been a year with no fatalities from operational incidents. The ISO 9001 system certification was initiated. No environmental incidents have been reported and/or recorded. There has been no third party claim as a result of non-compliance to SHEQ requirements.

Enterprise Development and Corporate Social Investment

Broadband Infraco developed an Enterprise and Supplier Development Strategy. The Strategy is designed to provide conclusive enterprise and supplier development through effective planning and sourcing of products and services. The main focus of this Strategy is to:

- Increase the participation of previously disadvantaged individuals in the ICT sector.
- Increase skills capacity and capability within the ICT sector.
- Driving investment in enterprises that are owned or managed by black people.

The implementation of the Enterprise and Supplier Development Programme has yielded 113% B-BBEE spend, of which 33% was spent on Black Women-Owned enterprises and 8.1% on Black Youth-Owned enterprises.

Broadband Infraco continued to support Seshigo High School in Limpopo and Ezakheni High School in Mpumalanga. Aligned to the Company's strategy of enhancing the learning of Maths and Science, a 35-seater computer laboratory was installed (in partnership with Transnet) at Seshigo High School as well as provision of Maths and Science calculators, and delivery of interactive white boards to both schools to enhance the creation of an environment conducive to learning. The ablution facilities were renovated at Seshigo High School.

Irregular Expenditure

The internal systems of control implemented are yielding positive results. This is evident in the significant year-on-year decline in irregular expenditure incurred in the period from six million in the 2013/2014 year to thirty eight thousand rands for the 2014/2015 year. The Company strives to ensure that no irregular expenditure is incurred and continues to train employees on approved policies.

5.3 Funding Requirements

Broadband Infraco SOC prepared its financial statements for the year ended 31 March 2015 on the basis that it will continue as a going concern for the foreseeable future. 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. For future funding requirements, an MTEF application will be submitted for the 2016 /17 Finacial year.The funding will be for the refurbishment of the ageing fibre and transmission equipment technology.

5.4 State-Owned Companies Rationalisation

The Board has provided its full support to the expressed intention to rationalise state-owned ICT assets by the Shareholders, informed by the imperatives of the SA Connect Policy, the National Development Plan and national economic transformation. The Company is ready to collaborate with the appointed lead broadband implementation agency to deliver on all requirements for SA Connect Phase 1 and subsequent phases.

Rationalisation would entail, in Broadband Infraco's view, a consolidation of the state's broadband assets under one umbrella to form a national broadband network that would provide wholesale services on an open access basis through a state-owned Company. The Board has affirmed how it envisages such rationalisation to be implemented; namely over two phases:

Phase 1:

SOC Rationalisation: Short-Term Implementation Process and Outcomes

- ICT SOCs which should be encouraged to immediately collaborate and co-ordinate their business operations to avoid duplicating scarce resources.
- ICT SOCs are ideally located within the ICT value chain to complement one another in terms of network footprint, technological resources and operating licences.
- They should collaborate in various areas of their operations, including international and national long-distance connectivity, facilities sharing and co-location of equipment, and co-ordinated planning and deployment of broadband infrastructure and services in deprived provinces.
- These collaboration efforts will ensure that the country meets the immediate broadband targets outlined in SA Connect.
- During this period, it should be determined how each ICT SOC will contribute towards meeting the immediate requirements of SA Connect and to what extent they should be financially strengthened to fulfil this developmental mandate.
- The financial strengthening of the ICT SOCs during this transition phase (as advocated for in the Broadband Policy) should be complemented by ensuring access to the relevant operating licences and appropriate technologies.
- Collaboration among ICT SOCs may initially be captured in a Memorandum of Understanding, followed by conclusions of Joint Venture Agreements to target specific projects allocated to them under SA Connect.

Phase 2:

SOC Rationalisation: Medium to Long-Term Implementation Process and Outcomes

- While short-to-immediate-term collaboration efforts are under way, ICT SOCs should be encouraged to conduct due diligence in relation to their respective business operations to determine their capabilities and competencies.
- Furthermore, a review of legislative, regulatory and policy landscape applicable to ICT SOCs should be carried out to identify policy inconsistencies and conflicts.
- The review would be followed by legislative reform, if necessary. The reform should be aligned to the ICT Policy Review currently under way.
- Simultaneously, with the development and adoption of the National Broadband Implementation Plan, the New Broadband Network Company should be incorporated followed by the transfer of the relevant shares/assets. The New Broadband Network Company will then implement the National Broadband Plan.
- The South African government may resolve to utilise any SOC as the vehicle for the incorporation of the New Broadband Network Company.

5.5 Human Capital Management

Through various interventions, the Human Capital Department has managed to create a stable and increasingly productive environment with impressive commitment and dedication of its mostly young human resources. Establishment of engagement structures for enabling participative management style and open communication has improved trust levels between management and the employees. Organisational culture change initiatives were also vigorously driven to create environmental awareness regarding the mutual benefits of co-ownership of organisational vision, mission, sustainability and growth.

Imperatives that were instrumental in bolstering the enhancement of people management practices in the organisation included:

- Intensified drive for adherence to the performance-management framework;
- Realignment of divisional structures for optimisation and operational effectiveness was implemented in critical support functions such as Supply Chain Management and IT and core engineering;
- Organisation-wide roadshow to communicate and consult further on an employee value proposition development;
- Leadership capability enhancement, talent development and formulation of human resources policies that guide talent management strategies; and
- A review of the conditions of employment as an aspect of labour-cost management led to a work team productivity analysis by divisions to identify areas requiring tighter controls.

The precarious financial position of the Company during the 2014/15 financial year has impacted on the implementation of human capital initiatives that required financial resources. Despite this, some of the interventions were reduced to methods that could be accommodated with limited internal capacity.

Appreciation

It has been a period of transition for Broadband Infraco during the period under review with the Company moving from the Department of Public Enterprises to the Department of Telecommunications and Postal Services. It is therefore appropriate that we afford special thanks and appreciation to the previous Government Shareholder Representative of Broadband Infraco and, in particular, the Minister of Public Enterprises, Ms Lynne Brown, as well as the Minister of Telecommunications and Postal Services, Dr Siyabonga Cwele, and their departments for the assistance and support during the transition period. We would also like to thank the then Chairperson of the Industrial Development Corporation of South Africa, Ms Monhla Hlahla as well as the two different shareholder representatives from the IDC during the period under review i.e. Ms Katinka Schumann and Ms Khumo Morolo, as well as their Executive teams for their support during the period.

We wish to thank our colleagues on the Board of Directors and the Executive Management team, who have provided valuable and tireless guidance. We would also like to thank them for their commitment in assisting to re-position and turn around the Company and to position it for the future. Gratitude is also expressed to the many staff members who continue to demonstrate stoicism and dedication to adding value to the Company on a daily basis.

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

M Ngcobo
Chairman of the Board

P Kwele
Chief Executive Officer

6. HIGHLIGHTS

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

SHAREHOLDER COMPACT	82.35% ACHIEVED
REVENUE: R366M	21% YEAR-ON-YEAR GROWTH ACHIEVED
YEAR-ON-YEAR CUSTOMERS	FROM 11 TO 18 GROWTH
CORPORATE SOCIAL INVESTMENT	MATHS AND SCIENCE SUPPORT BOUQUET OF SERVICES DELIVERED TO TWO HIGH SCHOOLS
NETWORK AUTONOMY	5 OPEN ACCESS COMPLETED
PRODUCT DEVELOPMENT	ABOVE INDUSTRY NORM OF 99.9% EXCEEDING CUSTOMER TARGETS IN ALL QUARTERS

7. PERFORMANCE AGAINST SHAREHOLDERS' COMPACT – 2014/15

Strategic Objectives	Key Performance Area	Key Performance Indicator	Sub-weighting	Target 2014/15	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Actual	YTD	Status	Comments
Ensure business sustainability	Network performance rebates	Network performance rebates paid as percentage of gross revenue	12.5	≤3% of customer revenue	0.12%	0.24%	0.30%	0.02%	0.17%	Achieved	The contributing factors were a number of failures on the spur links, long restoration times, dual outages and outages on third party service provider's network.
	Cash reserves	Cash at the end of the year	5	≥R100 mil	R336.9 mil	R290 mil	R211 mil	R156 mil	R156 mil	Achieved	The excess is largely due to the delay in Capex roll out.
	EBIDTA budget	Measure of EBIDTA based on budget	12.5	(≥R116.6) mil	(16.6) mil	(R71.0) mil	(R125.2) mil	(R148.5 mil)	(R141) mil	Not Achieved	The EBIDTA for year to date remains negative at (R148.5 m) compared to (R108.1 m) budgeted, driven by an overspend in the Cost of Sales line.
Network saleability	Network utilisation	Overall increase in capacity at STM1 equivalent in the Golden Triangle, Northern Ring and other routes	30	10% increase (113 STM-1)	63.58	127	116	74.83	381.41	Achieved	Annual planned target is exceeded due to an increase in the number of new customers.

Strategic Objectives	Key Performance Area	Key Performance Indicator	Sub-weighting	Target 2014/15	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Actual	YTD	Status	Comments
Network improvement	Customer enablement	Extend the network and enable the connection of the 2nd anchor customer (Cell C)	10	75 services by 1 Jan 2015	43	0	56	4	103	Achieved	Annual planned target is exceeded. The customer bought more services.
	Network access and resilience	Establish new open access PoPs	5	5 PoPs by 31 March 2015	0	0	0	5	5	Achieved	The five (5) key PoPs in Port Elizabeth, Stanger, Maseru, Bloemfontein and Upington were completed by end of March 2015.
	Network technology interoperability	Establish a laboratory at Broadband Infraco premises	5	Fully functional laboratory by 31 March 2015	0	0	0	1	1	Achieved	A temporary laboratory has been established in a container at Minerva PoP as a result of a delay by the municipal council to approve the plan to establish the laboratory in the basement of our offices.
Economic transformation	Controlled training spend	Training spend as percentage of payroll	2	3%	2.2%	3.1%	3.2%	5.9%	3.50%	Achieved	5.9% of the Company's payroll was spent on training . This amounted to R1.5m. A total of 50 employees were trained amounting to 778 hours of training.
	ICT skills development	Increase in number of engineers in training per annum.	2	10	10	10	10	10	10	Achieved	The number of interns is maintained at 10 per annum.
	Employment creation	Increase in number of direct jobs created	2	3	0	3	0	2	5	Achieved	Annual planned target exceeded. The total number of new permanent jobs created is 5 due to operational requirements.

7. PERFORMANCE AGAINST SHAREHOLDERS' COMPACT – 2014/15

Strategic Objectives	Key Performance Area	Key Performance Indicator	Sub-weighting	Target 2014/15	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Actual	YTD	Status	Comments
Economic transformation	Employment creation	Increase in number of indirect jobs created	2	10	0	4	122	56	182	Achieved	Annual planned target is exceeded due to the number of capital projects. This was achieved from rigorous engagement with suppliers to compel them to create jobs in the local areas where projects were undertaken.
	Maximise socio-economic contributions	Allocation of B-BBEE budget discretionary spend	2	70%	110%	116%	112%	116%	113%	Achieved	The overall B-BBEE spend distribution for year-to-date is 113% against the 70% target. This was due to emphasis to conduct business only with main level 1 to 4 suppliers.
		Percentage increase on Black-Owned Entities spend	2	40% spend of B-BBEE	26.2%	31.0%	35.2%	54.6%	34.4%	Not Achieved	The Company spent over R103.2m on Black-Owned entities year-to-date. Much of the spend (60%) is foreign OEM-based companies with little or no black ownership, also due to very limited black enterprise participation in the ICT industry.
		Percentage spend of Black Youth-Owned Entities	2	10% spend of 40% spend on BYO	1.0%	9.3%	7.4%	16.5%	8.1%	Not Achieved	The Company spent over R3.0m on Youth-Owned entities year-to-date. After Q1 much emphasis was made to source from BYO businesses hence the increase in the subsequent quarters.

Strategic Objectives	Key Performance Area	Key Performance Indicator	Sub-weighting	Target 2014/15	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Actual	YTD	Status	Comments
Economic transformation	Maximise socio-economic contributions	Percentage spend of Black Women-Owned Entities	2	10% spend of 40% spend on BWO	14.8%	26.1%	43.1%	40.1%	32.7%	Achieved	The Company spent over R31.9m on Black Women-Owned entities year-to-date. This was due to the output of the Basadi in telecoms and enterprise development initiatives implemented to fast-track spend on BWO.
		Amount spend on people with Disabilities-Owned entities	2	R 300 000	R 0	R 0	R 0	R 517 672	R 517 672	Achieved	This area has been and still remains a challenge owing to a lack of participation in this challenging sector. More work is needed to achieve more in future.
	Corporate Social Investment in which the company assumes leadership in terms of advocating the positive socio-economic impact of increased broadband penetration and encourage wider societal broadband utilisation	CSI projects completed	2	Interactive white-boards linked to the Internet, facilitate access to digital libraries, access to mobile chemical laboratories and roll-out of additional Science and Maths calculators	Two-year connectivity access for Mphethi Mahlatsi Secondary School	Installed a screen in the computer laboratory established by Transnet at Seshigo High School that seats 35 learners	335 calculators were purchased for the two adopted schools	Installed interactive white boards with digital, CAPS aligned curriculum libraries. Donated old furniture to the three adopted schools	Two-year connectivity, computer lab screen, 335 calculators, interactive boards and old furniture	Achieved	Access to digital laboratories has been put on hold due to cost containment. In Q4 old furniture were donated to schools.

The Department of Trade and Industry (DTI) B-BBEE requirements, for BEE-level scoring does not indicate or reflect ownership for Black Youth-Owned entities (BYO) and People living With Disabilities-owned entities (PWD). During the year under review, Broadband Infraco revised its B-BBEE Policy to cater for both the BYO and PWD by awarding bonus points to the suppliers that fall within this category. Broadband Infraco is now fully geared and better positioned to calculate and monitor its spend in these two categories.

8. FUNDING STRATEGY

The funding strategy for the past year was designed to complement and cater for a transitioning business model. Broadband Infraco's business model has transitioned from a single customer to one based on multiple customers, ranging from the private to the public sector. In this regard, the Company's planned capital investment programme was supportive of overall long-term financial sustainability, with the four (4) key priority programme pillars being:

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

The funding strategy introduced initiatives to source funding from the private commercial banking sector and Development Finance Institutions (DFIs). The commercial banks were targeted as a source of short-term cash and liquidity provisioning facilities, while the DFIs were expected to support the Company with long-term debt capital.

Shareholder support via permanent long-term equity capital and a government guarantee was solicited from the Executive Authorities during the year;

In determining the funding strategy for the corporate planning period under review and aligned primarily to the capital investment programme, the Company considered a number of funding mechanisms and sources, ultimately deciding on three options:

- Project-based structured financing;
- Development Finance Institutions facilities (including bank funding for bridging purposes); and
- Government equity and multi-lateral agency grants.

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

The implementation of the funding strategy ultimately defaulted into four primary options and was categorised as follows:

- Development Finance Institutions Facilities;
- SOC Collaboration;
- Private Sector and Commercial Banks; and
- Government Departments and Ministries;

The objectives and tenets of the funding strategy were to enable Broadband Infraco to secure sufficient investment capital to fund projects by achieving the following:

- Cost-effective funding;
- Reduced Weighted Average Cost of Debt;
- Matching cash flows (in and out), including matching assets with liabilities;
- Diversification of the investor base and sources of funding;
- Managing financial market risks;
- Managing negative costs of carry by maximising utilisation of available cash;
- Raise funding ahead of demand to minimise liquidity/re-financing risk; and
- Attaining an investment grade credit rating.

Overview of the 2014/15 Funding Strategy

Development Finance Institutions (DFIs)

A. Objective

The relationships with DFIs are cultivated in order to enable the Company to secure long-term debt funding capital which is supported by concessional terms.

B. Progress

- The African Development Bank funded a project to produce a long-term Corporate Strategy Plan and a pre-investment study report is currently on track. The project has produced the long-term Corporate Strategy Plan. The timeline to produce the pre-investment study report was conducted at the end of June 2015.
- The AfDB may partner with Broadband Infraco in the funding strategy of the proposals as per the pre-investment report..

State-Owned Company Collaboration

A. Objective

- Collaboration with the Universal Service Access Agency of South Africa (USAASA) aims to achieve socio-economic objectives related to enhancing traffic on PoPs situated in underdeveloped and underserviced areas.
- The Development Bank of Southern Africa (DBSA) has been approached to participate in the deployment of the company's rolling commercial programme over the medium term.

B. Progress

- Broadband Infraco has developed a funding plan for the deployment of connectivity infrastructure to underdeveloped and underserviced areas. The Company has provided USAASA with all the required technical specifications for alignment with its Corporate plan and funding requirements.
- An Investment Memorandum for the "proof of concept" commercially viable project was developed and is undergoing the governance processes within the DBSA.

Private Sector and Commercial Banks

Objective

Securing funding from a commercial bank based on contractually secured cash flows which will provide the basis for a commercially viable project to be funded and priced based on an individual project risk profile and secured by project assets, incorporating a structured repayment profile taking into account the timing of project cash flows.

Progress

- Broadband Infraco approached all commercial banking institutions with the aim of establishing bridge funding facilities, including overdraft facilities. The banks' credit-assessment processes have highlighted the necessity for direct Shareholder support in order for Broadband Infraco to establish any credit facilities with commercial banks.

Government Departments and Ministries

Objective

- Broadband Infraco made an application for a Medium-Term Expenditure Framework (MTEF) recapitalisation to the value of R3.4 billion in order to provide a foundation to restructure the capital base of the balance sheet.
- Concurrent R528 million medium-term and R170 million short-term government guarantee applications were submitted to the Executive Authority based on the inability of the Company to secure borrowing facilities from commercial banks against the prevailing financial position of the Company.

Progress

- The medium-term guarantee was sought to provide bridge funding facilities for project-based funding structures. The short-term guarantee was sought against the invoice discounting programme and to provide immediate liquidity for operational purposes.

9. TECHNICAL ENVIRONMENT

Gift Zowa Chief Technical Officer

During the year under review, Broadband Infraco successfully planned, designed and implemented the following network infrastructure:

Network Improvements

- **Customer Project:** After the awarding of a tender, Broadband Infraco successfully commissioned the target of 75 services before the deadline of 31 January 2015.
- **Points of Presence:** Five (5) key PoPs were established in Port Elizabeth, Maseru, Stanger, Bloemfontein and Upington. These PoPs will assist the Company to capture more clients in these regions.
- **Laboratory:** Broadband Infraco has successfully established a temporary laboratory at Minerva which is now fully equipped from the current supplier. This will assist in offline product development, training and testing of new equipment.
- **IP Peering and Remote Peering:** Broadband Infraco has successfully embarked on introducing IP Peering and Remote Peering as a product. A three-month remote peering trial was started with a trial customer and the trial was a success.
- **Cost-Saving Projects:** As part of cost optimisation Broadband Infraco successfully optimised all space utilisation, resulting in cost savings of up to 60% in certain cases.
- **Regional Connectivity:** All regional operational centres except one, were connected with Head Office to allow seamless communication and access to all tools by all Broadband Infraco personnel. This improved operational costs pertaining to communication and efficiency.
- **SITA Project Rollout:** Designs and plans for the SITA project rollout were completed while arrangements for an interim solution were effected to provide the services in the meantime.

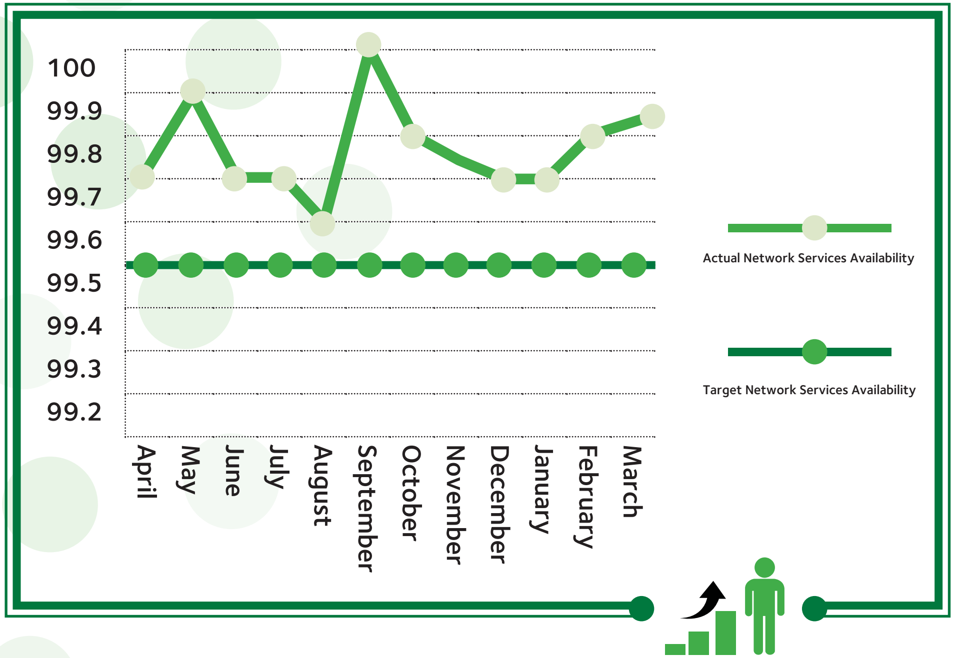
Other Projects Update

- **Network Capacity Upgrade:** A completion of this project was delayed somewhat due to a lack of fibre pairs. Commissioning has been completed for the first portion.
- **IP Core Phase 2:** All design work was completed and rollout will depend on customer demand.
- **Assessment for Second Supplier for Transmission Equipment:** The installation of equipment at various suppliers for interoperability tests is currently being finalised. The test plans have been completed.

Network Operations

In the period of reporting, the network service level availability performed above the contracted requirement. This was due to extra effort by employees as well as the rigorous regime of preventive maintenance taking place. Work is still required on the spur links which cause long restoration times during catastrophic failures.

The network performance from a service level point of view is shown in the trend graph below.



Averaged customer services availability

Business Support Systems

During the reporting period, there was a strong emphasis to strengthen IT governance and implement security measures. This is in consideration of the new Protection of Personal Information Act of 2013 (PoPI) as well as inputs from security specialists. Some policies were completed and measures put in place to secure the Company assets from an IT perspective. In addition, regional connections were completed so that employees in the regions can have access to internal Company services.

Network Assets

Although some PoPs were built in addition to the already existing list, most of the newly built PoPs are replacement PoPs intended to reduce colocation operational costs, and hence, do not add to the total number of PoPs within Broadband Infraco's management. In addition, the operational sites reduced by one with the decommissioning of a SOC microwave site.

The table below shows a summary of the current PoPs that Broadband Infraco is running.

Site Description	Number	3rd Party Access	
		Yes	No
Infraco-Owned LD Sites	58	58	0
SOC Site-Sharing Sites	68	51	17
Other PoPs	31	22	9
Total Sites	**157**	**131**	**26**

Table: Operational site status

From a fibre network perspective, Broadband Infraco now has more than 14 000 km of optical fibre network. The network growth has come from the customers that the Company is connecting as part of new contracts. Various fibre technologies and suppliers are used for this purpose.

10. CAPITAL PROGRAMME MANAGEMENT

Vishen Maharaj Executive Capital Programme

Summary of the Rollout

The 2014/15 capex plan sought to address critical strategic imperatives such as expanding broadband infrastructure as per the mandate, to underserviced areas, as well as rolling out open access PoPs which were to be located in close geographic proximity to potential customers and the rollout of services for new customers.

During the financial year under review, 5 open access PoPs were developed and established in Port Elizabeth , Stanger, Bloemfontein, Upington and Maseru. These PoPs will enable easier connection of new customers to the Broadband Infraco network including the enablement of contracts for new anchor customers.

Customer Rollout

Broadband Infraco was awarded a contract to provide the network infrastructure for a mobile network operator. In terms of the solution requested by the customer, the service mix consisted of a total of 103 services of various capacities spawning all six (6) network regions. The customer required urgent cut over from the incumbent service provider.

A migration plan was developed and agreed to after engineering designs and verification of customer sites was completed. The migration schedule was developed into phases for implementation.

During the first quarter of the year a total of 42 services were offered to the customer as part of the phase one deliverables. This involved rapid deployment of infrastructure and equipment to various sites across all six (6) regions. The second quarter saw the successful migration of 56 services onto Broadband Infraco's network. The remaining services were delivered to the customer in the last quarter of the financial year. Broadband Infraco used third party infrastructure on a lease basis to provide some portions of the services. Broadband Infraco is currently developing its own infrastructure in these areas to enable it to migrate these services onto Broadband Infraco infrastructure and save on lease costs.

SITA Rollout

SITA appointed Broadband Infraco to provision and manage the SITA Next Generation Network (NGN) core services for a period of 10 years, commenced on 1 August 2014.

The Master Services Agreement (MSA) between Broadband Infraco and SITA was signed in July 2014. A migration plan was developed and accepted by SITA. The project has been broken down into phases and Broadband Infraco intends to have all the 54 SITA NGN services migrated fully onto the Broadband Infraco network by 31 July 2016.

The project phases were as follows:

Phase 1: Deliver 22 Services by 31 July 2015.

Phase 2: Deliver 32 Services by 31 July 2016.

Revenue culminating in the fourth quarter (year ended 31 March 2015) amounts to R364 million which is a 21% increase compared to the previous year of R302 million.

The major contributors to such revenue outcomes are:

Neotel

Broadband Infraco continues to provide services to Neotel pursuant to the conclusion of a five-year MSA in April 2012. Neotel upgraded circuits during the year under review to the value of R50 million over a three-year period.

SITA

Broadband Infraco has been able to grow revenue from the SITA NGN project through the provision of an additional service (SOF 55), as well as significant bandwidth upgrades that were commissioned for a period of three (3) years, until 2017. It is noteworthy that in the year ahead, Neotel is not the prime contributor to revenue, having relinquished that position to SITA.

Anchor Customer (Mobile Network Operator)

Broadband Infraco was awarded a contract with the requirement to connect the national network from base stations to control centres with redundancy routes, dimensioned into six (6) regions as follows:

- Gauteng North
- Gauteng South
- Eastern (KZN)
- Western (Cape Town)
- Eastern Cape (Port Elizabeth)
- Central (Bloemfontein)

As the only state-owned Company created by an Act of Parliament solely for the purposes of rolling out strategic broadband infrastructure and an enabler of 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.

The total customer base has also grown from 14 in the previous year to 18 in the current year, including signing on a third anchor customer (SITA) as well as a global iconic operator. Broadband Infraco has been able to grow its revenue from provisioning of additional services as well as significant bandwidth upgrades commissioned during the year under review. Receipt of long-term signed sales orders for required services from existing customers also contributed immensely to this growth. The significant growth can also be deemed as an indicator of customer satisfaction based on a history of excellent service levels and competitive prices over the years.

12. STAKEHOLDER ENGAGEMENTS

VISION

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

KEY ACHIEVEMENTS

During the past year, Broadband Infraco conducted various provincial engagements with the various provinces, participated in SADC regional engagements and also contributed towards international sector specific fora. Some of its highlights include:

- **International Telecommunications Union Plenipotentiary Conference (Busan, South Korea):** Broadband Infraco sent five delegates to this month-long vital global conference as part of the SA Telecommunications delegation led by Minister Dr Siyabonga Cwele. Deliberations were led by the DTPS which participated in the final conference resolutions and elections of new leadership.
- **SADC ICT Ministers Forum:** Broadband Infraco participated in this event in Malawi in November 2014 providing technical expertise to the DTPS delegation.
- **Stakeholder Management Policy:** During the year under review, Broadband Infraco approved a comprehensive Stakeholder Policy. The policy prescribes the messaging content, the protocols and frequency with which targeted stakeholders are to be engaged.
- **Annual General Meeting:** Broadband Infraco hosted a successful AGM on 14 October 2014 presided over by both Shareholders and the Board, followed by a media conference and associated coverage.
- **Stakeholder Engagement Record Matrix:** A comprehensive stakeholder matrix has been developed and all Executives of the Company are assigned specific stakeholders to engage with and keep abreast of.

Industry Engagements:

- **SITA GovTech:** Broadband Infraco was a prime sponsor of the event both in terms of providing delegates with much needed connectivity but also having brand exhibition presence. The Broadband Infraco Chief Executive Officer delivered a speech on strategic thinking on how to enable broadband connectivity.
- Broadband Infraco also delivered a brand-building presence at the following events:
  - **World Telecommunications and Information Society Event:** In Orange Farm with Minister Cwele and the SA Communications Forum.
  - **AFRICOM:** Global annual ICT conference.
  - **WAPA/ISPA iWEEK:** Internet and Wireless Service Providers Association.
  - **MyBroadband Conference:** Premier ICT annual conference that deliberates on broadband policy, performance and technological trends.
- **Provincial Engagements:** Broadband Infraco has established relationships with all nine (9) provinces. The engagements with Limpopo and Mpumalanga provinces were the most advanced and are summarised below:
- **Limpopo Provincial Government.**
  Broadband Infraco and Limpopo Provincial Government's Department of Economic Development, Environment and Tourism (LEDET) have established a joint task team that oversees the planning and management of the establishment and deployment of Limpopo's Broadband Network Infrastructure. The parties have the Terms of Reference that guide the task team in facilitating the planning, deployment, implementation and execution of the Limpopo broadband.

The Limpopo Broadband Milestones to date:

- A signed MoU between Broadband Infraco and Limpopo provincial government.
- Establishment of Limpopo broadband network task team.
- The Broadband Infraco and Limpopo task team Terms of Reference approval signed by the Limpopo Department of Economic Development, Environment and Tourism, and Broadband Infraco.
- Limpopo Department of Economic Development, Environment and Tourism Exco approval of the Provincial Broadband Strategy delivery partnering with Broadband Infraco.
- Participated in the Limpopo and DTPS ICT Workshop with specific reference to the Limpopo Broadband strategy, SA Connect, SIP15, and gap analysis for the province.
- Funding application for the IIPSA 113 Bankable Feasibility Study for Broadband Network in Limpopo.
- Engagement with the Transactional Advisor for Polokwane Municipality on the municipal-wide broadband network, and subsequently Broadband Infraco was awarded a Letter of Intent (LoI) from the Polokwane Municipality.
- Limpopo Youth in ICT participation.
- Attended the DTPS and Vhembe District ICT Forum. Vhembe District Municipality is part of the SA Connect identified phase 1 roll-out plan.

Mpumalanga Provincial Government.

- Broadband Infraco presented the broadband value proposition to the Mpumalanga Provincial leadership.
- MoU with Mpumalanga under discussion, and is being reviewed by the Mpumalanga Premier.
- Establishment of Mpumalanga broadband network task team, and the Terms of Reference.
- Created the Mpumalanga and Broadband Infraco Engineering Project Charter. The project charter delivery awaits the signing of the MoU.
- Participated in the Mpumalanga and DTPS ICT Workshop with specific reference to Mpumalanga Broadband strategy, SA Connect, SIP15 and gap analysis for the province.

Broadband Infraco PoP Site

13. CORPORATE SOCIAL INVESTMENT

Corporate Social Investment Pillars

Broadband Infraco's CSI Programmes include the following:

- Youth Skills Development Programme:
    - Internships; and
    - Adoption of schools.
- Availing and encouraging business opportunities with Youth and Women-Owned businesses.

Objectives:

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

Strategies:

Broadband Infraco's CSI strategies are to:

- Adopt schools for a period of three (3) years to monitor progress at the schools.
- Take qualifying students through a leadership programme.
- Conduct needs analysis with schools and provide the basic needs for the schools to run efficiently.
- Recruit women and youth companies to Company's database by hosting "Basadi in Telecommunications" events.

Highlights during the year under review:

Seshigo High School	Ezakheni Combined School	Mphethi Mahlatsi
• Building and renovation of ablution facilities	• Provision of Maths and Science calculators	• 24-month Internet-connectivity donation
• Delivery of a 35-seater computer laboratory in partnership with Transnet	• Procurement and delivery of interactive whiteboards, loaded with CAPS-aligned digital libraries	• Donation of used furniture for administration block and staff room
• Provision of Maths and Science calculators	• Donation of used furniture for administration block and staff room	
• Procurement and delivery of interactive whiteboards, loaded with CAPS-aligned digital libraries	• Providing Internet connectivity	
• Donation of used furniture for administration block and staff room		
• Providing Internet connectivity		

Broadband Infraco has worked towards and sustained a mutually beneficial relationship with both of its adopted schools (Seshigo and Ezakheni high schools), also donated used furniture and 24 months internet connectivity with the continued intention to positively support and leverage the use of information communication technology in teaching, learning and development.

Great strides have been made in furthering the use of technology, with the introduction of interactive teaching and learning aids, and opening a new door in the classroom environment. Portable, compact, durable teaching tools (interactive white-boards) were acquired and supplied to the schools, offering new levels of curriculum access, interactivity and proficiency, thereby stimulating learner participation and improving results. A once-off 24-month donation of Internet connectivity has also been facilitated at Mphethi Mahlatsi Secondary School (Gauteng).

During the year under review, Broadband Infraco sought and led a partnership with Transnet which culminated into the building and completion of a 35-seater computer laboratory at Seshigo High School. 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.

Sales and Marketing Team

The provision of scientific calculators to both schools has also gone a long way in cementing the link between theory and practice, thereby 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, guaranteeing a longer shelf life and use by a greater number of learners.

The Minister of Basic Education in 2013 published the Minimum Norms and Standards that define the infrastructural conditions that make a school and stipulate the basic level of infrastructure that every school must meet in order to function properly.

In keeping with the commitment to provide for its adopted schools' basic needs and the law that every school must have water, electricity, Internet, working sanitation, safe classrooms and security, Broadband Infraco has built and renovated 43 sanitation 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.

Reception Area

14. GOVERNANCE

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

The Company operates in a regulated environment and this drives our governance, risk and compliance initiatives. Equally, however, as an ethical, values-based and proudly South African state-owned Company, 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 CEO's key performance areas. This ensures that governance, aligned with the King III recommended principals, is always on the agenda.

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.

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

Application of King III

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 No. 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 is a state-owned Company which previously reported to the Department of Public Enterprises. However, by virtue of a Proclamation by the President of the Republic of South Africa (Government Gazette No. 38037) signed on 19 September 2014, Broadband Infraco's administration, powers and functions entrusted in the Broadband Infraco Act 33 of 2007 was transferred to the Department of Telecommunications and Postal Services in terms of Section 97 of the Constitution.

Broadband Infraco has two (2) Shareholders and reports to the Minister of Telecommunications and Postal Services (the "Executive Authority" in terms of the Public Finance Management Act) as the shareholder representative on behalf of the Government of the Republic of South Africa and the shareholder representative from the Industrial Development Corporation (IDC) of South Africa.

Changes in Board Composition

During the period under review, Mr S Essa and Ms X Kakana resigned from the Board of Directors in July 2014, prior to the Annual General Meeting (AGM). The Board members were therefore reduced from 10 Directors (including the Executive Directors (i.e. the Chief Executive Officer and Chief Finacial Officer) to eight (8) Directors. Mr I Hassen was appointed the interim CFO for the period under review. Mr Hassen's term of appointment ended in October 2014 and Ms T Pama was appointed internally as the Acting CFO.

Board Appointments

The Board of Directors was appointed at the Company's AGM on 14 October 2014. The nominees from IDC (Mr S Mabalayo and Ms M Mosweu) were appointed for a period of three (3) years while the nominees from the DTPS were appointed on an interim basis for a period of five months until new Board members were appointed and approved by Cabinet. Cabinet approved the reappointment of Mr Mandla Ngcobo (Chairperson), Ms N Selamolela, Ms M Maponya and Dr A Githiari on 23 March 2015. The Directors are appointed for a period of three (3) years. The Board members retire by rotation each year and make themselves eligible for re-election by the Shareholders at the AGM. The Board is currently guided by the Memorandum and Articles of Association until such time that the Shareholders finalise and approve the Memorandum of Incorporation. The Board also has a formal Charter setting out its duties and responsibilities.

The Board is appointed for the benefit of its Shareholders, and creates sustainable stakeholder value by balancing the interests of all constituencies, including customers, employees, suppliers and local communities.

Meetings of the Non-Executive Directors

Non-Executive Directors meet and communicate independently 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 communicate monthly or more often, as and when required, to discuss Company related matters.

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 complied with.

Board Structure

The details of the Board of Directors, including the Executive Directors, appear on page 40 of the Integrated Report.

The Company's strategic direction is guided by a unitary Board (that is, a single Board with both Executive and Non-Executive Directors). The majority of the Directors are independent Non-Executive Directors, including the Chairman of the Board, and the Chief Executive Officer are appointed by the Executive Authority (Minister). The Chief Financial Officer is appointed by the Board after consultation and approval of the candidate by the Executive Authority. The Chairperson and Chief Executive Officer are independent of each other and not the same person.

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 Board subcommittees in this regard.

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. The majority of the Board is made up of independent Non-Executive Directors. The Non-Executive Directors also bring an independent and balanced judgement to 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.

Corporate Governance Framework

One of the essential components of the governance framework is the emphasis on the clarity of roles between the Board, Shareholder and Management, which is addressed through the Strategic Intent Statement and Shareholders' Compact.

The governance framework that regulates the relationship between the Shareholder, the Company and the Board includes the following:

- **Memorandum and Articles of Association** which sets out certain powers of the Shareholders and the Board. Broadband Infraco's Memorandum of Incorporation (MoI) as required in terms of the Companies Act No. 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 Strategic Intent Statement. To the extent necessary, the Shareholders' Compact seeks to clarify the objectives of the Company in the context of the Strategic Intent Statement.
- **Codes of good governance** such as King III and the Protocol on Corporate Governance in the Public Sector. Broadband Infraco has endeavoured to apply all the King III principles and practices.
- **Relevant legislation,** including the new Companies Act, the Public Finance Management Act (PFMA), National Treasury Regulations, Broadband Infraco Act, and 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 in certain instances as per the PFMA.

Relevant policies and procedures

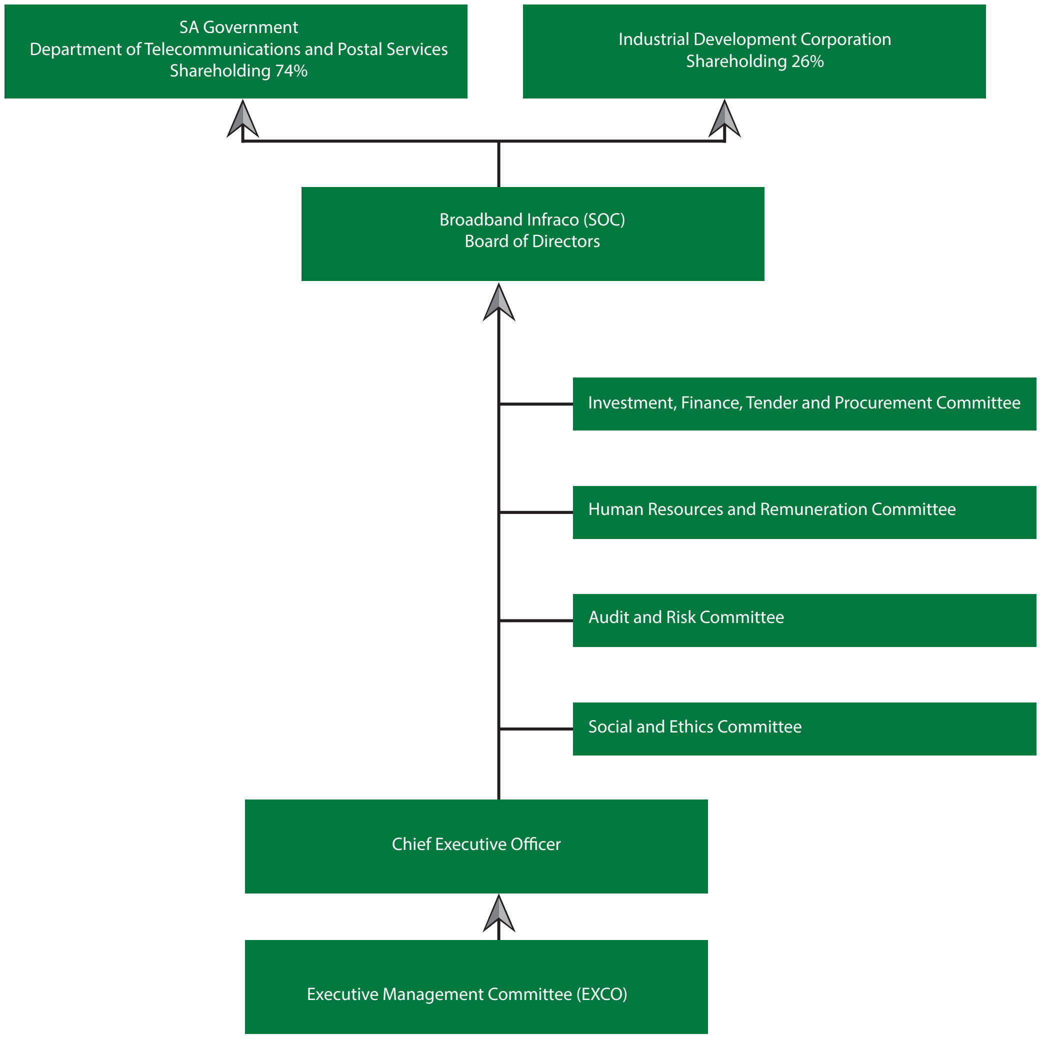
- **Delegation of Authority framework** which delegates power and authority from the Board to Committees and employees. The Delegation of Authority framework was approved and is being implemented during the period under review. However, prior to this, the delegations were being managed and still are managed by the Office of the Company Secretary.
- **Policy Approval Framework** which sets out the 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 inter-departmentally, 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 Officer, who is assisted by the Executive Management Committee, is accountable to the Board for implementing the strategy.

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



14. GOVERNANCE (CONTINUED)

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 Shareholders' value is enhanced and the Company's long-term sustainable development and growth is 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.

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

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

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 ensure co-ordinated assurance activities.

This model gives 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.

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 reduce the risk of failing to identify significant risks.

The external auditors independently audit the financial statements and selected sustainability information of the Company.

Enterprise-Wide Policy Register

The Company through the business process management is continuously managing the enterprise-wide policy register to ensure institutionalisation of policies and procedures. To date, out of a total number of 58 policies; 32 (55%) policies have been approved and implemented, 10 (17%) polices were tabled to the Board and its Subcommittees for approval, 9 (16%) policies approved and waiting for Board signature, 4 (7%) policies in draft and 3 (5%) under review.

Total	Approved	Tabled	Awaiting Signature	In Draft	Under Review
58	32 (55%)	10 (17%)	9 (16%)	4 (7%)	3 (5%)

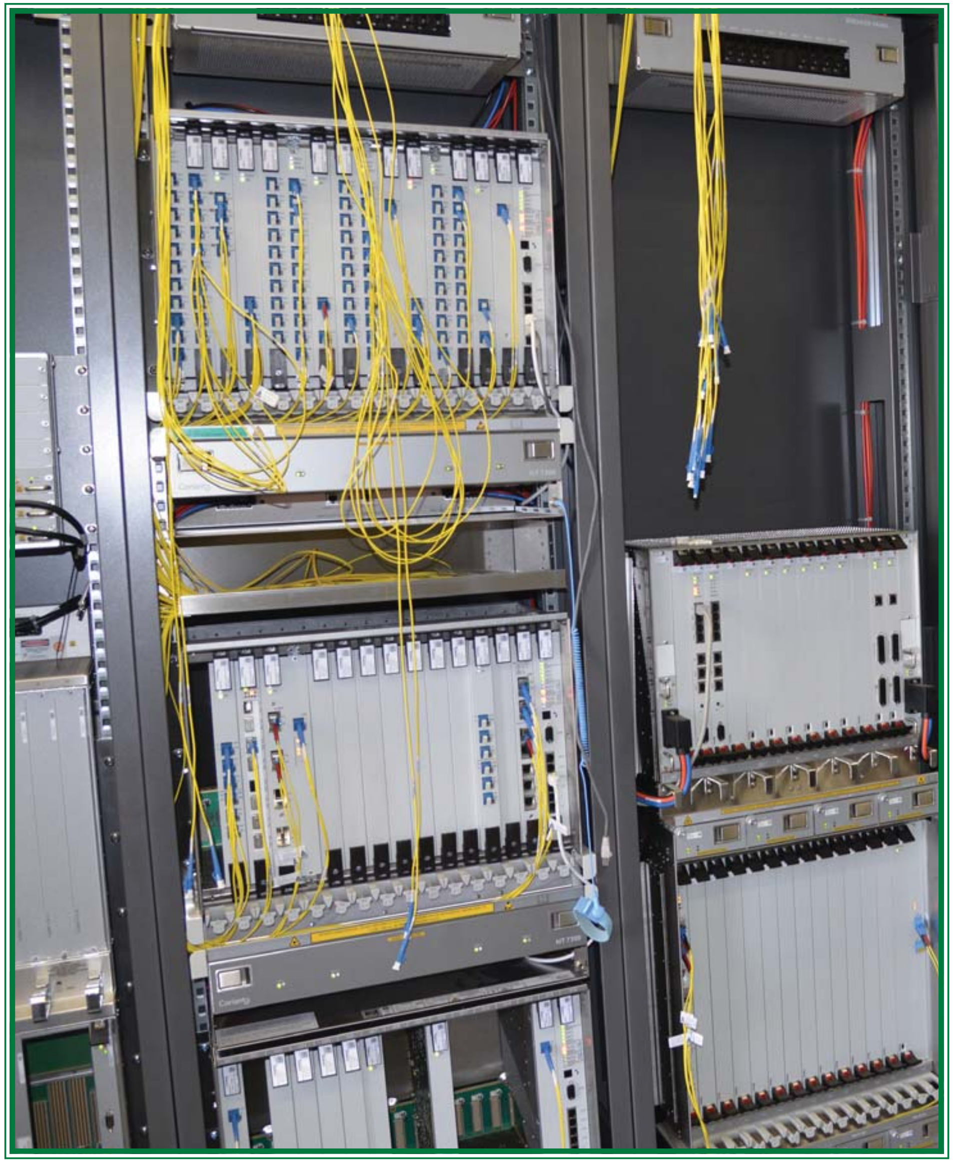
Compliance with Laws, Rules, Codes and Standards

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 and approving the Company's compliance/regulatory universe. The Board has ensured that the Company has a compliance framework and processes in place. Management has developed a compliance policy and framework that have been adopted and approved by the Board and implemented by management.

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

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 for eight (8) meetings:

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

No.	1	2	3	4	5	6	7	8	Total
Meeting Date	**17/04/14**	**29/05/14**	**09/7/14**	**22/7/14**	**23/10/14**	**20/11/14**	**20/01/15**	**03/02/15**	
Name of Director									
BMC Ngcobo [1]	√	√	√	√	√	√	√	√	8/8
SA Essa	√	A	A	√	R	R	R	R	2/4
A Githiari	√	√	A	A	√	A	√	√	5/8
X Kakana	√	A	√	A	R	R	R	R	2/4
P Kwele	√	√	√	√	√	√	√	√	8/8
MM Maponya	A	√	A	√	L	L	A	√	3/8
ST Mabalayo	A	√	√	√	√	√	√	A	6/8
SAU Meer	A	A	A	√	R	R	R	R	1/4
N Selamolela	√	√	√	A	A	√	√	A	5/8
M Mosweu	N/A	N/A	N/A	N/A	A	√	√	√	3/3
I Hassen	√	√	√	√	√	R	R	R	5/5
T Pama	N/A	N/A	N/A	N/A	√	√	√	√	4/4

1	Chairperson of the Board	R	Retired
√	Attendance	L	Leave
A	Absent with apology	N/A	Not appointed as yet

*Note: Mr Salim Essa, Ms X Kakana and Mr SAU Meer retired from the Board between June and October 2014 after their three-year period of appointment as Non-Executive Directors came to an end. The Presidential Proclamation was signed on 19 September 2014 giving effect to the transfer of the Company from the Department of Public Enterprises (DPE) to the Department of Telecommunications and Postal Services (DTPS). At the AGM held on 14 October 2014, the Minister DTPS appointed the remaining Board Members for an interim period of five (5) months, subject to review and reappointment. The remaining Board Members were appointed by Cabinet on 23 March 2015 for a period of three(3) years. The IDC represented Board Members were appointed at the AGM on 14 October 2014.

Annual Strategic Review

At the Board meeting held on 20 November 2014, the Board considered and began developing the Company's Strategic Plan for the next three (3) years. The Strategic Plan was subsequently submitted to the Shareholders and National Treasury on 28 February 2015.

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, and changes are tabled when they occur. The Declaration of Interest Register is circulated at every Board meeting for review by Members.

Evaluating the Board's Performance

In compliance with the Shareholders Compact, an independent Board evaluation and formal self-assessment was carried out during the review period by an independent company. The outcome of the assessment and the report was submitted to the Shareholders for consideration at the AGM which took place on 14 October 2014. The independent report concluded that the Board continues to operate efficiently. This annual assessment ensures the Board remains effective and relevant to the business objectives of the Company.

Board Structure and Committees

Specific responsibilities have been delegated to various Subcommittees of the Board. The Audit and Risk, Human Resources and Remuneration (also plays the role of the Nominations Committee), Social and Ethics, Investment and Finance, 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 every year. Details of the committees are presented in this report.

*Note: Due to the reduced number of Non-Executive Directors after the AGM on 14 October 2014, the Investment and Finance Committee and Tender and Procurement Committee were merged into one (1) committee and are now referred to as the Investment, Finance, Tender and Procurement Committee. The role of the Social and Ethics Committee was absorbed into the Board until the appointment of new Directors.

Executive Management Structures

The Board has delegated specific authorities to the Chief Executive Officer to ensure the effective day-to-day management of the Company. The Chief Executive Officer has established an Executive Committee (EXCO) to assist with this task. The Chief Executive Officer 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 Chairperson
Thandi Pama	Acting Chief Financial Officer
Gift Zowa	Chief Technical Officer
Vishen Maharaj	Executive: Capital Programme Management
Montšeng Mopeli	Executive: Human Resources
Klaas Motlhabane	Executive: Legal and Regulatory
Sammy Mafu	Acting Chief Sales and Marketing Officer
Mike Mojapelo	Executive: Compliance, Risk and Audit

The main purpose of the Committee is to assist the Chief Executive Officer with:

- The responsibility for day-to-day management of the Company and its divisions, which report directly to the Chief Executive Officer.
- Reviewing Company risks and providing assurance to the Chief Executive Officer that risk-management policies are operating effectively.
- Reviewing Company performance as well as commercial and strategic issues affecting the Company.
- Providing assurance to the Chief Executive Officer that the business strategy set by the Board is operating effectively.

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

EXCO has also established the EXCO Procurement Subcommittee (EXCOPS), Pricing Committee Capital Investment Steering Committee and Product Development 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. EXCO also monitors the Internal Audit reports including those business units where the relevant financial controls are not being consistently adhered to.

Committee Reports

The Board of Directors of Broadband Infraco has delegated some of its responsibilities to the Board Subcommittees. The Committees take this opportunity on behalf of the Board of Directors to present this section of the Integrated Report for the fiscal year 2015. The Committees are appointed by the Board of Directors to ensure that effective and efficient Corporate Governance precepts are fulfilled. The Report will reflect on significant strides that Broadband Infraco has achieved notwithstanding the inherent challenges. Broadband Infraco Committees consists of the Audit and Risk Committee, Human Resources and Remunerations Committee, Investment, Finance, Tender and Procurement Committee and the Social and Ethics Committee. The Committees' responsibilities are clearly set out in their Terms of Reference and the approved Delegation of Authority.

Audit and Risk Committee Report for the 2014/15 Financial Year

As the Chairperson of the Audit and Risk Committee, it is my pleasure to submit the Committee report for the 2014/15 financial year.

The Audit and Risk Committee is appointed in terms of Section 77 of the Public Finance

Management Act No. 1 of 1999 read with Section 94(2) of the Companies Act, 71 of 2008. The Committee remains independent which enables its members to execute their responsibilities effectively.

The Committee comprised Ms Meta Maponya (Chairperson and Independent Non-Executive Director), Ms Xoliswa Kakana (Non-Executive Director), Mr Sydney Mabalayo (Non-Executive Director) and Mr Shakeel Meer (Non-Independent Non-Executive Director). Ms Kakana and Mr Meer retired from the Board of Broadband Infraco on 14 October 2014. Two (2) new members were appointed to the Audit and Risk Committee namely Ms Mpho Mosweu and Ms Nokuthula Selamolela.

The Audit and Risk Committee adopted the Terms of Reference which were approved by the Board. The overall objective of the Committee is to assist the Board of Directors to discharge their responsibilities relating to the safeguarding of assets, ensuring the operation of adequate and effective systems of internal control processes, reviewing the preparation of materially accurate financial and non-financial reporting information and statements, and ensuring that the Company complies with all applicable legal and regulatory requirements and accounting standards. The Committee also plays an oversight role for external and internal audit appointments and functions.

In the last financial year, the Company was evaluated by Nkonki Incorporated in terms of Integrated Reporting Standards. In total 17 SOCs were evaluated and the Company at its first attempt in Integrated reporting, attained the following awards:

- The overall award in Compliance with Laws, Codes, Rules and Standards;
- "A" rating in Compliance with Laws, Codes, Rules and Standards; and
- "A" rating in Internal Audit and Internal Controls.

The Committee has met the PFMA requirements for meeting at least twice a year. The Executive Directors, i.e. the Chief Executive Officer and the Chief Financial Officer attend the meeting by invitation. Ms Mpho Mosweu was appointed on 23 October 2014, as an Interim Chairperson of the Audit and Risk Committee in the place of Ms Meta Maponya, who was on leave until December 2014. Ms Maponya returned from leave and assumed the role of Chairperson on 28 January 2015. During this time, the Committee did not convene.

The Members' attendance is reflected in the table below:

Committee Member	1	2	3	Total
Meeting Date	**24/04/2014**	**30/07/2014**	**28/01/2015**	
M Mosweu	N/A	N/A	A	0/1
MM Maponya [1]	A	√	√	2/3
X Kakana	√	A	R	1/2
ST Mabalayo	√	√	√	3/3
S A U Meer	√	√	R	2/2
N Selamolela	N/A	N/A	√	1/1

1 Chairperson
√ Attendance
A Absent with apology
R Retired
N/A Not appointed as yet

The Committee deliberated on the following during the period under review:

- Approval of the Creditors and Expenditure Management Policy, Irregular and Fruitless and Wasteful Expenditure Policy, Subsistence and Travel Policy, Fraud Prevention Policy, Fraud Investigation Policy, Budget Control Policy, Records and Documents Management Policy, Compliance Management Policy and Delegation of Authority Policy.
- Ensured that the internal audit function was operating optimally to address the risks pertinent to the entity.
- Considered and approved the Internal Audit Plan for the 2014/15 financial year.
- Approval of the Creditors Quality Assurances Model and the External Auditors provided assurance that sound accounting records were maintained by the Company.
- The internal controls were considered and monitored to ensure that there was no breakdown in controls.
- Reports were considered on an ongoing basis in respect of the Company's compliance with legislation.
- The Capital Programme status and progress was considered and noted.

It is my opinion, the Audit and Risk Committee has discharged its responsibilities diligently during the fiscal year under review.

M Maponya

Human Resources and Remuneration Committee Report for the Financial Year 2014/15

As the Chairperson of the Human Resources and Remuneration Committee (HRRC), it is my pleasure to submit the Committee report for the 2014/15 financial year.

During the period under review, the HRRC comprised four (4) Independent Non-Executive Directors: Mr M Ngcobo (Chairperson), Mr S Mabalayo, Mr SA Essa and Ms X Kakana. Mr Essa and Ms Kakana retired at the annual general meeting on 14 October 2014. In line with good Corporate Governance precepts, the chairperson of HRRC rotated and Mr Sydney Mabalayo was appointed Chairperson of HRRC. Mr M Ngcobo was appointed to the HRRC as a member.The Chief Executive Officer attends the HRRC meetings whereas the Executive: Human Resources is an invitee.

The main objectives of the HRRC are to address human resources-related matters. The Committee approves, guides and influences key human resources policies and strategies. It monitors compliance with the Labour Relations Act, Employment Equity Act and Basic Conditions of Employment Act. It also approves the principles regarding the reward and incentive schemes.

The HRRC convened five times during the period under review.

Committee Member	1	2	3	4	5	Total
Meeting Date	**16/05/14**	**6/06/14**	**25/06/14**	**20/08/2014**	**20/11/2014**	
BMC Ngcobo	√	√	√	√	√	5/5
SA Essa	√	√	√	A	R	3/4
X Kakana	A	A	√	√	R	2/4
ST Mabalayo[1]	√	√	A	√	√	4/5
Executives:						
P Kwele	√	√	√	√	√	5/5
M Mopeli	√	√	√	√	√	5/5

1 Chairperson

√ Attendance

R Retired

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. The Committee reviewed the updated Terms of Reference. The Committee also recommended the Executive Remuneration and Reward Policy to the Board of Directors, approved the Grievance Policy and Procedure, Secondment Policy and the Revised Remuneration Structure for general staff and management.

The Committee further acts as the Nominations Committee of the Board and in this role. The Committee appointed the Chief Financial Officer and the Executive: Compliance, Risk and Audit. However, the Chief Financial Officer withdrew his acceptance of employment prior to his commencement date. A process is under way to appoint a new CFO for the organisation. Ms Thandi Pama is the Acting CFO in the interim. The Committee further approved the cost of living salary adjustment effective from 1 April 2014, and partial payment for the performance-based incentive for qualifying employees. The Committee considered noted the multi-year contract between Broadband Infraco and the Communication Workers Union on behalf of the employees who are members of staff and in the bargaining unit.

S Mabalayo

Investment and Finance Committee Report for the Year 2014/15

As Chairperson of the Investment and Finance Committee, it is my pleasure to submit the Committee's report for 2014/15.

The Investment and Finance Committee (IFC) comprised three Non-Executive Directors namely, Dr A Githiari (Chairperson), Ms X Kakana and Ms N Selamolela. Ms Kakana retired from the Board of Directors on 14 October 2014. This reduced the number of Non-Executive Directors to two (2).

The IFC is responsible for monitoring and reviewing the Company's investment portfolio and recommend changes as and when required, ensuring that the strategic intent will be realised through investments. The Committee oversees the financial health of the Company, which includes the capital structure of the Company and the extent of compliance with gearing and lending ratios. It ensures that financial and investment policies and procedures are in place.

Three (3) Investment and Finance Committee meetings were held during the period under review. The meeting attendance of Members is reflected in the table below.

Committee Member	1	2	3	Total
Meeting Date	**11/04/2014**	**24/04/2014**	**20/08/2014**	**Total**
A Githiari[1]	√	√	√	3/3
X Kakana	√	√	√	3/3
N Selamolela	√	√	√	3/3

1 Chairperson

√ Attendance

The Committee operated within the approved Terms of Reference. The IFC considered, reviewed and approved the following during the period under review:

- Multi-Vendor Strategy and SITA Network Expansion Project;
- West Africa Cable System (WACS) upgrade; and
- The Capital Programme Policy and the Revenue Management Policy.

It is my view, that the Investment and Finance Committee (IFC) executed its roles and responsibilities as per its Terms of Reference from the Board and in the best interests of the Company and its Shareholders.

A Githiari

Tender and Procurement Committee Report for the Year 2014/15

The Tender and Procurement (T&P) Committee consisted of three independent Non-Executive Directors: Mr SA Essa (Chairperson), Dr A Githiari and Ms N Selamolela. The CEO and CFO attended the meetings by invitation. The objectives of the Tender and Procurement Committee are to ensure the procurement policies and processes that are fair, equitable, transparent, competitive, cost-effective and subject to legislation regulating tender and procurement processes.

The Committee held one meeting during the period under review.

Committee Member	1	Total
Meeting Date	**09/04/2014**	**Total**
A Githiari	√	1/1
S Essa	√	1/1
N Selamolela[1]	A	0/1

1 Chairperson
√ Attendance
A Absent with apology

*Note: The Committee only met once due to a number of circumstances including resignation of the Chairperson, the freeze on certain projects, and the transfer from the DPE to DTPS.The Committee only met once prior to the Annual General Meeting. It merged with the Investment and Finance Commitee to establish the Investment Finance Tender and Procurement Commmitee.

The Committee considered and recommended the Terms of Reference to the Board for approval. The Tender and Procurement Committee also approved the appointment of a supplier to provide dark fibre to Broadband Infraco.

The Tender and Procurement Committee satisfied its responsibilities for the year under review by complying with its Terms of Reference.

Investment, Finance, Tender and Procurement Committee for the Year 2014/15 Financial Year

After the AGM the Investment and Finance Committee (IFC) merged with the Tender and Procurement (T&P) Committee. The Investment Finance Tender and Procurement Committee (IFTPC) merged the responsibilities of the IFC and T&P. The Committee comprised Ms N Selamolela (Chairperson), Ms Mpho Mosweu, Mr S Mabalayo and Dr A Githiari. The Committee convened two meetings during the period under review and attendance is highlighted in the table below:

Committee Member	1	2	Total
Meeting Date	**10/12/2014**	**24/03/2015**	**Total**
A Githiari	√	√	2/2
N Selamolela[1]	√	√	2/2
S Mabalayo	A	√	1/2
M Mosweu	√	√	2/2

1 Chairperson
√ Attendance
A Absent with apology

The IFTPC considered and recommended its Terms of Reference to the Board for approval. It also considered, reviewed and approved a number of policies within its delegation of authority, the procurement of optical high-capacity transmission equipment, Revenue Management and Accounts Receivable Policy, and the Property, Plant, Equipment and Intangibles Policy.

In my view, the IFTPC has discharged the function assigned to it by the Board of Directors in the best interests of the Company and its Shareholders.

N Selamolela

Social and Ethics Committee Report for the Year 2014/15

The Social and Ethics Committee did not convene for the period under review. Subsequent to the AGM on 14 October 2014, and due to the small number of non-Executive Directors, the Board agreed that it will absorb the roles and responsibilities into the Board until such time that additional members are appointed by the Executive Authority. The Committee was reconstituted in March 2015 and a comprehensive report will follow in the next financial year after the reappointment of the Board.

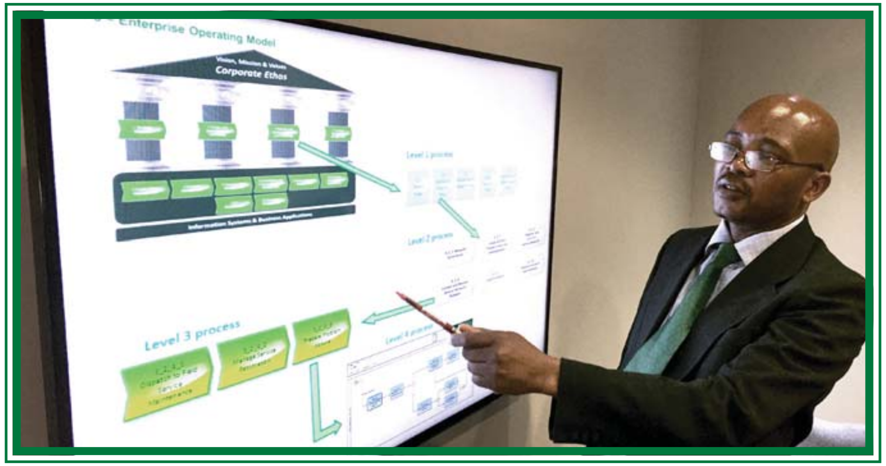
Business Process Management

The Business Process Management (BPM) Division has a task to contribute towards operational effectiveness and efficiency, through optimisation of the Company's value chain. This has led to the review of the Enterprise Operating Model, which defines business processes at process and functional level with the sole aim of improving operations efficiency and productivity. The Enterprise Operating Model also indicated how key elements work together to realise the corporate strategy and business model. BPM has initiated the business process capability roadmap that identifies systems and activities required to automate the process, and build the process-centric organisation.

During the year under review, BPM mapped and modelled mission critical business processes across the business units by decomposing the high-level processes on Enterprise Operating Model to a lower level. This includes identification of integration points across departments. Some areas identified activities including descriptions, inputs, outputs and key performance indicators.

BPM has facilitated the assessment of project management challenges in the main to assist the organisation to implement an Enterprise Project Management (EPM) and manage complex projects effectively. Therefore, Enterprise Project Planning processes were modelled and implemented within the Capital Programme Management (CPM) business environment to manage all complex projects and programmes initiatives at an enterprise level. The implementation Enterprise Project Planning process has resulted in the improved management of human and capital resources, project prioritisation, team collaboration, stakeholder management and communications, project reporting, tracking and performance analysis throughout the organisation.

In an endeavour to continuously communicate the vitality of managing business processes more efficiently and improvement of the participation of subject matter experts in the identification of processes to be modelled, BPM together with the office of the Chief Executive Officer is driving the establishment of the BPM Centre of Excellence (CoE) to accelerate the delivery of BPM solution. The BPM CoE is a structure formed of subject matter experts from different business units to provide intergrated business process solutions.



Kwena Selepe Senior Business Process Specialist during business process training (November 2014)

Internal Control Environment

The responsibility for establishing the system of internal control rests with the Board. The Board has delegated this responsibility to the Audit and Risk Committee to ensure that controls are put in place and assessed by the Internal Audit function for their adequacy and effectiveness.

The control environment enhances the tone of risk management and provides the necessary discipline and structure for the same. It is the foundation for all other components of risk management and internal control. 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 of Broadband Infraco.

Broadband Infraco complied with the Auditor-General's 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; and
- Compliance.

A report was 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

The Manager: Internal Audit function provided management with an independent, objective assurance service that reviews matters relating to control, risk management, corporate governance and operational efficiencies. Broadband Infraco adopted a co-sourced internal audit services model.

The Manager: Internal Audit oversees the functioning of the co-sourced Internal Audit function and reports directly to the Executive: Compliance, Risk and Audit. To ensure independence, the Internal Audit function reports to the Audit and Risk Committee on its findings and has unrestricted access to the Audit and Risk Committee and the Chairperson.

The Internal Audit function operated in line with the approved Internal Audit Charter. Internal Audit responsibilities are clearly defined and approved as stated in the Internal Audit Charter. Internal Audit continued to function throughout the Company during the year. Internal Audit is responsible to Broadband Infraco for contributing to the achievement of organisational goals and objectives by:

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

Internal Audit function complied with the Treasury Regulation 27.2.7 requirements, which state that internal audit must prepare the following, in consultation with and for approval by Management and the Audit and Risk Committee:

- Plans indicating the scope of each audit in the annual internal audit plan; and
- Reports to the Audit and Risk Committee detailing its performance against the plan, to allow effective monitoring and possible intervention.

The Issue Log Register was implemented for the purpose of tracking reported findings and ensuring the implementation of corrective action plans for both internal and external findings. This process ensured that reported audit findings were addressed by management timeously to prevent repeat findings.

Enterprise Risk Management

Effective Risk Management is fundamental to the sustainability of Broadband Infraco SOC Limited and is aligned to ISO 31000 standards and principles. The role of the Risk Management function is to identify, assess, measure and manage those risks that arise in the pursuit of the organisation's strategic goals. Responsibility for Risk Management resides at all levels in Broadband Infraco, from the Board and Executive level Committees down to each business unit manager. This contributes to instilling a strong risk culture in the organisation, making risk everyone's business. We believe this is a core imperative of Risk Management.

The delegation of Risk Management responsibilities is structured to ensure risk-reward decisions are enacted at the most appropriate level in line with business objectives, subject to robust and effective review as well as challenge processes. Strategic business decisions are taken in accordance with a Board-approved risk appetite with the Executive: Audit and Risk Committee closely monitoring risk profiles against this appetite.

Broadband Infraco is committed to the implementation of Enterprise Risk Management (ERM). Currently, an enterprise-wide approach to risk management has been adopted by Broadband Infraco, which means that every identified material risk will be included in a structured and systematic process of risk management. These risks will then be managed within a unitary framework that is aligned to the company's corporate governance responsibilities. Please refer to pages 52 – 55 for our top 10 strategic risk register and treatment plans.

Our Approach to Risk Management

We employ the following five-step process in terms of our Risk Management approach:

Risk-Management Process

Identify:

- Understand the principal risks fundamental to achieving our strategy;
- Establish the risk appetite; and
- Establish and communicate the risk-management framework including responsibilities, authorities and key controls.

Analyse:

- Establish the process for analysing business-level risks; and
- Agree and implement measurement and reporting standards and methodologies.

Evaluate:

- Establish key control processes and practices, including limit structures, provisioning requirements and reporting standards;
- Monitor controls and adherence to risk direction and limits; and
- Ensure that risk-management practices and conditions are appropriate for the business environment.

Report:

- Interpret and report on risk exposures, concentrations and risk-taking outcomes;
- Agree and operate early warning reporting processes that are used to highlight issues at a strategic and business unit level; and
- Ensure that processes are in place to operate appropriate reporting and controls to ensure that the risk profile is maintained within risk appetite/tolerance.

Monitor:

- Review and challenge all aspects of our risk profile;
- Assess new risk-return opportunities;
- Advise on ways to optimise our risk profile; and
- Review and challenge risk-management practices.

Risk oversight

Oversight of overall Broadband Infraco's risks resides primarily with two Board Committees, Executive Committee (EXCO) in the absence of Risk Committee and Audit and Risk Committee (ARC). The newly developed Combined Assurance Framework, covers each principal risk and business area. The aim is to provide a co-ordinated approach to all assurance activities enabling the Board and management to assess whether the significant risks facing the organisation are adequately covered. The Chief Executive Officer (CEO) grants authority and responsibility to the Executive: Compliance, Risk and Audit to ensure advice on risk appetite and the organisation's risk profile.

Combined Assurance

A Combined Assurance model aims to optimise the assurance coverage obtained from management, internal assurance providers and external assurance providers on the key risk areas affecting the Company. The Company has adopted the Combined Assurance model that has been developed and approved by the Board. Key assurance providers engage on an ad hoc basis to discuss areas of common interest, to avoid duplications and gaps.

Summary of our Strategic Risks		
No.	Vulnerability (Risk description)	Progress as at 31 March 2015
1	Inability to continue as a going concern (Lack of Funding)	• The AfDB has been approached to fund the SITA project. The application is work in progress and is dependent on an acceptable security package, including an explicit Government guarantee. • Stakeholder engagement with the DTPS; IDC and NT are ongoing in respect of equity and debt funding requirements, including unlocking approximately R800 million of equity by conversion of subordinated Shareholder's loans.
2	Non-inclusion in the implementation of the Broadband Act	The SOC rationalisation process is primarily driven by DTPS. Broadband Infraco is awaiting a directive from DTPS regarding implementation of the SOC rationalisation process.
3	Inability to resolve fulfillment value chain issues	All outstanding environments within the organisation have been covered during the financial year. The socialisation initiative was accepted with positive response and we have seen some valuable inputs from all participants. The B-BBEE policy was developed and tabled at EXCO for recommendation to IFPC. The B-BBEE policy was approved by the IFPC in December 2014 and was also socialised as part of the supply chain policy awareness drive. Due to the strategic realignment and review done late last year the strategic initiatives were reprioritised. The EPM process is thus not complete.

4	Ineffective customer management (strategy, marketing, centricity)	• Broadband Infraco's partnership engagement with SITA has resulted in the invitation to submit a multi-billion rand proposal for the rollout of Platinum Access Services for the Department of Health for a period of five (5) years. • A detailed feasibility workshop has been held between Broadband Infraco and Mott MacDonald. Sales has provided revenue forecasts for the N2 project. Stakeholder workshops are being established for Mott MacDonald to engage external appetite for the project. • The Account Plans have been received and will be implemented as part of the new financial year Business Development Programme.
5	Margin pressure	Management has completed an analysis of all revenues and Cost of Sales with the following interventions: • Management is analysing all the sales pipelines opportunities far more aggressively and Key Account Managers (KAMs) have been given targets that they need to close; • Sales environment has been responding to major material tenders and have included SITA with a potential revenue of R800m;
6	Lack of information management systems for decision-making and process control	SCM to go on tender to procure the services of the supplier who will implement the ERP solution once they have been given the go-ahead.

7	Failure to safeguard information and data	**Information Security** • The policy guidelines which address both business and IT mitigating controls such as logical access, patch management and back up and restoration of data are currently being implemented. However the policy still needs to be signed by designated Executives. **Physical Security** • The current Nation-wide Security Services contract came to an end on 31 March 2015. Servest Security services will be replacing Nation-wide Security Services starting from the 1st of April 2015. • The refurbishment of the building has restricted unauthorised entrance from one department to the other.
8	Fraud management	All fraud-related policies, i.e. Fraud Investigation and Fraud Prevention policies were approved by ARC in January 2015. Separation of Whistle-Blowing Policy and Procedure relating to the Whistle-Blowing Policy was noted as well. Content refresher material will be an ongoing communication on a quarterly basis focusing on the latest fraud trends, risk, insurance and industry landscapes.
9	Safeguarding of assets	• Fixed assets policy was amended to address audit findings and was approved by the Board on 24 March 2015. • Assets classification framework was defined and included in the fixed asset policy and the assets register is aligned to that. • Palisade fencing will be completed in June 2015.

10	Inability to retain and attract the required skills	• An integrated approach to employee communication was submitted to EXCO for approval. This is a collaborative effort between HR and Marketing and includes the communication protocol for management and labour engagement. • The Employment Equity Policy was approved on 12 December 2014. The policy will be socialised in the first quarter of the new financial year. Engagements with the Department of Labour yielded positive outcomes in terms of employment equity compliance. The company was given a compliance certificate for Employment Equity (EE). • The Reward and Recognition Policy and the Employment Equity Policy will be socialised in the first quarter of the new financial year. • The outstanding job profiles were submitted for external evaluation and four (4) job profiles were evaluated. • The appointment process has been put in abeyance and will continue upon the Board's pronouncements. • The Chief Marketing and Sales Officer (CMSO) position is one of the positions that have been put on hold as part of the optimisation process. Process will recommence only after the moratorium on vacancies has been lifted.

Insurance

Broadband Infraco has insured its assets against possible loss and damage for theft with a reputable insurance company. The Enterprise Risk Management Division is responsible for the day-to-day identification, management and monitoring of insurance risk. Management is also responsible for reporting any material insurance risks, risk events and issues identified to senior management through predefined escalation procedures and by taking out adequate insurance cover. These include:

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

Brian Molelekeng, Senior Manager: Risk during the Fraud Awareness Campaign presentation

Fraud Management

Broadband Infraco is committed to zero tolerance to corruption in the organisation and developed the Fraud Corruption Strategy that is premised upon the assumption that we could only be effective if the whole Company is involved. The Fraud Prevention and Investigation Policy was developed and approved by the Board to ensure compliance with the National Treasury requirements.

Broadband Infraco joined hundreds of organisations that have partnered with the Association of Certified Fraud Examiners, the world's largest anti-fraud organisation and premier provider of anti-fraud training and education, for the yearly Fraud Week campaign, by conducting fraud awareness and training during the International Fraud Awareness Week from 16-22 November 2014, to promote anti-fraud awareness and education.

Brian Molelekeng (From left: Senior Manager: Risk), **Buyi Masoko** (Compliance, Risk and Audit Admin Assistant), **Matshidiso Mtshweni** (Brand Specialist), **Mike Mojapelo** (Executive: Compliance, Risk and Audit) and **Vuyisile Nene** (Marketing Admin Assistant) during the International Anti-Fraud Campaign Week conducted in November 2014

Whistle-Blowing

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

- Commitment to a zero tolerance to fraud;
- Control mechanisms to prevent and detect fraud, which is why Broadband Infraco has used an independent hotline service provider to help us fight and combat corruption, fraud and unethical behaviour within the workplace;
- To promote a culture in the Company that will discourage corruption. A proactive approach to fraud i.e. policies and procedures, a code of conduct etc; and
- Communication at all levels about fraud and unethical behaviour e.g. code of ethics.

Broadband Infraco's staff attending the Fraud Awareness Campaign

Compliance with Laws, Rules, Codes and Standards

The Board has overall oversight ensuring Broadband Infraco's compliance with applicable laws and considers adherence to non-binding rules, codes and standards, while the Audit and Risk Committee monitors compliance at the highest level. Compliance is then achieved through integration with business/organisational processes, ethics and culture. A delegated compliance function is in place and Compliance with applicable Laws, Rules, Codes and Standards is included as a regular item on the agenda of the Audit and Risk Committee, which is a Subcommittee of the Board. The risk of non-compliance is managed through the following:

- Identification of applicable laws;
- Compliance risk assessments;
- Compliance risk management;
- Monitoring; and
- Reporting.

During the period under review, Broadband Infraco strived to lower the impact of regulatory/compliance risk due to a continuous focus and/or awareness of all applicable laws, regulations and supervisory requirements by emphasising corporate values in every operation of the Company, and assisted in creating a culture of compliance. The Company recognises that the greatest risk of non-compliance stems from ignorance of the law and could result in hefty fines/penalties, as well as in reputational risk.

Key highlights/developments:

- Management has put processes in place to ensure that Broadband Infraco complies with applicable laws, non-binding rules, codes and standards. Broadband Infraco has identified all applicable regulatory requirements falling within the scope of compliance risk for the organisation as a whole, and has ensured that the Company-wide Regulatory Universe (applicable regulatory requirements) has been reviewed by EXCO and approved by the Audit and Risk Committee for the 2014/15 financial year.

- In demonstrating Broadband Infraco's continuous commitment to compliance, the Audit and Risk Committee has also approved the reviewed Compliance Manual, Compliance Management Policy and Compliance Management Framework.

- As at 31 March 2015, Broadband Infraco had identified seventy eight regulatory requirements (Acts) as applicable to the Company. A prioritised/core legislation universe has also been compiled.

- The three-year Compliance Management Plan has been developed and is to be fully rolled out and implemented in the 2015-2016 financial year. The absence thereof did not deter the function section from conducting compliance requirements and activities.

- Broadband Infraco has put greater emphasis on operational compliance by ensuring that its policies (supervisory compliance) are continuously being socialised in order to ensure adherence thereto by its employees. The compliance function played a consulting role to ensure that approved policies such as the Supply Chain Management Policy are communicated to the business.

- In an attempt to avoid major fines and penalties being imposed on the organisation, a Compliance Diary has been developed, also to be rolled out and implemented in the 2015-2016 financial year.

- New compliance/regulatory risks for the period under review have been monitored and organisation-wide compliance alerts issued in this regard. Compliance awareness sessions were conducted with the respective functional areas particularly in respect of the following amendments and newly promulgated employment laws: Labour Relations Amendment Act No. 6 of 2014, Basic Conditions of Employment Amendment Act No. 20 of 2013, Employment Equity Amendment Act No. 47 of 2013 and the new Employment Services Act No. 4 of 2014. This was done with a view to ensuring that appropriate control measures are put in place in compliance with these sections of legislation.

The Company has ensured that it reports on its compliance obligations and in particular the Public Finance Management Act No. 1 of 1999 (as amended) to its Shareholders on a quarterly basis and has not been subjected to any non-compliance fines, penalties, or compliance transgressions during the period under review.

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 and 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.

14. GOVERNANCE (CONTINUED)

PULENG KWELE
Chief Executive Officer

THANDI PAMA
Acting Chief Financial Officer

GIFT ZOWA
Chief Technical Officer

VISHEN MAHARAJ
Executive: Capital Programme Management

MIKE MOJAPELO
Executive: Compliance, Risk and Audit

MONTŠENG MOPELI
Executive: Human Resources

KLAAS MOTLHABANE
Executive: Legal and Regulatory

SAMMY MAFU
Acting Chief Sales and Marketing Officer

FAHIM MOHAMED
Company Secretary

Klaas Motlhabane Executive Legal and Regulatory

Regulatory Developments

SOC Rationalisation

The National Broadband Policy (South Africa Connect) proposes the rationalisation of ICT SOCs to contribute to national objectives more efficiently and effectively. Broadband Infraco supports the SOC rationalisation process driven by the Department of Telecommunications and Postal Services (DTPS). It has, in this regard, participated in the analysis of the Presidential Review Committee on SOCs, review of legislative, regulatory and policy landscapes as it affects the rationalisation process, and an analysis of SOC capabilities and competencies.

During September 2014, and in pursuit of the objectives of the rationalisation process, the President of the Republic of South Africa signed a proclamation which had the effect of replacing the Department of Public Enterprises with the DTPS as the Shareholder representative to Broadband Infraco.

SIP 15

During August 2014, the Presidential Infrastructure Co-ordinating Commissions (PICC) Technical Committee visited Broadband Infraco's PoP sites situated in Mahikeng and Ramatlabama. The Committee was appraised of the company's network expansion plans, regional integration and job-creation efforts.

Furthermore, the SIP15 Inter-Governmental Forum meeting took place in November 2014, under the Chairmanship of the Minister of Telecommunications and Postal Services. Issues canvassed during the meeting include progress of SIP15 since inception, overview of the PICC structures and the broadband implementation business case, as well as feedback on provincial site visits.

ICT Policy Review Process

The DTPS initiated a policy review process in April 2012, from which a Framing Paper emerged in April 2013, followed by a Green Paper in January 2014. In November

2014, the DTPS published the National Integrated ICT Policy Discussion Paper for public comment.

The Discussion Paper examines approaches to deploying and using ICT to bolster the South African economy, and to create an integrated society. It reviews the effects of the convergence of technologies and its practical impact on the entry of new services to better meet the needs of South Africans. Principles of regulatory parity, technological neutrality and an open Internet are discussed, while debates on universal access to affordable communications services, competition issues, enabling ease of participation for new ICT entrants, spectrum policy, rapid deployment of infrastructure, the postal infrastructure and the possible role of the Post Office in the converged environment are tabled.

Other discussion points include the development of a national e-strategy to build the envisaged digital society, including considerations around issues of e-government and e-commerce, and what needs to be done to empower institutions that govern the sector to better fulfil their roles. Strategies necessary to promote growth and transformation in the ICT sector and the expansion of the national system of ICT research, skills development and policies to develop a manufacturing base for electronic goods are being scrutinised.

Broadband Infraco submitted comments to the Discussion Paper, focusing mainly on the institutional frameworks and infrastructure and services sections of the report. The Company is also participating in the proceedings of the Infrastructure and Services Committee of the ICT Policy Review Panel. The Committee is tasked with examining issues around converged networks, market structure and competition, infrastructure sharing and open access, universal access and service, and spectrum management.

During February 2015, the DTPS hosted a workshop attended by the inter-departmental working group to discuss submissions received in relation to the National Integrated ICT Policy Discussion Paper. Delegates were advised that the final version of the Discussion Paper will be submitted to the Minister by mid-March. The Discussion Paper will thereafter be compiled into a draft White Paper on ICT Policy, which may be available for public comment during June 2015.

Cost to Communicate Programme

In March 2014, ICASA published a notice of public enquiry into the state of competition in the ICT sector. The enquiry, according to the notice, will focus on the competition in the market, the challenge of creating a level playing field across platforms, the impact of convergence, net neutrality and disruptive technologies in the competitive landscape, the role of access to fixed (fibre) and wireless (high demand spectrum) in enabling competition, and the tension between consolidation and plurality in the ICT sector.

Broadband Infraco made submissions to the public notice, as well as giving a presentation to the Executive Authority during oral hearings regarding the enquiry. ICASA will proceed to draft a Position Paper on competition in the ICT sector. The draft Position Paper will be subject to a further public comment process before it is finalised.

Other Regulatory Developments

During September 2014, Broadband Infraco filed its compliance report with ICASA, indicating its compliance to general licence fees regulations, regulations prescribing contributions to USAF, code of conduct regulations, and regulations prescribing the minimum standards for end-users and subscriber service charters.

The Executive Authority appointed Analyses Mason to conduct a study on the broadband market structure, to support implementation of the Broadband Policy. The Company met with Analyses Mason to share its views on among others the Broadband Policy, market structure, and the roles of the operators and the regulator. The outcome of the study is awaited.

The Company submitted its inputs to the Competition Commission in relation to the potential mergers involving Vodacom and Neotel on the one hand, and Telkom and BCX on the other, as well as attending public hearings in January 2015 scheduled by ICASA to discuss the potential merger between Vodacom and Neotel.

In November 2014, ICASA published the final International Mobile Telephony (IMT) Roadmap that seeks to ensure the universal availability of mobile broadband services by increasing the capacity of mobile broadband bandwidth. This will be done by deploying lower frequencies that propagate a wider market, particularly in rural areas.

In November 2014, ICASA published the draft Radio Frequency Spectrum Assignment Plan, which specifies technical conditions relating to the use of the frequency bands. In January 2015, Broadband Infraco submitted its comments to the draft Assignment Plan, focusing on the 700, 750 and 800 MHz frequency spectrum bands, which are more suitable for the deployment of broadband fixed-wireless access networks in rural areas.

In December 2014, ICASA published the draft Radio Frequency Spectrum Regulations for public comment. The draft regulations establish the framework through which ICASA may allocate and assign radio frequency spectrum under the National Radio Frequency Plan, and seeks to establish transparent, fair and efficient procedures and processes for radio frequency spectrum licence applications. In February 2015, Broadband Infraco submitted its comments to the draft regulations, highlighting the principles that should govern the allocation and assignment of spectrum.

Challenges

The ICT SOC rationalisation process is still in its conceptual stage, and it is therefore unclear at this stage what the final form would be.

Broadband Infraco resuscitated discussions with DTPS 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 mandate in terms of which it is expected to operate its commercial enterprise on a financially sustainable basis, to enable it to generate sufficient returns to fulfil its socio-economic mandate.

Forward Looking

Broadband Infraco is fully participating in the proposed SOC rationalisation process, as well as periodic SIP15 proceedings in support of the implementation of SA Connect. The Company is looking forward to collaborating with other ICT SOCs to ensure that the country achieves the immediate broadband targets outlined in SA Connect.

16. PEOPLE MANAGEMENT

HR Strategic Objectives for 2014/15

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

- Optimisation of organisational capacity and productivity;
- Improvement of accountability and performance culture;
- Development of leadership capabilities at all levels;
- Attraction and retention of key talent;
- Improvement of engagement with key stakeholders; and
- Adherence to good Corporate Governance and labour legislative framework.

Staff Complement

Below is the Year-on-Year (YoY) headcount movement from 2011/12 to 2014/15.

Montšeng Mopeli Executive Human Resources

Categories	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15
Opening Balance	156	168	146	181
Permanent Staff	148	157	144	170
Contract (s)	8	5	2	1
Internship Students	0	6	0	10
Appointments	28	17	47	15
Permanent Staff	15	17	36	13
Contract (s)	7	0	1	2
Internship Students	6	0	10	0
Losses	(16)	(39)	(12)	(11)
Resignations	4	30	10	7
Expiry of Contracts	10	3	2	3
Expiry of Contracts (Interns)	0	6	0	0
Involuntary Reductions	2	0	0	1
Closing Headcount	168	146	181	185
Permanent Staff	157	144	170	175
Contracts	5	2	1	0
Internship Students	6	0	10	10

AGE PROFILE BY JOB LEVEL	
Job Levels	**Average Age**
Executives	47
Senior Management	44
Professional Specialist and Middle Management	34
Supervisory and Junior Management	36
Support	35
Interns	30

The Company's average age profile is at 38.5 years

TALENT SOURCING AND SEPARATIONS

Due to the decision to freeze headcount as part of the Company's cost containment strategy, recruitment was reduced to the activation of only crucial positions. As a result, there was less talent sourcing activity during Q3 and Q4. Seventeen permanent and two (2) temporary positions were filled by the end of the financial year. Of the total permanent appointments, which are 33.3% of the recruitment activity during the previous financial year, five (5) were new acquisitions and three (3) were internal promotions, with nine (9) external appointments.

Terminations

A total of 11 terminations were processed during the financial year and of those, three (3) were expiry of temporary contracts and eight (8) resignations.

Labour Turnover	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15
Average number of employees (opening + closing /2)	162	157	164	183
Labour Turnover (losses/average) *100	10%	25%	7%	6%
Losses	16	39	12	11

The highest number of separations occurred at senior and middle-management levels. These levels included professional specialist and technical staff, respectively.

Employment Cost-Management

- A benchmark of employee conditions of service, which was more focused on the variable remuneration costs was conducted against other state-owned companies and players in the ICT sector. This was in preparation for the implementation of the second phase of the three-year Substantive Agreement (2014 – 2017).
- Through the implementation of the capping of remuneration at 90^{th} percentile to reduce labour costs as per the three-year substantive agreement, the Company managed to achieve a saving of 1.09% of labour cost for the 2014/15 FY and anticipated saving for 2015-16 FY is 2.34% of the Company's labour bill.
- HR undertook an organisation-wide productivity analysis to assist line managers with human resources' capacity and capability alignment, to ensure successful execution of the business strategy and the financial sustainability of the Company.

HR Information System

The implementation of the Employee Self-Service (ESS) through the VIP HR and payroll system including regional staff for leave and payslip administration was conducted during the period under review. This intervention has improved HR's effectiveness in terms of the administration of leave and the management of leave provision, with the intention to reduce the liability to the business.

HUMAN RESOURCES DEVELOPMENT

The enhancement of the human resources capacity as well as its importance is regarded highly by the organisation. As such, a number of interventions were implemented in the year under review.

An amount of R3.5 million was spent on training and development of staff from top management to the lowest levels in the Company. The average hours of training per employee during the financial year was 34.17 hours.

Training Statistics for 2014/15 Financial Year

			Technical Training			Soft Skills Training			Total hours spent (technical and soft skills)
Categories	Total spend (technical and soft skills)	Training spend as % of labour cost	M	F	Total	M	F	Total	
Total	R 3.5 million	14 %	65	23	88	84	76	160	6 321.5

During the year under review the Company training spend was 3.5% of the total labour cost.

Study assistance was awarded to nine (9) employees to further their academic studies. One (1) of the nine (9) has successfully completed his Master of Science degree in Technology Management at the University of Pretoria.

Internship

The Company hosted a group of 10 graduates who participated in a 24-months internship programme.

ORGANISATIONAL DESIGN AND DEVELOPMENT

Job Evaluations and Organisation Structural Changes

During the year under review, profiles of 26 positions were subjected to a job-grading exercise. The outcomes of the evaluations resulted in job title change for two positions.

Realignment of Supply Chain and IT Departments

The HR Department facilitated the realignment of the Supply Chain Management Department. The process was completed during the year under review. During the same period, the realignment of the IT Department was initiated and facilitated by the HR Department.

Employee Satisfaction Survey and Employee Engagement:

The results of the employee satisfaction survey were released during the financial year under review. A total of 74% of employees participated and 70% of the participants were generally satisfied.

Legislative Compliance

The Company has complied with legislative requirements in so far as the related annual submissions are concerned. The Workplace Skills Plan 2014/15 financial year and the annual training report for the 2014/15 financial year were submitted to the MICT Seta.

Performance Management

There is an ongoing concerted effort by the HR Department to inculcate a performance-driven culture. The Company realised an improvement in the implementation of the Performance Management System.

Performance contracting for the 2014/15 financial year was at a 98% submission rate.

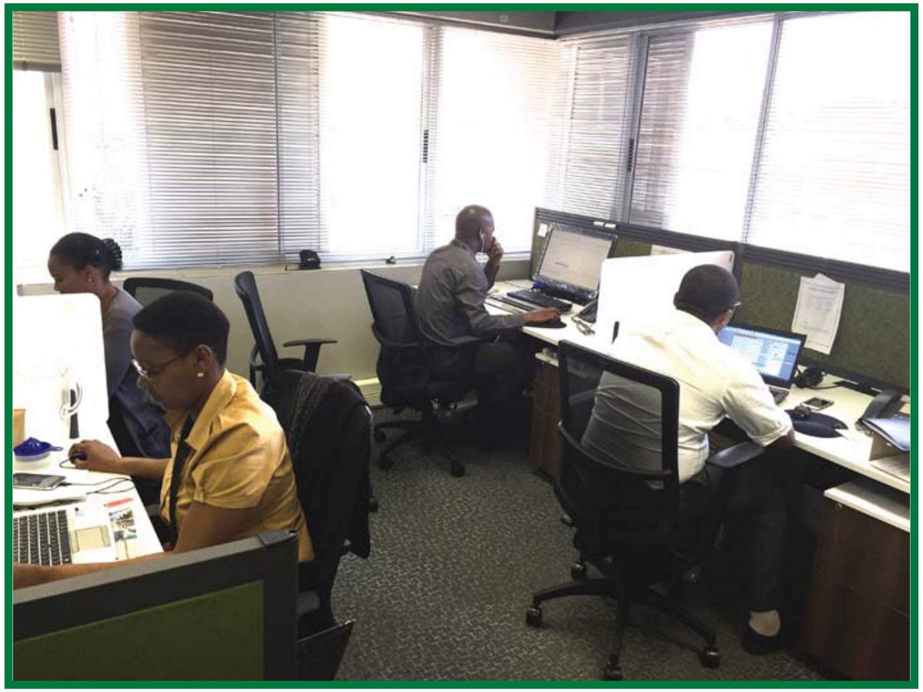
The SCM department has succeeded in deploying systems, policies and procedures specifically designed to attract meaningful contribution from previously-disadvantaged groups and created an environment within the Company where these individuals enjoyed preference in terms of the supply of goods and services in all spheres of the supply chain. As a strategic business partner, SCM continues to have a great impact in 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.

The total procurement costs for the year totalled R405m. The focus for the year has been particularly on achieving efficiency in supply chain practices and compliance to legislative requirements through the implementation of an effective Enterprise and Supplier Development Strategy. These have yielded results that are indicated below:

PROCUREMENT AND B-BBEE SPEND

- Total B-BBEE Spend 113%
- Black Owned Enterprise 34.4%
- Black Women Owned 32.7%
- Black Youth Owned Enterprise 8.1%
- Expenditure on People with Disabilities R517k
- Total Number of Jobs created 182

The focus going forward is to continuously improve efficiency in supply-chain practices and compliance to legislative requirements, to increase the Enterprise and Supplier Development activities and achieve an increased Broad-Base Black Economic Empowerment (B-BBEE) spend, particularly on black youth and people with disabilities.



Supply Chain Management Team

18. SAFETY, HEALTH, ENVIRONMENT AND QUALITY PERFORMANCE

Safety, Health, Environment and Quality

Broadband Infraco has prioritised the safety and security of its personnel. All identified risks have been dealt with as shown in the table below.

Risk	Mitigation Action
Security and safety at our sites	• Private security companies to escort our maintenance staff in certain areas during site visits – national agreements with security service providers has been secured.
Environmental impacts	• Contractors doing work with potential to have an impact on the environment are directly supervised and constantly audited to measure compliance with legal and other requirements.
Safety and personal Injuries	• Employees have been issued with personal protective equipment and all have been trained in terms of the correct use of personal protective equipment.
Lack of SHEQ training	• SHEQ training plans have been developed and training has commenced. All legal required training has been completed.

From an **environmental perspective**, there has been a successful first round of SABS audits for the ISO 18001 certification with 40 minor audit findings being cleared in a short period of time. Broadband Infraco is now ready for the final stage of certification.

Challenges

As part of the strategic plans going forward, Broadband Infraco is focusing on improving its network designs and implementation strategies so that they are cost effective and address the legacy issues that the organisation is facing. The intention is to address some of the challenges as part of this focus.

There challenges are as follows:

- Network spares: Very limited availability of critical spares for legacy transmission technologies that are obsolete but still in operation, carrying critical customer services;
- Continued difficulties and/or challenges with Eskom power grid challenges. This is affecting network reliability, and affecting battery reliability and longevity. In addition, continued load-shedding by the power utility Eskom continues to be a risk to the overall availability of the network; and
- The old Ad-lash tape supply puts network maintainability and integrity at risk. The Broadband Infraco National Long Distance network is facing significant challenges with its Ad-lash fibre-optic cable, which is old and is passed its lifespan; this fibre-optic cable is about 3 000 km long.

Redundancy is required on international links. It is costly to have network redundancy for all international links, but a necessity for international customers.

19. MOVING FORWARD – CHALLENGES AND PROSPECTS

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

- Finalising the demand plan to allow SCM to establish framework contracts.
- Securing concrete funding in the form of Shareholder guarantee remains elusive and requires greater concerted collaboration between the Board and the Executive Management of the Company.

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

- Availability of spare fibre pairs and the proximity of our network to potential customers in the metros.

Mitigation Strategy for Network Engineering

The following mitigation strategies are under consideration:

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

Plans for 2015-2016

The target for the 2015-2016 financial year is to complete all the projects listed below:

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

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

- Four (4) single points of failures (SPOFS) will be addressed in separate projects;
- Strengthening and meshing of the existing network (including increasing the number of PoPs) to intensify connectivity and implementation of ASON (where viable) on the relevant sites;
- Extension of the IP core network (aggregation points) in various provinces and implementation of one international IP node in England; and
- Maintaining close relationships with Eskom and Transnet regarding fibre replacement and rollout.

20. FUTURE OUTLOOK

View on the forthcoming financial year

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

While the market remains intensely competitive, Broadband Infraco's capacity to provide competitive pricing, excellent service, experienced account managing, dedicated staff and collaborative approach to the market, will remain its strongest positioning platform as is evidenced in the independent Customer Satisfaction Survey concluded.

WACS Upgrade

The Upgrade Procurement Group (UPG) has submitted the Invitation to Tender (ITT) to potential suppliers for the performance of Upgrade#1 on WACS. The closing date for responses was set for the end of April 2014 and will be evaluated during May 2014. The UPG will meet with the short-listed suppliers during the week of 2 June 2014 and it is anticipated that the preferred supplier will be recommended to the Management Committee by mid-June 2014. Following this process, with the upgrade cost known, Parties will be provided three months to secure their investments towards Upgrade#1.

In view of Broadband Infraco's Upgrade#1 capacity entitlement and the agreement with the DST, DST will be provided with the opportunity to participate in Upgrade#1 to secure up to 65% of the Broadband Infraco entitlement as per the WACS agreement. Broadband Infraco will have to determine whether it will take up the remaining 35% entitlement to the Upgrade#1 capacity or consider taking up the additional capacity, should the DST not follow their participation rights for the additional share of the capacity.

Capital Programme Management

In terms of project implementation, Broadband Infraco has planned and will finalise the execution of some key projects during the year. Some of the key projects include the following:

- Implementation of the SITA network solution. The project has been broken down into phases and Broadband Infraco intends to have all the services migrated as follows:
    - Phase 1: Deliver 22 services by 31 July 2015.
    - Phase 2: Deliver 32 services by 31 July 2016
- Complete the last phase of the implementation of the Cell C solution. This entails the construction of Broadband Infraco infrastructure to replace the temporary infrastructure leased from third parties.
- Upgrade the regional connectivity route to Botswana with equipment that allows for higher capacities to be transmitted.
- Relocate the site at Onseepkans which is on the regional connectivity route to Namibia, as this site is prone to flooding during storms.

SECTION 2

Broadband Infraco SOC Limited
Annual Financial Statements
for the year ended 31 March 2015

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 (Acting), T Pama.

These annual financial statements were authorised by the Board of Directors on 17 March 2016.

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

Contents

Introduction

As the chairperson of the Audit and Risk Committee, it is my pleasure to submit the Committee report for the 2014/15 financial year. The Audit and Risk Committee (ARC) of Broadband Infraco SOC Limited is constituted as per the requirements of the Companies Act, 2008 (Act No. 71) as amended. The main purpose of the Committee is to assist the Broadband Infraco SOC Limited Board of Directors in monitoring the integrity of financial statements and overseeing integrated reporting. It is also responsible for the effectiveness of the internal financial controls and overseeing the internal and external audit functions. The Audit and Risk Committee is satisfied that it has complied with the legal, regulatory and other responsibilities. The Committee is proud to report that it remains independent which enabled it to execute its responsibilities effectively.

Audit and Risk Committee Members, Meeting Attendance and Assessment

The Committee comprised Ms Meta Maponya (Chairperson and Independent Non-Executive Director), Ms Xoliswa Kakana (Non-Executive Director), Mr Sydney Mabalayo (Non-Executive Director) and Mr Shakeel Meer (Non-Independent Non-Executive Director). Ms Kakana and Mr Meer retired from the Board of Broadband Infraco on 14 October 2014. Two new members were appointed to the Audit and Risk Committee – Ms Mpho Mosweu and Ms Nokuthula Selamolela.

The Audit and Risk Committee adopted the Terms of Reference which were approved by the Board. The overall objective of the Committee is to assist the Board of Directors to discharge their responsibilities relating to the safeguarding of assets, ensuring the operation of adequate and effective systems of internal control processes, reviewing the preparation of materially accurate financial and non-financial reporting information and statements, and ensuring that the Company complies with all applicable legal and regulatory requirements and accounting standards. The Committee also plays an oversight role for external and internal audit appointments and functions.

The Committee has met the requirements of the Public Finance Management Act No.1 of 1999 as amended (PFMA) of meeting at least twice a year. The Executive Directors i.e. the Chief Executive Officer and the Chief Financial Officer attend the meeting by invitation. Other members of management attended as required. There are also in-Committee meetings held between Committee members, internal auditors and external auditors.

Ms Mpho Mosweu was appointed on 23 October 2014 as an Interim Chairperson of the Audit and Risk Committee in the place of Ms Meta Maponya, who was on leave until December 2014. Ms Maponya returned from leave and assumed the role of Chairperson on 28 January 2015. During this time, the Committee did not convene.

The Members' attendance is reflected in the table below:

Committee Member	1	2	3	Total
Meeting Date	**24/04/2014**	**30/07/2014**	**28/01/2015**	
M Mosweu	N/A	N/A	A	0/1
MM Maponya[1]	A	√	√	2/3
X Kakana	√	A	R	1/2
ST Mabalayo	√	√	√	3/3
S A U Meer	√	√	R	2/2
N Selamolela	N/A	N/A	√	1/1

1 Chairperson
√ Attendance
A Absent with apology
R Retired
N/A Not appointed as yet

Report on the activities of the Audit and Risk Committee

The Committee considered, reviewed and approved a number of matters in line with the delegation of authority. These included inter alia the following:

- Quarterly reports including the Risk Register in line with the Treasury regulations for submission to the Shareholders.
- Reviewed and recommended the annual financial statements to the Board jointly with the Investment and Finance Committee.
- The Committee approved the Fraud Prevention Policy, Fraud Investigation Policy, Budget Control Policy, Records and Documents Management Policy, Compliance Management Policy, Delegation of Authority Policy, and Creditors and Expenditure Management Policy.
- Ensured that the internal audit function is operating optimally to address the risks pertinent to the entity.
- Considered and approved the Internal Audit Plan for the 2014/15 financial year.
- Quality assurances model was approved and the External Auditors provided assurance that sound accounting records were maintained by the Company.
- The internal controls were considered and monitored to ensure that there was no breakdown in controls.
- Reports were considered regarding compliance to legislation.
- The Capital Programmes progress was considered and noted.

Internal Audit

Internal Audit function provides management with an independent, objective assurance service that reviews matters relating to control, risk management, corporate governance and operational efficiencies. Broadband Infraco adopted a co-sourced internal audit services model.

To ensure independence, the Internal Audit function reports functionally to the Audit and Risk Committee (ARC) on its findings and has unrestricted access to the Audit and Risk Committee, and the Chairperson. The unit is headed by Executive Compliance Risk and Audit who administratively report to the Chief Executive Officer.

Internal Audit function operated in line with approved Internal Audit Charter. Internal Audit responsibilities are clearly defined and approved as stated in the Internal Audit Charter. Internal Audit continued to function throughout the Company during the year.

Internal Audit function complied with the Treasury Regulation 27.2.7 requirements, which state that internal audit must prepare the following, in consultation with and for approval by management, and the Audit and Risk Committee:

- Plans indicating the scope of each audit in the annual internal audit plan.
- Reports to the Audit and Risk Committee detailing its performance against the plan, to allow effective monitoring and possible intervention.

The Issue Log Register was implemented for the purpose of tracking reported findings and ensuring the implementation of corrective action plans for both internal and external findings. This process ensured that reported audit findings were addressed by management timeously to prevent repeat findings.

In terms of the Internal Audit report, results for validation of milestones and previous year findings indicated as "resolved" by management for the year. Our validation confirmed that 70% of the milestones were resolved.

During the 2014/15 financial year, the internal audit function conducted a number of compliance, financial, governance and information technology audits. The internal audits reviews conducted focused on both internal control design and operating effectiveness for specific areas reviewed. Where control inadequacies and/or inefficiencies were identified, these were reported to management. The internal audit team developed recommendations for improvement to the internal controls, and management actions have been agreed to adequately implement those recommendations.

During the year, no major breakdowns in internal controls were identified. The overall opinion of the internal audit is it "requires improvement".

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

Integrated and Sustainability Reporting

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

Internal Financial Controls

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

Expertise of the Finance Function

The Audit and Risk Committee is cognisant of the resource and skills challenges below the management layer in the finance division, and is providing guidance to management with regard to the optimal structure required to ensure that a strong competent layer of resources exists to support the finance division management. This challenge is receiving urgent attention and will be resolved timeously.

Governance of Risk

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

Broadband has embraced and embedded Enterprise Risk Management (ERM) processes. ISO 31000 Framework and principals were adopted and ERM policies and framework were revised. Broadband Infraco believes that risk management is fundamental in ensuring the achievement of business objectives and the sustainability of the business.

Risk Management function played a key role in identifying, assessing, measuring and managing those risks that arise in the pursuit of the organisation's strategic goals. The responsibility for risk management resides at all levels in Broadband Infraco, from the Board, Executive level committees, down to each business unit manager. This contributed to instilling a strong risk culture in the organisation, making risk everyone's business.

Risk Management was managed as a structured and co-ordinated process, where strategic risks were managed at the Executive level and operational risk was managed at the business unit level.

To ensure ownership, risk management is transferred to the business units, risk champions were appointed from each business unit and will be trained by Risk Management. Risk management and internal control are practised throughout the Company, and embedded in the day-to-day activities with the Strategic Risk Register being monitored on a quarterly basis.

Compliance to Legislation

During the period under review, Broadband Infraco worked to lower the impact of regulatory/compliance risk due to a continuous focus and awareness on all applicable laws, regulations and supervisory requirements by emphasising corporate values in every operation of the Company and assisted in creating a culture of compliance. The organisation recognises that the greatest risk of non-compliance stems from ignorance of the law and could result in hefty fines/penalties, as well as in reputational risk.

Key developments:

- Management has put processes in place to ensure that Broadband Infraco complies with applicable laws, non-binding rules, codes and standards. Broadband Infraco has identified all applicable regulatory requirements falling within the scope of compliance risk for the organisation as a whole and has ensured that a company-wide Regulatory Universe has been compiled. The Board is ultimately accountable for compliance and has the specific responsibility to oversee compliance with regulatory requirements, while the Audit and Risk Committee monitors compliance at the highest level. In demonstrating Broadband Infraco's continuous commitment to compliance, the Audit and Risk Committee has approved the Regulatory Universe (applicable regulatory requirements), Compliance Manual, and the Compliance Management Policy and Framework.
- A three-year Compliance Management Plan has been developed and is to be fully rolled out and implemented in the 2015/16 financial year.
- To avoid major fines and penalties being imposed on the organisation, a Compliance Diary has been developed, also to be rolled out and implemented in the 2015/16 financial year.
- New compliance/regulatory risks for the period under review have been monitored and organisation-wide compliance alerts issued in this regard. Compliance awareness sessions were conducted with the respective functional areas particularly in respect of the newly promulgated employment laws, as well as the Protection of Personal Information Act, with a view to ensuring that appropriate control measures are in place in compliance with these pieces of legislation.
- Broadband Infraco has put greater emphasis on operational compliance by ensuring that its policies (supervisory compliance) are continuously being socialised to ensure adherence by employees.

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

External Audit

The Audit and Risk Committee is satisfied that the external auditor, Nexia SAB&T, conducted its duties independently and that no scope limitations were imposed by management on the auditors while performing their duties during the period under review. The committee, in consultation with Executive Management, agreed to the engagement letter, terms, audit plan and budget fees for the year ended 31 March 2015.

Irregular, Fruitless and Wasteful Expenditure

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

The Audit and Risk and Committee have noted irregular expenditure of R118k for the year ended 31 March 2015.

Going Concern

The Audit and Risk Committee has evaluated the financial statements of Broadband Infraco for the year ended 31 March 2015, and based on the information provided to the Audit and Risk Committee, considers that they comply in all material respects, with the requirements of the Companies Act No. 71 of 2008 as amended, the Public Finance Management Act, (Act 1 of 1999), as amended (PFMA) and International Financial Reporting Standards (IFRS).

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

On behalf of the Broadband Infraco Audit and Risk Committee.

MM 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.

F Mohamed
Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Board of Directors is pleased to present its report and the audited annual financial statements for the year ended 31 March 2015.

The Directors are responsible for the integrity and fair presentation of the annual financial statements of Broadband Infraco. The annual financial statements presented have been prepared in accordance with IFRS, the South African Companies Act No. 71 of 2008 and the PFMA. These annual financial statements have been prepared in accordance with appropriate accounting policies and include amounts based on judgements and estimates made by management. The Directors had an oversight role on the preparation of information included in the Integrated Report and are responsible for both its accuracy and consistency.

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

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

During the year under review, the Directors retained full and effective control over the Company and monitored management in implementing the approved plans and strategies. The Directors are of the opinion that the annual financial statements fairly present the financial position of Broadband Infraco and the results of their operations and cash flows for the year ended 31 March 2015.

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 2016 as well as 31 March 2017 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.

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 annual financial statements. The report of the independent auditors appears on the latter section of the report.

The annual financial statements of Broadband Infraco for the year ended 31 March 2015, have been prepared under the supervision of Ms Thandi Pama and were approved by the Board on 17 March 2016 in terms of the Companies Act and the PFMA, and are signed on their behalf by:

M Ngcobo
Chairman of the Board

P Kwele
Chief Executive Officer

FINANCIAL AND OPERATIONS REVIEW

Broadband Infraco increased revenue for the year to R365.5 million (2014 – R 302.3 million) an increase of R63.2 million due to the addition of a new customer, SITA which represents 22% of the total revenue. The new customer also attracted additional costs in the form of fibre leases. The loss for the year under review increased to R244.6 million (R143.4 million in 2014) which is R101.2 million above the loss in the previous financial year.

The main contributors to the increase in operating loss were:

- A 249% increase in fibre lease costs
- A 136% increase in colocation costs

Cash utilised from operating activities of (R137.2) million materially deteriorated from the previous year, which was at R328.7 million, mainly due to the sale of WACS capacity in the previous year and increased Cost of Sales in the current year associated with new anchor clients. The closing cash balance as a result is at R156.6 million compared to the previous year's R441.8 million, which represents a decrease of R285.2 million.

Broadband Infraco continued its exerted efforts in the 2014/15 financial year to diversify its revenue base away from reliance of the Second Network Operator i.e. Neotel (Pty) Ltd (Neotel). It increased revenue generated from other telecom operators with the contribution to revenue from Neotel declining to 42% from 62% in the previous year. It now has three anchor clients that contribute materially to the overall revenue.

Broadband Infraco has however managed to achieve a 100% retention rate of all its other customers. Expired contracts were either renewed at the same capacity or upgraded to higher capacity. Broadband Infraco managed to grow its business from its existing customers (excluding Neotel) and new customers grew by 20% of the current year revenue compared to 21% the previous year.

Broadband Infraco finalised, during 2013/14 financial year, the sale of R30.0 million MAU or 69.9% of its capacity on a 15-year Indefeasible Right of Use (IRU) basis to the Council for Scientific and Industrial Research (CSIR). The last tranche of payment is payable in June 2015, as indicated in the table below.

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

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

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

Cost of Sales

Cost of Sales is 61% higher compared to the previous year and 33% higher than budget. Key drivers are fibre leased (249%) from Neotel and an increase in colocation cost (136%) also mainly from Neotel. Other key cost of sale drivers are outlined below:

- Managed service contracts for BCX and Coriant (Pty) Ltd were reinstated specifically for transmission equipment as well as CISCO equipment. This does not attract any additional revenue but it warrants that the OEM will continue to support their infrastructure.

- To address fibre lease legacy issues of separating the Broadband Infraco Network from that of Neotel, there is an amount of R29 million that had to be paid for leased fibre. Additional fibre was leased as part of customer migration.
- Colocation costs are higher than the previous year mainly due to post Rights of Use network segregation where costs were incurred for housing equipment at Neotel PoP sites.

SIGNIFICANT CONTRACTS

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

Master Sales Agreement with Neotel (Pty) Ltd

Broadband Infraco continues to provide services to Neotel pursuant to the conclusion of a five-year Master Services Agreement (MSA) in April 2012. The resolutive condition contained in the MSA is due to expire on 30 July 2015, but will likely be extended until the arbitration proceedings (referred to below) have been concluded.

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

Neotel, however, refused to make payment to Broadband Infraco in respect of the utilisation of migratory services which resulted in a dispute and is the subject of current arbitration proceedings. The proceedings are at an advanced stage and will recommence on 8 June 2015.

Eskom

Network maintenance contract

Broadband Infraco has a three-year contract with Eskom for the maintenance of their network effective 1 June 2012 to 31 May 2015. Fibre is attached to the utility infrastructure which covers major parts of the country. It also traverses the remote parts of the country. Broadband Infraco has servitudes rights, which are well maintained by Eskom. Negotiations for the renewal of the contract are in progress and Broadband Infraco will be operating on a time and material basis from 1 June 2015.

Fibre lease contract

The existing long-term fibre lease contract with Eskom was concluded on 1 September 2008 and expired on 31 August 2014. An extension has been granted for the period September 2014 to 31 August 2015. The short tenure of the contract is to enable the consolidation of both the maintenance and fibre lease contracts from Eskom.

Transnet Freight Rail (TFR)

Network maintenance contract

Broadband Infraco concluded a three-year contract with TFR for the maintenance of fibre, effective from 1 April 2012. This contract enables Broadband Infraco to access the fibre attached to the TFR transport infrastructure which covers major parts of the country. Broadband Infraco has servitudes rights, with the network being well maintained by TFR. An extension of the contract has been granted to 31 March 2016.

Fibre lease contract

The fibre lease contract with TFR was concluded on 1 September 2008 and expired on 31 March 2015. An extension of the contract has been granted to 31 March 2016.

Going Concern

Introduction

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. 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.

Going Concern Status

Broadband Infraco SOC, "the Company", has prepared its financial statements for the year ended 31 March 2015 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 2016 as well as 31 March 2017 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.

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.
- Presuming that funds will be available to address the cash shortfall in the 2016/17 financial 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 intervention by the Company and shareholder to substantiate why the going concern assumption in preparing the annual financial statements for the year ended 31 March 2015 is considered appropriate.

Management Intervention on operations for the year ended 31March 2015

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 revised the Company's corporate plan, with the objective of positioning the Company to achieve its financial sustainability target of breaking even by June 2016 and be financially sustainable thereafter.

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 clients 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 instituted cost optimisation as well as revenue optimisation interventions. The key interventions executed include:

Revenue Review and Outlook -

Revenue enhancement by selling existing capacity and upselling to existing clients, this has resulted in an over achievement in the revenue line for FY 2014/15 by 12% and has grown by 21% year on year.

Cost review and outlook

- **SITA NGN** – The Company signed a three year contract with Neotel for provisioning of SITA services. The first year was billing migration enabling the Company to build phase 1 of the project. With phase 1 complete, amounts due to Neotel for this contract will be reduced by R2.8 million per month on the 1st anniversary of the contract which is August 2015.
- **Cell C fibre lease** – The Company has completed initial phases of the Cell C migration project and this will result in a monthly reduction of R1.2 million per month from 01 August 2015.
- **Neotel colocation** – As part of rolling out Phase 1 of the SITA project, 5 POP's have been developed which create autonomy from Neotel resulting in a reduction of R 704k per month from 01 July 2015.
- **Operational costs -** are reduced by R3 million per month from May 2015.The reduced operational spend is driven by freezing all spend that is not linked to revenue generation.
- **Labour costs** – From a labour point of view, a three year substantive agreement was concluded in 2014 which aims to provide certainty and predictability of salary costs as well as to ensure that salary costs are contained during this period. The salary containment addresses salaries that are above the 90% quartile where adjustments are handled as cost payouts.
- **Labour costs capitalisation** – Management has put controls in place to ensure that labour costs incurred in the implementation of capital projects are administered and accounted for appropriately. This has resulted in the first phase of capitalization of labour costs associated with capital projects and has yielded positive results.
- **Overtime management** – Management is also been measured on reduction of overtime and is striving to address legacy issues and compliance to the labour regulations.
- **Working capital management –** The going concern principle allows the Company to defer payment of its expenses until future accounting periods. As such favourable payment terms have been agreed with Transnet Freight and Rail and Coriant with the objective to improve cash position.

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.

Broadband Infraco management considers that the going concern assumption is appropriate in preparation of the annual financial statements for the year ended 31 March 2015.

COMPLIANCE WITH LAWS AND REGULATIONS

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

CAPITAL EXPENDITURE

The low capital expenditure for the year of R147, 8 million is mainly due to the effective phasing of capex investments and implementation as well as cost-containment measures.

SHARE CAPITAL AND SHARE PREMIUM

The authority to issue shares vests in the Shareholders. Directors do not have the authority to issue shares of the Company. There has been no change in the authorised share capital of the Company for the financial year under review.

DIVIDENDS

No dividend was recommended for the 2015 year (2014: nil).

AUDITORS

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

COMPANY SECRETARY

The Company Secretary for the period under review was Mr Fahim Mohamed and his business and postal addresses during the year were as stated below, which is also the address of the registered office of the Company.

Broadband Infraco

Head Office

Country Club Estate

Building No. 9

21 Woodlands Drive

Woodmead

Sandton

EVENTS AFTER REPORTING PERIOD

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

No matters arose between 31 March 2015 and 17 March 2016.

M Ngcobo
Chairman of the Board

P Kwele
Chief Executive Officer

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. I have audited the annual financial statements of the Broadband Infraco SOC Limited (Infraco) set out on pages 87 to 138, which comprise the statement of financial position as at 31 March 2015, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the 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 the 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. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the annual financial statements present fairly the financial position of Infraco as at 31 March 2015 and its financial performance and cash flows for the year then ended, in accordance with IFRS, the requirements of the PFMA and the Companies Act.

Emphasis of matter

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

Going concern

8. Note 28 on page 135 to the annual financial statements indicates that Infraco incurred a trading loss during the year ended 31 March 2015 and prior years and Infraco is currently trading at a monthly cash shortfall. These conditions, along with other matters as set forth in the note, indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern.

Additional matter

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

Other reports required by the Companies Act

10. As part of my audit of the annual financial statements for the year ended 31 March 2015, I 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, I have not identified material inconsistencies between the reports and the audited financial statements in respect of which I have expressed an adverse opinion. I have not audited the reports and accordingly do not express an opinion on them.

Report on other legal and regulatory requirements

11. 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, I 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 as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of Infraco for the year ended 31 March 2015:
    - Objective 1: Ensure Business Sustainability on pages 18 to 18
    - Objective 2: Network Saleability on pages 18 to 18
    - Objective 3: Network Improvement on pages 19 to 19
13. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
14. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. I did not raise 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 18
    - Objective 2: Network Saleability on pages 18 to 18
    - Objective 3: Network Improvement on pages 19 to 19

Additional matter

17. I draw attention to the following matter.

Achievement of planned targets

18. Refer to the annual performance report on pages 18 to 21 for information on the achievement of the planned targets for the year.

Compliance with legislation

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

Liability Management

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

Annual financial statements

21. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55 (1) (b) of the PFMA and section 29 (1) (a) of the Companies Act. Material misstatements of non-current assets identified by the auditors in the submitted annual financial statement were subsequently corrected.
22. The accounting authority did not submit the financial statements for auditing within two months after the end of financial year, as required by section 55 (1) (c) (i) of the PFMA.

Internal control

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

Leadership

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

- Annual financial statements were not submitted within two months after financial year end, due to the material uncertainty regarding the going concern position of the company

Financial and performance management

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

Other reports

Investigations

26. Internal audit performed an investigation at the request of Infraco, which covered the period 6 October 2014 to 28 February 2015. The investigation was initiated based on an allegation of leave irregularities. The investigation concluded on 4 June 2015 and that Human Resource is to provide guidance with regards to the necessary corrective measures to be considered.

27. Internal audit performed an investigation at the request of Infraco, which covered the period 1 June 2014 to 31 August 2014. The investigation was initiated based on an allegation of non-compliance with SCM process. The investigation concluded on 4 June 2015 and that SCM policy in particular needs to be socialise as a matter of urgency and Line Management in consultation with Human Resources should take necessary corrective actions against the employee implicated.

Nexia SAB&T

Nexia SAB&T
Per: T.J. De Kock
Director
Registered auditor
17 March 2016

STATEMENT OF FINANCIAL POSITION
for the year ended 31 March 2015

	Note	2015 R'000	2014 R'000
Assets			
Property, plant and equipment	3	1 304 152	1 280 736
Intangible assets	4	19 348	10 218
Deferred tax asset	5	-	-
Long-term trade receivables	6	14 715	185 758
		-	-
Total non-current assets		**1 338 215**	**1 476 712**
Trade and other receivables	6	256 583	174 544
Cash and cash equivalents	7	156 668	441 828
Total current assets		**413 251**	**616 372**
Total assets		**1 751 466**	**2 093 084**

Equity and liabilities	Note	2015 R'000	2014 R'000
Equity			
Share capital	8	*	*
Accumulated deficit		(865 872)	(621 179)
Shareholders' loans	9	1 829 530	1 829 530
Total equity		**963 658**	**1 208 351**
Liabilities			
Deferred income	10	546 830	575 398
Total non-current liabilities		**546 830**	**575 398**
Deferred income	10	70 529	35 267
Trade and other payables	11	158 536	265 818
Provisions	12	11 913	8 250
Total current liabilities		**240 978**	**309 335**
Total liabilities		**787 808**	**884 733**
Total equity and liabilities		**1 751 466**	**2 093 084**

* Amount less than R1 000

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2015

	Note	2015 R'000	2014 R'000
Revenue	13	**365 511**	**302 373**
Cost of sales	14	**(314 849)**	**(153 000)**
Gross profit		**50 662**	**149 373**
Operating expenses	15	**(310 622)**	**(312 391)**
Employees' expenses	15.1	(114 905)	(110 212)
Directors' emoluments	15.2 & 23	(6 144)	(6 960)
Service fees	15.3	(19 337)	(14 865)
Selling, general and administrative expenses	15.4	(43 221)	(40 802)
Operating leases	15.5	(11 665)	(12 675)
Depreciation, amortisation, impairment and write-off	15.6	(115 350)	(126 877)
Results from operations		**(259 960)**	**(163 018)**
Finance income	16	15 269	19 540
Finance costs	17	(2)	(6)
Loss before taxation		**(244 693)**	**(143 484)**

	Note	2015 R'000	2014 R'000
Income tax expense	18	-	-
Loss for the year		**(244 693)**	**(143 484)**
Total comprehensive income/(loss)		**(244 693)**	**(143 484)**
Attributable to the parent		**(181 073)**	**(106 178)**
Non-controlling interest		**(63 620)**	**(37 306)**
		(244 693)	**(143 484)**

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2015

	Share capital R'000	Accumulated deficit R'000	Shareholders' loans R'000	Total equity R'000
	Note 8		Note 9	
Balance at 31 March 2013	*	(477 695)	1 825 851	1 348 156
Loss for the year	-	(143 484)	-	(143 484)
Total comprehensive income for the year	-	(143 484)	-	(143 484)
Total changes	**-**	**(143 484)**	**-**	**(143 484)**
Transactions with owners, recorded directly in equity	-	-	3 679	3 679
Balance at 31 March 2014	**-**	**(621 179)**	**1 829 530**	**1 208 351**
Loss for the year	**-**	**(244 693)**	**-**	**(244 693)**
Total comprehensive income for the year	**-**	**(244 693)**	**-**	**(244 693)**
Balance at 31 March 2015	*	**(865 872)**	**1 829 530**	**963 658**

***Amount less than R1 000**

	Note	2015 R'000	2014 R'000
Cash flows from operating activities			
Cash generated from/(used in) operations	19	(152 531)	309 171
Finance income received	20.1	15 269	19 540
Finance costs paid	20.2	(2)	(6)
Net cash from operating activities		**(137 264)**	**328 705**
Cash flows from investing activities			
Purchase of equipment and intangible assets	3&4	(147 896)	(199 220)
Net cash from investing activities		**(147 896)**	**(199 220)**
Cash flows from financing activities			
Shareholders' loan received/repaid		-	(30 601)
Net cash from financing activities		**-**	**(30 601)**
Total cash movement for the year		**(285 160)**	**98 884**
Cash and cash equivalents at the beginning of the year		441 828	342 944
Total cash and cash equivalents at the end of the year	**7**	**156 668**	**441 828**

1. Presentation of financial statements

1.1 Corporate Information

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

1.2 Basis of preparation

1.2.1 Statement of compliance

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

1.2.2 Basis of measurement

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

1.2.3 Functional and presentation currency

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

1.2.4 Significant judgements and sources of estimation uncertainty

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date. All these assumptions and estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may ultimately differ from estimates and assumptions. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

Residual values and useful lives of equipment

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

Provisions

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

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

Impairment of trade receivables, loans and other receivables

Impairment provisions are raised against trade receivables, loans and other receivables. When their collectability is considered to be doubtful, the following factors are taken into consideration:

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

Any impairment identified is recorded in profit and loss

Income Tax

Deferred tax

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

Deferred tax is provided in the financial statements on a basis that is reflective of the expected manner of recovery of the carrying amount of the asset, i.e. sale or use. This manner of recovery affects the rate used to determine the deferred tax liability.

2. Significant accounting policies

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

2.1 Foreign currencies

Foreign currency translation

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

Non-monetary items measured at historical cost in a foreign currency are not retranslated.

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

2.2 Property, plant and equipment

Recognition and measurement

Property, plant and equipment are initially measured at historical cost.

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

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

Subsequent costs

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

Depreciation

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

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

Item	Average useful life
• Network infrastructure	5-20 years
• Spares and test equipment	5-15 years
• Computer equipment	3-6 years
• Office equipment	10 years
• Motor vehicle	5 years
• WACS joint operation	15 years

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

A gain or loss arising from the derecognition of an item of equipment is included in profit or loss when the item is derecognised as a result of it being sold or scrapped.

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

Work in progress

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

2.3 Joint operations

West Africa Cable System (WACS)

A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the contractual arrangement establishes the parties' rights to the assets, and obligations for the liabilities relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.

WACS is 14 500 km submarine fibre-optic cable system, which provides Namibia, Togo, Congo and the DRC with the first direct international sub-cable connectivity. The WACS investment is based on a consortium model which is a joint effort between African and global telecoms operators.

The Company's annual financial statement includes its share of the joint operation (PP&E), liabilities and expenses that it has incurred and any income from the sales or use of the Company's share of the output of the joint operation.

2.4 Intangible assets

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

Item	Useful life
Software	5-7 years
Servitudes	20 years

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

2.5 Financial instruments

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

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

The Company classifies its financial instruments into the following categories:

2.5.1 Non-derivative financial instruments

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

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

Loans and receivables

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

Loans and receivables comprise trade and other receivables and short-term loans.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three (3) months or less.

2.5.2 Non-derivative financial liabilities

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

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

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

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

2.6 Share capital

2.6.1 Ordinary shares

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

2.6.2 Shareholders' loan

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

2.7 Impairment of assets

2.7.1 Financial assets

Non-derivative financial assets

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

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

Loans and receivables

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

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

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

2.7.2 Non-financial assets

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

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

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

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

2.8 Taxes

Current income tax

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

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

Deferred tax

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

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

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

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

2.9 Leases

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

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

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

2.10 Employee benefits

Defined contribution plans

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

Short-term employee benefits

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

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

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

2.11 Provisions and contingent liabilities

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

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

2.12 Revenue

Revenue is recognised to the extent that economic benefits will flow to the Company and it can be reliably measured for the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

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

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

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

Contract revenue comprises:

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

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

2.13 Finance income and costs

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

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

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

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

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

2.14 Related parties

Related party transactions are defined as 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.

2.15 Offset

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

2.15 Operating segments

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

2.16 Deferred revenue

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

2.17 Standards and interpretation issued but not yet effective

IFRS 9, Financial Instruments will replace IAS 39, Financial Instruments: Recognition and Measurement .

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

IFRS 11, Joint Arrangements will replace guidance in IAS 31, Interests in Joint Ventures. Amendments adding new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business which specify the appropriate accounting treatment for such acquisitions. Effective date to annual periods beginning on or after 1 January 2016.

Investment Entities: Applying the Consolidation Exception: Narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards. Effective date to annual periods beginning on or after 1 January 2016.

IAS 16, Property, Plant and Equipment, to clarify the basis for the calculation of depreciation and amortisation, as being the expected pattern of consumption of the future economic benefits of an asset. Effective date to annual periods beginning on or after 1 January 2016.

IAS 38 Intangible Assets, Amendments to clarify the basis for the calculation of depreciation and amortisation, as being the expected pattern of consumption of the future economic benefits of an asset. Effective date to annual periods beginning on or after 1 January 2016.

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

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

3 Property, plant and equipment

	Cost R'000	Accumulated depreciation and impairment R'000	Carrying value R'000
2015			
Network infrastructure	1 795 639	(724 614)	1 071 025
Spares and test equipment	14 878	(12 576)	2 302
Office equipment	10 320	(3 103)	7 217
Computer equipment	17 414	(13 120)	4 294
Motor vehicles	5 168	(122)	5 046
Work in progress	214 268	-	214 268
	2 057 687	**(753 535)**	**1 304 152**
2014			
Network infrastructure	1 688 011	(619 495)	1 068 516
Spares and test equipment	14 665	(11 890)	2 775
Office equipment	8 040	(2 928)	5 112
Computer equipment	16 468	(10 396)	6 072
Work in progress	198 261	-	198 261
	1 925 445	**(644 709)**	**1 280 736**

The Company did not pledge any item of property, plant and equipment as security for borrowings during the year (2014-nil)

3. Property, plant and equipment (continues)

	Opening carrying value R'000	Additions R'000	*Write off and impairments R'000	Transfers R'000	Depreciation R'000	Carrying value R'000
2015						
Network infrastructure	1 068 517	12 714	-	97 581	(107 787)	1 071 025
Spares and test equipment	2 775	7	-	206	(686)	2 302
Office equipment	5 112	3 678	(694)	-	(879)	7 217
Computer equipment	6 072	946	-	-	(2 724)	4 294
Motor vehicles	-	5 168	-	-	(122)	5 046
Work in progress	198 260	113 795	-	(97 787)	-	214 268
	1 280 736	**136 308**	**(694)**	**-**	**(112 198)**	**1 304 152**
2014						
Network infrastructure	1 111 610	1 269	-	75 847	(120 209)	1 068 517
Spares and test equipment	3 610	5	-	-	(840)	2 775
Office equipment	5 838	91	(17)	-	(800)	5 112
Computer equipment	5 879	982	(12)	-	(777)	6 072
Work in progress	80 944	196 873	(3 710)	(75 847)	-	198 260
	1 207 881	**199 220**	**(3 739)**	**-**	**(122 626)**	**1280 736**

*There was no impairment of PP&E during the year under review but there was, however, a write off of obsolete office furniture and equipment

4. Intangible assets

	Cost R'000	Accumulated amortisation R'000	Carrying value R'000
2015			
Computer software	16 892	(5 452)	11 440
Servitudes	12 486	(4 578)	7 908
	29 378	**(10 030)**	**19 348**
2014			
Computer software	2 720	(1 034)	1 686
Servitudes	12 486	(3 954)	8 532
	15 206	**(4 988)**	**10 218**

	Opening carrying value R'000	Additions R'000	Transfers R'000	Amortisation R'000	Closing carrying value R'000
4. Intangible assets (continues)					
2015					
WIP	-	11 322	(11 322)	-	-
Software	1 686	266	11 322	(1 834)	11 440
Servitudes	8 532	-	-	(624)	7 908
	10 218	**11 588**	**-**	**(2 458)**	**19 348**
2014					
Software	1 573	-	-	113*	1 686
Servitudes	9 157	-	-	(625)	8 532
	10 730	**-**	**-**	**(512)**	**10 218**

*Revision of useful life

4. Intangible assets (continues)

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

None of the intangible assets has been pledged as security.

There are no contractual commitments outstanding at the reporting period.

5 Deferred tax asset

	2015 R'000	2014 R'000
Deferred tax asset	-	-

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

Reconciliation of deferred tax asset

	2015 R'000	2014 R'000
At beginning of the year	-	-
Movement in temporary differences	13 497	40 522
Deferred tax assets not recognised	(13 497)	(40 522)
At the end of the year	-	-

5. Deferred tax asset (continues)

Deferred tax rates

The deferred tax rate applied was 28% (2014 – 28%)

Recognised deferred tax assets/(liabilities)

	2015 R'000	2014 R'000
Deferred tax assets and (liabilities) are attributable to the following:		
Other provisions	1 120	-
Straight lining of lease assets	302	-
Straight lining of lease liabilities	75	395
Capital allowances	(44 396)	(23 617)
Prepayments	(692)	(505)
Leave pay accrual	1 564	1 246
Deferred income	125 641	98 600
Provision for performance bonus	2 216	2310
Provision for bad debts	645	603
Deferred tax assets not recognised	(86 475)	(79 032)
	-	-

6 Trade and other receivables

	2015 R'000	2014 R'000
Trade and other receivables consists of:		
Long-term and current trade receivables and prepayments		
Non-Current Assets		
Long-term trade receivable	-	170 000
Payment in advance – right of use*	14 715	15 758
	14 715	**185 758**
Current Assets		
– trade receivables**	250 153	172 447
Less: Provision for bad debts	(2 305)	(2 454)
	247 848	169 993
– deposits	2 645	2 025
– interest accrued	674	711
	251 167	**172 729**
Other receivables		
– prepayments	2 375	1 815
– foreign tax credits	3 041	-
	5 416	**1 815**
	256 583	**174 544**

*Long-term prepayment consists of dark fibre acquired for use in operations on a 15-year IRU basis
**None of the trade and other receivables have been pledged as security.

7. Cash and cash equivalents

	2015 R'000	2014 R'000
Cash and cash equivalents consist of:		
Current accounts – The Standard Bank of South Africa Limited	512	5 441
Short-term deposits – The Standard Bank of South Africa Limited (bearing interest at 5.0 – 5.85% p.a.)	76 150	93 068
Short-term deposits – Nedbank Limited (bearing interest at 5.55 – 5.9% p.a.)	40 000	191 804
Short-term deposits – First National Bank, a division of FirstRand Bank Limited (bearing interest at 5.5 – 5.9% p.a.)	40 006	151 515
	156 668	**441 828**

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

8. Share capital

	2015 R'000	2014 R'000
Authorised		
1 000 ordinary shares of R1 (2011 – R1) each	**1**	**1**
Issued		
100 ordinary shares of R1 (2011 – R1) each	*	*

Shares are held as follows:

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

Unissued shares are controlled by the Executive Authority
*Amount less than R1 000

9 Shareholders' loans

	2015 R'000	2014 R'000
Subordinated loans		
Department of Public Enterprises	-	1 351 130
Department of Telecommunications and Postal Services	1 351 130	-
Industrial Development Corporation of South Africa	478 400	478 400
	1 829 530	**1 829 530**

Broadband Infraco's administration, power and funtions entrusted in the Broadband Infraco Act 33 of 2007 was transfered from the Department of Public Enterprises to the Department of Telecommunications and Postal Services in terms of Section 97 of the Constitution of the Republic of South Africa, and as such the subordinated loans were transfered in the same manner.

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. Deferred income

The income received in advance relates to Indefeasible 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.

	2015 R'000	2014 R'000
Non-current liabilities	546 830	575 398
Current liabilities	70 529	35 267
	617 359	**610 665**

11. Trade and other payables

Trade and other payables consists of:

	2015 R'000	2014 R'000
Financial liabilities	**132 016**	**244 290**
– trade payables	124 104	225 470
– services not commissioned	40	10 903
– pension fund and trade union	-	429
– accrued leave	5 584	4 451
– audit fees internal	1 008	1 431
– audit fees external	1 280	1 104
– retentions	-	502
Other liabilities	**26 520**	**21 528**
– South African Revenue Services – PAYE/VAT	26 250	20 116
– Accrual: Straight lining of leases	270	1 412
	158 536	**265 818**

	2015 R'000	2014 R'000
12. Provisions		
Balance at beginning of year	8 250	68 336
Charged to operating expenses – bonus provision	8 125	8 250
Reduction arising from payment	(8 462)	-
Charged to operating expenses – legal costs	4 000	-
Transferred to accounts payable	-	(68 336)
Balance at end of year	**11 913**	**8 250**

Legal Costs-Fibre Usage

Provisions raised relates to fibre usage dispute with a key service provider on the network where the quantum of services was not agreed.

Provision for performance incentives

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

13 Revenue

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

	2015 R'000	2014 R'000
Sale of broadband services	345 147	245 143
Indefeasible Right of Use income	14 181	53 158
Operations and maintenance income	6 183	4 072
	365 511	**302 373**

	2015 R'000	2014 R'000
14. Cost of sales		
Cost of sales consists of:		
Managed service contract	(5 507)	1 164
Colocation costs	(35 543)	(15 445)
Fibre lease costs	(178 175)	(43 782)
Fibre maintenance costs	(95 624)	(94 937)
	(314 849)	**(153 000)**
15. Operating expenses	**(310 622)**	**(312 391)**
Operating expenses consist of:		
15.1 Employee expenses	**(114 944)**	**(110 212)**
Salaries	(103 444)	(104 014)
Other benefits*	(11 500)	(6 198)
15.2 Directors' emoluments	**(6 105)**	**(6 960)**
Executive Directors	(3535)	(4 011)
Non-Executive Directors**	(2 570)	(2 949)

* Other benefits include cellphone allowance, subsistence allowance, annual bonus and annual leave
** Refer to note 23 for details

	2015 R'000	2014 R'000
15.3 Service fees	**(19 337)**	**(14 865)**
Internal audit services	(1 547)	(1 782)
External audit services	(871)	(951)
Consultancy services	(7 291)	(8 788)
Legal fees	(9 628)	(3 344)
15.4 Selling, general and administrative expenses	**(43 221)**	**(40 802)**
Repairs and maintenance	(12 701)	(8 438)
Marketing	(3 353)	(2 888)
Travelling costs	(6 708)	(6 763)
Recoveries – travel reimbursement (WACS)	831	1 086
Insurance	(733)	(1 202)
Recruitment costs	(491)	(1 330)
Telephone costs	(732)	(798)
Training costs	(1 991)	(916)
IT charges	(2 939)	(2 085)
Licence fee	(1 563)	(1 352)
Other expenses	(12 841)	(16 116)

	2015 R'000	2014 R'000
15.5 Operating leases	**(11 665)**	**(12 675)**
Land and building	(11 665)	(12 675)
15.6 Depreciation, amortisation, impairment and write-off	**(115 350)**	**(126 877)**
Depreciation of equipment	(112 198)	(122 626)
Amortisation of intangible assets	(2 458)	(512)
Write-off and impairment of equipment	(694)	(3 739)

16. Finance income

Finance income consists of the following:

Interest received on bank deposits	15 269	19 251
Interest received on receivables	-	289
	15 269	**19 540**

17. Finance costs

Finance costs consists of the following:

Foreign exchange losses	6	-
Suppliers – interest	(8)	(6)
	(2)	**(6)**

	2015 R'000	2014 R'000
18. Income tax expense		
Major components of the tax (expense)/credit		
Income Tax	-	-
Deferred		
Deferred tax expense		
– current year	-	-
– prior year under provision	-	-
Reconciliation of the tax expense		
Reconciliation between accounting loss and tax expense:		
Accounting loss	**244 693**	**143 484**
Tax at the applicable tax rate of 28%	(68 514)	(40 176)
Tax losses recognised	61 303	(59)
Tax effect on adjustment on taxable income:		
Permanent differences	**(232)**	**(287)**
Deferred tax assets not recognised	**7 443**	**40 522**
	-	**-**

19. Cash generated/(used in) from operations

	2015 R'000	2014 R'000
Loss before taxation	(244 693)	(143 484)
Adjustments for:		
Depreciation and amortisation	115 530	126 877
Finance income	(15 269)	(19 540)
Finance costs	2	6
Movement in provision	3 662	(60 086)
Movement in deferred income	6 693	516 115
Changes in working capital:		
-Trade and other receivables	88 993	(251 819)
-Trade and other payables	(107 449)	141 102
	(152 531)	**309 171**

20. Finance income received/(costs paid)

	2015 R'000	2014 R'000
20.1 Finance income received		
Finance income per statement of comprehensive income	15 269	19 540
	15 269	**19 540**
20.2 Finance costs paid		
Finance expense per statement of comprehensive income	(2)	(6)
	(2)	**(6)**

21. Related parties

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

Relationships

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

21. Related parties (continues)

	2015 R'000	2014 R'000
Related party balances		
Receivables		
Telkom SOC Limited	-	-
SITA SOC Limited	11 314	-
Payables		
Telkom SOC Limited	30	71
SITA SOC Limited	-	-
Loan accounts – Owing to shareholders		
Department of Public Enterprises	-	1 351 130
Department of Telecommunications and Postal Services	1 351 130	-
Industrial Development Corporation of South Africa	478 400	478 400
Related party transactions		
Revenue		
Telkom SOC Limited	-	-
SITA SOC Limited	80 724	-
Expenses		
Telkom SOC Limited	4 002	807
SITA SOC Limited	339	-

22. Lease commitments

	2015 R'000	2014 R'000
Operating leases		
payable within one year	8 589	14 542
payable within two to five years	10 098	12 815
	18 687	**27 357**

2.3 Directors and key management personnel compensation

2015	Services as	Service period in months	Basic salary R'000	Bonuses and commissions paid R'000	Expenses, other allowances R'000	Total R'000
Non-Executive Directors						
BMC Ngcobo	Board chairperson	12	798	-	-	798
SAU Meer*	Board member	6	133	-	-	133
SD Mabalayo	Board member	12	372	-	-	372
SA Essa	Board member	6	166	-	-	166
N Selamolela	Board member	12	267	-	-	267
A Githiari	Board member	12	247	-	-	247
MM Maponya	Board member	12	273	-	-	273
X Kakana	Board member	6	188	-	-	188
M Mosweu*	Board member	6	126	-	-	126
Executive Directors						
P Kwele	Chief Executive Officer	12	2343	-	30	2 373
T Pama	Interim Chief Financial officer	5	768	-	13	781
I Hassen**	Interim Chief Financial Officer	2	381	-	-	381
Total Directors' emoluments			**6 062**	**-**	**43**	**6 105**

* Paid to the IDC as nominee director in terms of employment
** Majority of the Interim CFO remuneration is on a consultancy basis through Ernst and Young.

23. Directors and key management personnel compensation (continues)

Key management - Members of Executive Committee

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

*** This relates to the bonus paid for the 2013/14 financial year.

23. Directors and key management personnel compensation (continues)

2014	Services as	Service period in months	Basic salary R'000	Bonuses and commissions paid R'000	Expenses, other allowances R'000	Total R'000
Non-Executive Directors						
BMC Ngcobo	Board chairperson	12	783	-	-	783
SAU Meer*	Board member	12	299	-	-	299
SD Mabalayo	Board member	12	373	-	-	373
SA Essa	Board member	12	328	-	-	328
N Selamolela	Board member	12	251	-	-	251
A Githiari	Board member	12	278	-	-	278
MM Maponya	Board member	12	264	-	-	264
X Kakana	Board member	12	373	-	-	373
Directors						
P Kwele	Chief Executive Officer	12	2 344	-	24	2 368
RJ Magoele	Chief Financial Officer	9	1 611	-	32	1 643
I Hassen**	Interim Chief Financial Officer	3	-	-	-	-
Total Directors' emoluments			**6 904**	**-**	**56**	**6 960**

* Paid to the IDC as nominee director in terms of employment
** Interim CFO is remunerated on a consultancy basis through Ernst and Young.

23. Directors' and key management personnel compensation (continues)

Key management – Members of Executive Committee

2014	Services as	Service period in months	Basic salary R'000	Bonuses and commissions paid R'000	Expenses, other allowances R'000	Total R'000
V Maharaj	Executive Special Projects/ Capital Programme	12	1 5 48	207	127	1 882
M Mopeli	Executive Human Resources	12	1 156	118	24	1 298
G Zowa	Chief Technical Officer	12	1 813	-	24	1 837
F Msiza	Executive Governance	9	1 126	182	12	1 320
K Motlhabane	Executive Legal	12	1 484	162	24	1 670
R Hamilton	Chief Marketing and Sales Officer	12	1 099	-	128	1 227
Total			**8 226**	**669**	**339**	**9 234**

24. Financial Risk Management and Financial Instruments

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

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

Categories of financial instruments:

	Loans and receivables R'000	Liabilities at amortised costs R'000	Fair value through profit or loss R'000	Total carrying amount R'000
2015				
Long-term receivables	14 715	-	-	14 715
Trade and receivables	251 167	-	-	251 167
Cash and cash equivalents	156 668	-	-	156 668
Trade and other payables	-	(158 536)	-	(158 536)
	422 550	**(158 536)**	**-**	**264 014**

24. Financial Risk Management and Financial Instruments

2014	Loans and re-ceivables R'000	Liabilities at Amortised costs R'000	Fair value through profit or loss R'000	Total Carrying amount R'000
Long-term receivables	170 000	-	-	170 000
Trade and receivables	172 729	-	-	172 729
Cash and cash equivalents	441 828	-	-	441 828
Trade and other payables	-	(128 179)	-	(128 179)
	784 557	**(128 179)**	**-**	**656 378**

All financial instruments at fair value through profit.

Fair value hierarchy

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

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

24.1 Credit risk

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

Customers are required to undergo a vetting process where their liquidity is investigated. We also perform monthly follow ups with our debtors to ensure that they pay within agreed payment terms, this is evident by the 90% of debtors that are within 60 days and we have provided for the risky debtors.

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

	2015 R'000	2014 R'000
By geographical area		
Domestic	81 190	35 018
International	712	7 392
By customer type		
Telecom service provider companies	81 902	42 410

24.1 Credit risk (continues)

The ageing of trade receivables at the reporting date was:

	2015 Gross R'000	2015 Impairment R'000	2014 Gross R'000	2014 Impairment R'000
Not past due	79 544	-	35 960	-
60 days	17	-	1 678	-
90 days	2 341	-	4 772	-
	81 902	**-**	**42 410**	**-**

Exposure to credit risk:

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

	2015 R'000	2014 R'000
Loans and receivables	251 167	172 729
Cash and cash equivalents	156 668	441 828
	407 835	**614 557**

24.1 Credit risk (continues)

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

24.2 Market risk

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

Foreign exchange risk

Sensitivity analysis

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

24.2 Market risk (continues)

Foreign debtors

	2015		2014	
	1% strengthening of the rand	1% depreciation of the rand	1% strengthening of the rand	1% depreciation of the rand
	R'000	R'000	R'000	R'000
USD	(60)	60	74	74

24.3 Interest rate risk

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

We manage this risk through continuous negotiations with financial institutions to acquire satisfactory rates through our Treasury function.
At year end, financial instruments exposed to interest rate risk were as follows:

24.3 Interest rate risk (continues)

	2015 R'000	2014 R'000
Current accounts: The Standard Bank of South Africa Limited	56 449	5 441
Investments		
The Standard Bank of South Africa Limited	20 213	93 068
Nedbank Limited	40 000	191 804
First National Bank, a division of First Rand Bank Limited	40 006	151 515
	156 668	**441 828**

Interest rate risk – sensitivity analysis

An increase of 50 basis points (bp) in interest rate or decrease of 50 bp at the reporting date would have increased (decreased) profit or loss by the amounts shown below. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2014.

Cash and cash equivalents

	50bp increase R'000	50bp decrease R'000
2015		
Recognised in profit/(loss)	1 339	(1 339)
2014		
Recognised in profit/(loss)	2 209	(2 209)

24.4 Foreign currency 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 USD exposure is in respect of its ongoing investment in the West African Cable System. The Company is exposed to the risk of fluctuating exchange rates and seeks to manage this exposure with 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.

Foreign debtors	2015 8% strengthening	2015 8% depreciation	2014 8% strengthening	2014 8% depreciation
Rands	(23)	23	(1142)	1142

24.5 Liquidity risk

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

The following are the contractual maturities of financial liabilities.

2015	Carrying amount R'000	Contractual cash flows R'000	6 months or less R'000	6-12 months R'000
Trade and other payables	**158 536**	**158 536**	**(152 952)**	**(5 584)**
2014				
Trade and other payables	**264 406**	**264 406**	**(249 155)**	**(15 251)**

25. Licence agreements

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

The licence area for all of the licences above is the Republic of South Africa. The licence was granted at no consideration and the Company is required to comply with the applicable licence obligations. The Company is required to pay Annual Licence Fees in addition to paying Frequency Spectrum Fees and making contribution to the Universal Service and Access Fund. Expenditure has been incurred in relation to Frequency Spectrum Fees and contribution to the Universal Service and Access Fund and has been recognised in statements of comprehensive income for the year. The nature of these costs is not capital, They are utilised in the period in which they are incurred. They are payable annually and utilised in the year that they are incurred and therefore are deemed as an expense.

26. Capital commitments

	2015 R'000	2014 R'000
Capital commitments		
– approved, but not contracted	-	31 063
– approved, and contracted	89 434	320 839
	89 434	**351 902**

27. Contingent assets and contingent liabilities

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

On 2 October 2015 the arbitrator awarded in favour of Neotel an award of appromately R45 million, including costs and interest. The Company has appealed this award. It is envisaged that the Arbitrator will rule on this appeal in June 2016. No provision for this R45 million was made in the current year under review.

28. 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 shared in the Directors' Report under the heading Going Concern Status.

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, as amended.

Only two (2) incidents of irregular expenditure were identified in the current year.

Irregular expenditure	2015 R'000	2014 R'000
Opening balance	136 544	130 782
Incurred in the current year	38	6 535
Identified in the current year relating to previous years	80	-
Condoned during the year	(133 652)	(773)
Amount not condoned*	**3 010**	**136 544**

*Internal processes to resolve these matters are in progress

29. Irregular fruitless and wasteful expenditure (continues)

2015	Action taken R'000	Expenditure identified R'000	Amounts ratified/ condoned R'000	Remaining irregular 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)**	**3010**

2014				
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	6 535	-	6 535
Identified in previous years				
Expenditure incurred in transgression of commercial processes, policies	Matters are in the process of being ratified	130 782	(773)	130 009
		137 317	**(773)**	**136 544**

29. Irregular fruitless and wasteful expenditure (continues)

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 which was made in vain and would have been avoided had reasonable care been exercised.

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

Fruitless and wasteful expenditure	2015 R'000	2014 R'000
Opening balance	377	16
Identified in the current year	8	604
Removal from register	(377)	-
Losses written off	(8)	(243)
	-	**377**

29. Irregular fruitless and wasteful expenditure (continues)

Fruitless and wasteful expenditure	Action taken	Losses identified R'000	Losses recovered year to date R'000	Losses written off R'000	Recovery outstanding R'000
2015					
Opening balance	Losses written off	377	-	(377)	-
Interest incurred from suppliers	Losses written off	8	-	**(8)**	**-**
		(8)	**-**	**(385)**	**-**

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

ACRONYMS

AGM	Annual General Meeting
AfDB	African Development Bank
ARC	Audit and Risk Committee
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
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CPM	Capital Programme Management
CoE	Centre of Excellence
CSI	Corporate Social Investment
CSIR	Council for Scientific and Industrial Research
CTO	Chief Technical Officer
DBSA	Development Bank of South Africa
DFIs	Development Finance Institutions
DoC	Department of Communications
DPE	Department of Public Enterprises

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
EPM	Enterprise Project Management
ERM	Enterprise Risk Management
ESS	Employee Self-Service
EXCO	Executive Committee
EXCOPs	Executive Committee Procurement Subcommittee
ECA	Electronic Communications Act
ECNS	Electronic Communications Network Services
FOC	Fibre-Optic Cable
FVO	Fair Value Option
GRI	Global Reporting Initiatives
HRRC	Human Resources and Remuneration Committee
IIA	Institute of Internal Auditors
IMT	International Mobile Telephony
ITT	Invitation to Tender
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
IIPSA	Infrastructure Investment Programme for South Africa
IP	Internet Protocol
IRU	Indefeasible Rights of Use
ISO	International Standards Organisation
KAMs	Key Accounts Managers
KPA	Key Performance Area
KPI	Key Performance Indicator
MAU	Minimum Assignable Units
MoU	Memorandum of Understanding
MSA	Master Services Agreement
MTEF	Medium-Term Expenditure Framework
MTTR	Mean Time To Repair
LD	Long Distance
LEDET	Limpopo Department of Economic Development, Environment and Tourism

LoI	Letter of Intent
NDP	National Development Plan
NGN	Next Generation Network
NMS	Network Management System
NT	National Treasury
NED	Non-Executive Director
NOC	Network Operations Centre
OECD	Organisation for Economic Co-operation and Development
PFMA	Public Finance Management Act No. 1 of 1999 as amended
PICC	Presidential Infrastructure Co-ordinating Commission
PAYE	Pay as You Earn
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
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
SNO	Second Network Operator
SOC	State-Owned Company
STM	Synchronous Transport Module
T&P	Tender and Procurement
TENET	Tertiary Education Network
TFR	Transnet Freight Rail
UPG	Upgrade Procurement Group
USALs	Underserviced Area Licencees
USAASA	Universal Service Access Agents of South Africa
VANS	Value Added Network Service
VPN	Virtual Private Network
WACC	Weighted Average Cost of Capital
WACS	West Africa Cable System
WiP	Work in Progress
VAT	Value Added Tax
YoY	Year-on-Year
ZAR	South African Rand

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Standard Bank

EXTERNAL AUDITORS

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