



BACKHAUL PROVIDER OF CHOICE



BROADBAND INFRACO SOC LIMITED STRATEGIC PLAN AND ANNUAL PERFORMANCE PLAN

**Portfolio Committee
21 April 2015**

**P Kwele
Chief Executive Officer**

The Purpose of Broadband Infraco In South Africa



NDP

A South Africa that has resumed its rightful place on the global stage - with an e-literate, economically active population fully able to access and utilize appropriate content and services to enhance quality of life
 Broadband Infraco's purpose is in line with the NDP for establishing national, regional and municipal fibre-optic network to provide the backbone for broadband access.
 Broadband Infraco operates on the premise that national backhaul, provincial backhaul and districts backhaul require state intervention, thus allowing private investment to lead the way in the access market.

DTPS Vision 2020

100% of South Africans will have access to broadband services at 2.5% less of the populations average monthly income

SA Connect

Broadband Infraco's roll-out of long distance backhaul fibre to underserved areas will enable provincial governments to leverage such broadband infrastructure and services for economic growth, job creation initiatives and poverty reduction efforts.

BBI Mandate

The main objects as set out in the Act are to expand the availability and affordability of access to electronic communications;

- Including but not limited to under developed and under serviced areas;
- In support of projects of National Interests;
- 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.

MTSF Outcomes

- Outcome 1** Quality basic education
- Outcome 2** A long and healthy life for all
- Outcome 4** Decent employment through inclusive economic growth
- Outcome 5** Skilled and capable workforce to support an inclusive growth path
- Outcome 6** An efficient, competitive and responsive economic infrastructure network

SIP 15: Sub-outcome 5

Expansion, modernisation, access and affordability of our Information and communication infrastructure

Broadband Policy Target

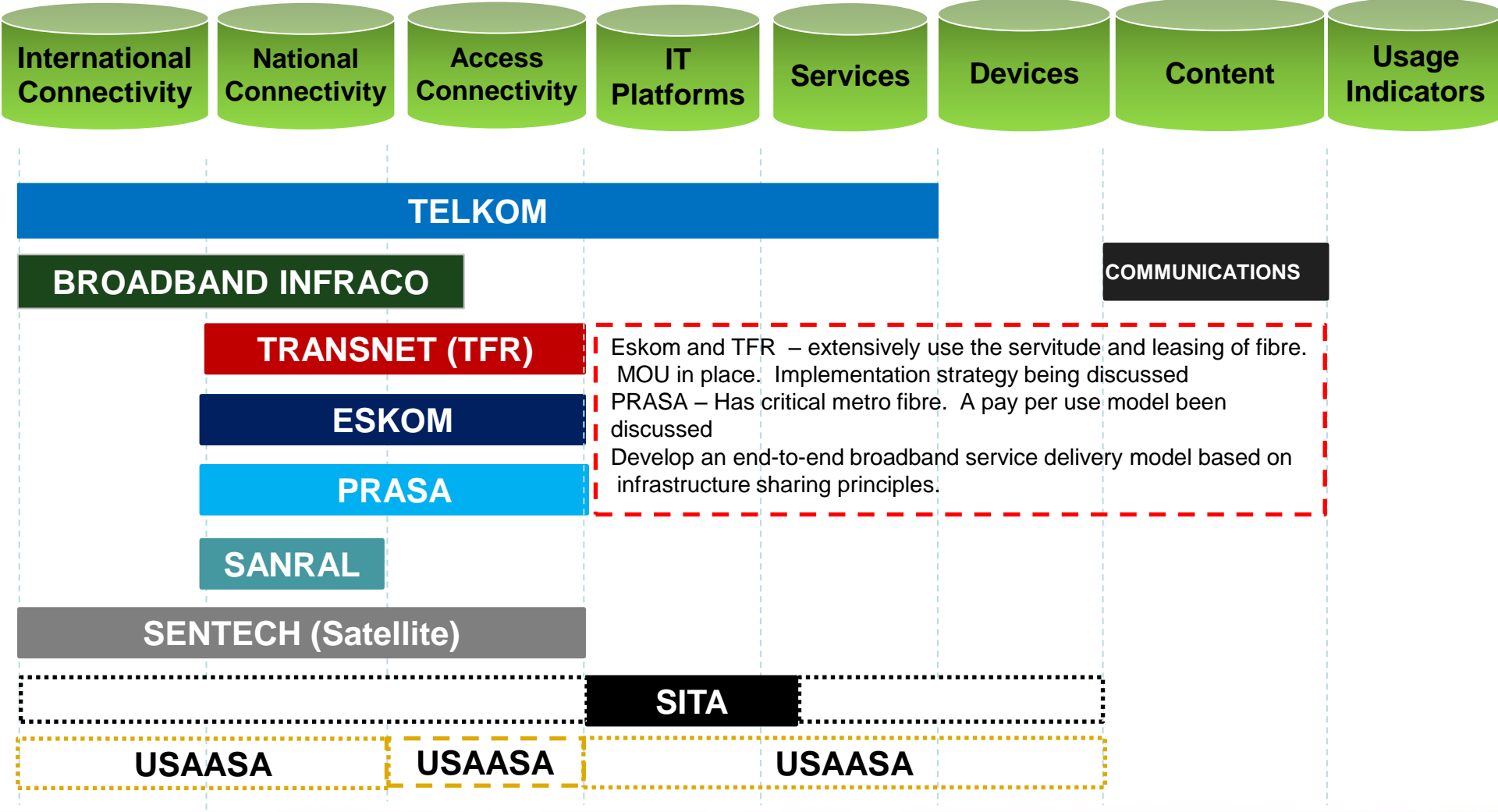
Broadband access in Mbps user experience 50% at 5Mbps by 2016

International Measurements

WEF Ranking = 70 ITU Ranking

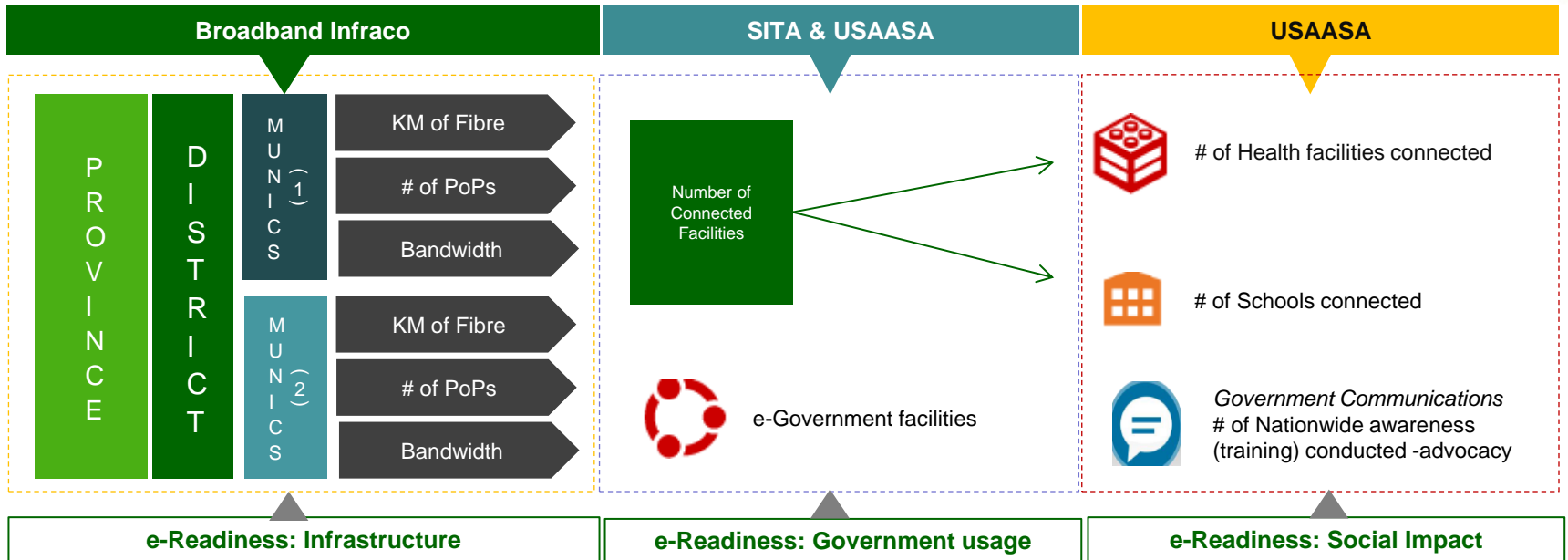
SOC Infrastructure ownership and service provision

- **Capacity Swaps: capacity or assets (dark fibre, lambdas)** Drive shared services for Restoration, provisioning to system/ segment/ route And Network Management Services – NOC, **Reduced Capital Build Programs**. Initiate co-ownership co-build and co-funding capital build projects. Encourage risk sharing . Explore offering 3rd party's network/route management services. **Proficient Network Expansion Approach**
- **Prioritise Determinable sustainable (with ongoing funding streams) Network Expansion opportunities**



Eskom and TFR – extensively use the servitude and leasing of fibre. MOU in place. Implementation strategy being discussed
 PRASA – Has critical metro fibre. A pay per use model been discussed
 Develop an end-to-end broadband service delivery model based on infrastructure sharing principles.

Infrastructure Ownership Outcomes and the legislation



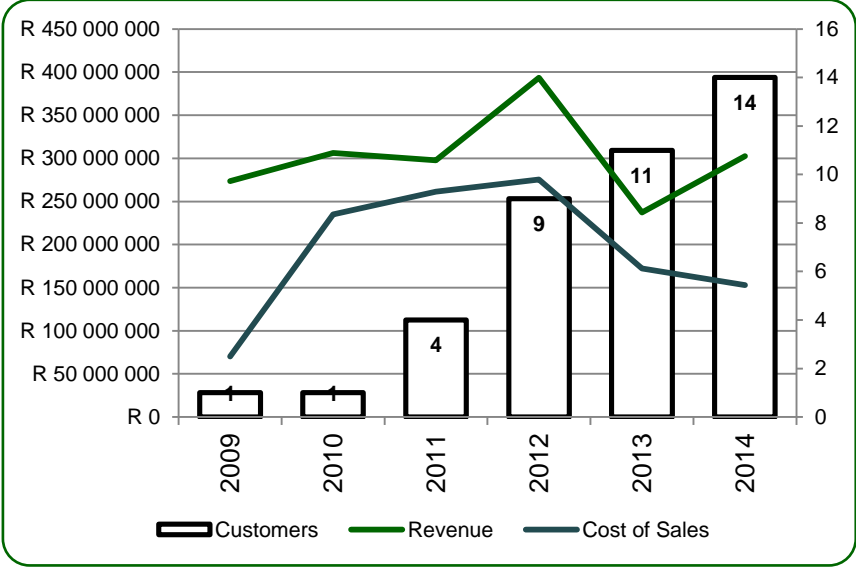
Addressing aspects of the digital readiness pillar

Sentech Act 63, 1996 and amendments Act 44 of 1999 and Act 64 of 2001
 main object of business Section 5 – signal distribution
1999 added telecommunications services
 conversion of licenses to ECS and ECNS resulted in the repeal of the main function of the Sentech Act, with the Sentech mandate expanded and governed by the licensing framework in section five (5) of the ECA.
Sentech also has wireless spectrum

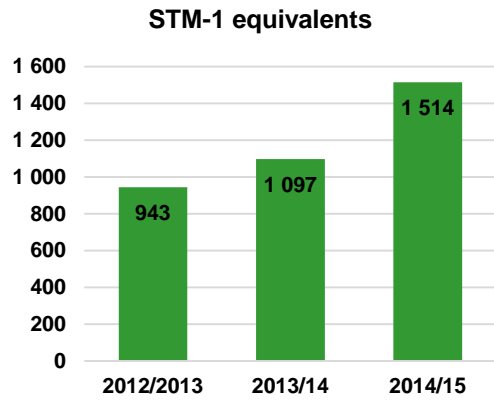
SITA Act 88 of 1998 amendment Act 38 of 2002
 Objective of Agency
 Section 6 to provide IT, IS and related services in a maintained information security environment
 section substituted by section 4 of amendment
 Section 7 provides for powers and functions substituted by section 5 of amendment **7(1)(a)(i) provide or maintain a private telecommunications network (for use of the state)**

Established through ECA 36 of 2005
 Section 90 states that *The agency must provide incentives to electronic communications network service licensees to construct, operate and maintain electronic communications networks in under serviced areas through the award of project grants.*
 USAASA is also responsible for the Universal Service Fund. *Section 2.2.1 of the policy stipulates that- Various options for the construction, operation and maintenance of networks in under serviced areas will be developed by Universal Service and Access Agency (USAASA) and implemented in co-operation with other stakeholders.*

Customers, Revenue and Cost of Sales and Capacity



Province	POP	Fibre (km)
Eastern Cape	19	1795
Free State	17	1469
Kwazulu Natal	21	2352
Limpopo	11	881
Mpumalanga	15	1420
North West	9	938
Northern Cape	27	2497
Gauteng	17	1405
Western Cape	20	1885
Total	156	1462



Capacity

What does each axis represent?

Customers

A significant growth of our customers from 1 to 17 as at Feb 2015, including signing SITA and Cell C as anchor clients

Revenue

A steady growth in revenue, despite the significant reduction of services from Neotel in 2013. Broadband Infraco is on a upward trajectory.

Cost of Sales

Cost of sales has been on a decline since 2012. Broadband Infraco continues to sought interventions on how to further efficiently manage cost of sales. Biggest drivers are depreciation, last mile services and maintenance

Objectives and APP

Strategic Objective	Key Performance Indicator	Baseline	Target 2015/2016
Ensure Business Sustainability	Network Performance Rebates	TBC	≤3% of customer revenue
	Gross Margin(Including Depreciation) Increase	-24%	5%
	Overhead Costs Efficiencies - against Revenue	24%	20%
	EBIDTA based on Budget	(R161.36) mil	(R145.24) mil
Business sustainability - Network Saleability	Overall Increase in capacity of STM 1 Equivalents	1 514	1 665
Network Improvement (Mandate) - Outcome 6 (enabler for outcome 1&2)	Extend network and enable SITA connectivity		22 Services by 31 March 2016
	Ramatlabama to Oberholzer Network Upgrade		Upgrade Complete by 31 March 2016
	Onseepkans PoP Container Replacement		Complete new site by 31 March 2016
Outcome 5	Training Spend	TBC	1.0% of wage bill
Economic Transformation Outcome 4	Number of Indirect Jobs	TBC	60 Jobs
	BBBEE budget discretionary spend		70%
	Percentage Increase in BOE spend		40% spend on BOE
	Percentage Increase in YOE spend		10% spend of 40% spend on BOE
	Percentage Increase in WOE		10% spend of 40% spend on BOE
	Amount Spend on People with disability		R300 000.00
Outcome 5	Number of digital learning tools sponsored		Source sponsorship for learners in the two schools have access to tablets

Capital projects: SITA and 3rd Anchor Customer

Both projects:

- Expand the network and enable access
- Provide coverage in all 9 provinces
- 3rd Party metro networks are being utilised to avoid duplications

SITA

- The State Information Technology Agency (SITA) has appointed Broadband Infraco to provision and manage 54 SITA Next Generation Network (NGN) 1GE services for a period of 10 years, commencing on the 1st of August 2014.

Province	Fibre (KM)	PoP
Northern Cape	9.08 KM	-
Western Cape	23.84 KM	1
Eastern Cape	64.68 KM	-
Free State	9.69 KM	1
North West	14.47 KM	-
KZN	32.9 KM	-
Gauteng	73.7 KM	-
Limpopo	13.09 KM	-
Mpumalanga	10.55 KM	-

3rd Anchor Customer

- Broadband Infraco has been appointed to provision 125 Broadband services for 5 years effective 1 June 2014.
- Broadband Infraco has to extend its existing network via fibres to the customer and terminate it directly at the customer premises.

Province	Fibre (KM)	PoP
Northern Cape	1.5 KM	-
Western Cape	190 KM	-
Eastern Cape	87 KM	1
Free State	43 KM	-
North West	100 KM	-
KZN	114 KM	-
Gauteng	174 KM	1
Limpopo	60 KM	-
Mpumalanga	65 KM	-

Capital Projects : Infrastructure Renewal Projects



- Shareholder support is necessary for this investment programme. An application will be made through the Medium Term Expenditure Framework process for R1.796 billion.
- Sustain the network for long term commitments

No	Area	Description	KM
1	Connectivity diversity	Route diversity rectification for Single Line Links	1056
2	Critical Section of the Network Build diverse routes routes to ensure resilience of network and enable higher SLA's and minimise rebates	Redundancy links required due to inaccessibility to critical sections	530
3	Network Refurbishment Address legacy issues and replace the rest of the obsolete equipment	Reducing the 44% obsolete part of network to 0%	
4	Vulnerable Links Refurbishment Address non optimised legacy designs	Vulnerable Route 7 & Sutherland	357
5	IP Network Evolution	IP Network rollout as part of the Licence Obligation	
6	Overlay Network for Protection	10G Overlay for Network Management	
7	Neotel Independence (Complete the process of Autonomy from Neotel PoP's which are no Open access)	Open Access PoPs to allow 3rd party connections to reduce network which was built around Neotel	
8	Adlash	Replacement of Old Adlash fibre network	3214
Total			5157

Commercial Projects Summary: A guarantee would be required to source funds

Description	Description	No. of Major PoPs	Total KM
Commercial Projects	Projects won via tenders or direct customer engagements.	45	2161

5 Year Summary Capex Budget – Best Case



Project Category	Project Sub- Category	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Estimated Totals Excluding 2014/15
Commercial		R 164 236 703	R 277 312 591	R 177 236 418	R 160 650 000	R 0	R 20 913 898	R 636 112 907
	SITA Capex	R 0	R 63 612 264	R 73 046 809	R 0	R 0	R 0	R 136 659 073
	Cell C	R 52 688 074	R 14 470 137	R 0	R 0	R 0	R 0	R 14 470 137
	Remaining Customer Projects	R 111 548 629	R 199 230 190	R 104 189 609	R 160 650 000	R 0	R 20 913 898	R 484 983 696
Refurbishment Total		R 148 387 968	R 561 641 910	R 370 290 622	R 307 650 520	R 160 481 425	R 396 673 258	R 1 796 737 734
Fibre Refurbishment								
	ADLASH/Fibre	R 0	R 0	R 263 671 721	R 92 090 798	R 103 300 800	R 367 492 633	R 826 555 952
	Critical section/fibres	R 0	R 0	R 40 000 000	R 40 000 000	R 40 000 000	R 0	R 120 000 000
	Rectifying vulnerable spur links at borders	R 0	R 191 481 186	R 44 465 776	R 135 599 919	R 0	R 0	R 371 546 881
POP Refurbishment	Neotel Autonomy	R 75 473 739	R 125 857 982	R 0	R 0	R 0	R 0	R 125 857 982
	Refurbishment of Transmission	R 65 559 229	R 145 560 917	R 0	R 28 880 053	R 0	R 0	R 174 440 970
	Refurbishment of Site Infrastructure	R 7 355 000	R 98 741 825	R 22 153 125	R 11 079 750	R 17 180 625	R 29 180 625	R 178 335 950
Strategic Infrastructure upgrade (Strengthening)		R 31 460 559	R 31 460 559	R 115 035 614	R 143 784 258	R 81 958 021	R 116 482 976	R 488 721 428
	Other strategic projects	R 31 460 559	R 31 460 559	R 115 035 614	R 143 784 258	R 81 958 021	R 116 482 976	R 488 721 428
Universal Access (Licence Obligation)		R 0	R 0	R 0	R 0	R 0	R 0	R 0
	Universal Access	R 0	R 0	R 0	R 0	R 0	R 0	R 0
	Subtotal		R 870 415 060	R 662 562 654	R 612 084 778	R 242 439 446	R 534 070 132	R 2 921 572 069

Investment Overview



	2008	2009	2010	2011	2012	2013	2014
Funding Initiatives	Equity Injection	Equity Injection	Equity Injection	Equity Injection	Unsuccessful MTEF Application	Operated only within Cashflows	Unsuccessful MTEF Application
Shareholders' funds	627 000 000	729 756 856	281 797 298	187 297 223			
How the Shareholder Funds were spent							
National Network investment	615 000 000		164 700 000	249 900 000	69 700 000	40 700 000	197 993 000
WACS investment			73 200 000	283 200 000	84 200 000	100 400 000	-
Capacity used by initial customer			141 services for	158 services for	184 services for		
Number of customers	1	1	1	4	9	11	15

- Network planning was the domain of the vendor and was informed by the SNO;
- The RoU provided exclusive rights to the SNO with no requirement for sales or sales support as well as extension of the network to enable other third parties to connect
- The network footprint was dictated upon by the customers of the SNO;
- The initial agreement was based on links with no requisite service level agreements (SLA) resulting in a network with numerous single points of failure;
- Relationships with Eskom and Transnet were also the terrain of the SNO.
- Broadband Infraco was only licensed end of 2010

Financial Performance(2015-2021)



Broadband Infraco SOC Ltd Statement of Financial Performance

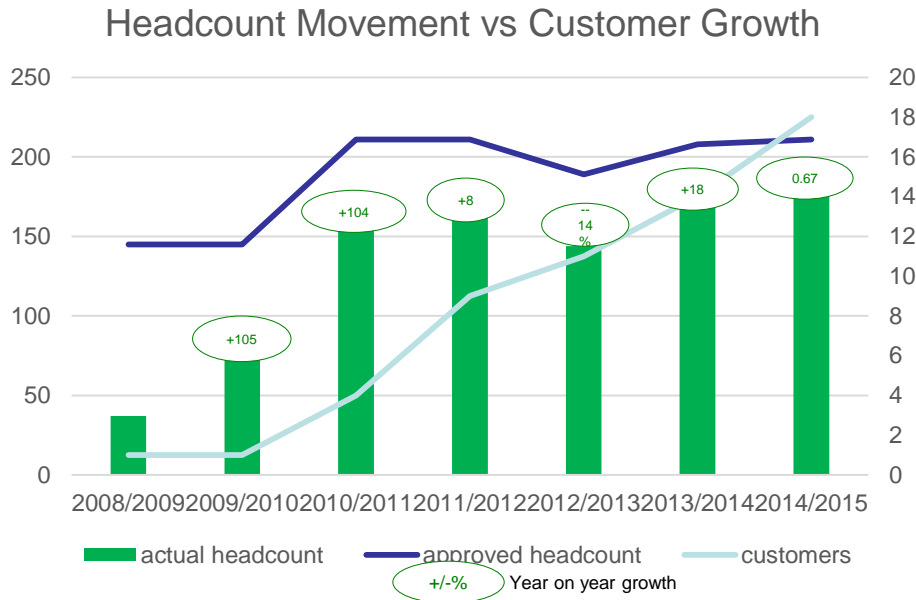
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Audited	Projection	Projection	Projection	Projection	Projection	Projection	Projection
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Total revenue	302 373	353 041	469 849	529 324	606 675	705 636	830 902	930 610
Revenue YOY growth		17%	33%	13%	15%	16%	18%	12%
COS YOY Growth		35%	2%	0%	4%	6%	6%	6%
Cost of Sales	286 226	442 094	448 726	448 090	466 847	495 917	526 813	558 422
Gross profit	16 147	(89 053)	21 122	81 234	139 828	209 719	304 089	372 189
Gross Margin		-25.2%	4.5%	15.3%	23.0%	29.7%	36.6%	40.0%
Operating expenses YOY growth		17	8%	10%	9%	9%	9%	6%
Operating expenses	180 251	210 825	228 535	251 824	274 318	298 900	325 697	345 239
Results from operating activities	(163 018)	(299 878)	(207 413)	(170 590)	(134 490)	(89 181)	(21 608)	26 950
Profit/(loss) before taxation	(143 484)	(299 878)	(207 413)	(170 590)	(134 490)	(89 181)	(21 608)	26 950
Taxation		-	-	-	-	-	-	-
Profit/(loss) for the year	(143 484)	(299 878)	(207 413)	(170 590)	(134 490)	(89 181)	(21 608)	26 950
Total comprehensive income/(loss)	(143 484)	(299 878)	(207 413)	(170 590)	(134 490)	(89 181)	(21 608)	26 950
EBITDA	(36 141)	(163 325)	(50 285)	(3 249)	43 727	100 621	180 531	241 217
EBITDA%		-46.3%	-10.7%	-0.6%	7.2%	14.3%	21.7%	25.9%

Mechanism	Elaboration
<p>1</p> <p>Shareholder Funding</p>	<ul style="list-style-type: none"> ▪ MTEF application to be submitted to the Department Public Enterprises. Applications were considered by the Fiscal and Liability Committee of National Treasury and funds have not been allocated ▪ R170 Million short term guarantee and R528 million medium term guarantee were submitted to the Executive Authority in the in Mid October and these applications were not successful ▪ An MTEF application which focuses on strengthening the balance sheet through fixed capital formation and preservation of the value of the Company is currently being developed and will be submitted to the Shareholder in due course
<p>2</p> <p>Funding Challenges</p>	<ul style="list-style-type: none"> ▪ Funds have been usurped by efforts to strengthen the asset ▪ No government guarantee ▪ Balance sheet not strong – Conversion of shareholder loans into equity ▪ No credit history
<p>3</p> <p>Other Funding efforts</p>	<ul style="list-style-type: none"> • Standard Bank, Nedbank, ABSA, FNB, and HSBC require government guarantee • BNP Paribus- BBI could not meet balance sheet expectations of the bank • DBSA cashflow requirements not met • A Universal Services and Access Fund (USAF) subsidy application to cater for the Universal Access capital investment expenditure requirements will be submitted before the end of April • AFBD has provided a letter of intent and willingness to fund the institution provided there is government support

Renewed Funding Efforts

Mechanism	Elaboration
4 DBSA	<p>Renewed negotiations with the DBSA are underway under the following revised conditions:</p> <ul style="list-style-type: none">• The Bank is now considering the ring fencing of a bank account dedicated to the SITA project (expressly not to be used to fund any other Broadband Infraco requirements).• The Legal advisors are preparing a response which will include an assessment of the legal implications and associated compliance issues.
5 IDC	<p>The Chairperson of the board has scheduled a meeting with the Industrial Development Corporation (IDC) for the 17th of April to address the companies funding challenges.</p>
6 AfDB	<ul style="list-style-type: none">• The African Development Bank (AfDB) was approached to fund the SITA project. The application is work-in-progress and is dependent on an acceptable security package, including a Letter of Support. A letter in this regard has been sent to the Minister to assist with facilitating obtaining a Letter of Support from National Treasury.

Headcount Overview: Resourcing of the environment



EMPLOYMENT EQUITY DEMOGRAPHICS (inclusive of interns)					
Job Levels	2012	2012/13	2013/14	2014/15	Average age
Executives	6	9	7	7	47
Senior Management	19	13	18	23	44
Professional Specialist & Middle Management	41	39	32	36	39
Supervisory & Junior Management	77	68	92	91	36
Support	14	15	21	19	35
Sub Total (Permanent)	157	144	170	176	
Interns	11	2	11	10	30
GRAND TOTAL	168	146	181	186	

- ❑ Broadband Infraco was licensed in the last quarter of 2009
- ❑ 49% growth human resources within the maintenance, sales and marketing environment for the 2010/2011 year
- ❑ 2011/2012 insourcing of the Network Operations Centre and integrating it into one environment to service all customers
- ❑ January 2012 marked the end of Rights of Use Agreement and instilling HR discipline in the organisation
- ❑ Refocus on acquisition of critical skills required for the growth of the organisation as well as optimisation of performance management

➤ Strategic Goal:

Create an environment of performance excellence through competence and committed employees

Strategic Objective :
Optimization of organizational capacity and capability

Organisation structure aligned for effective and efficient execution of mandate

Review job content, competence profiles and levels for internal relativity and fair job pricing

Implementation of an integrated succession planning model at Senior and Executive level

Ensure core divisional structures for readiness to implement the dual career framework

Strategic Objective:
A Culture of high performance and individual accountability

A well development system to support management of succession planning, career path and performance based employee reward practices

Institute enhanced poor performance management framework and guidelines

Continue advancement of leadership competence for mentoring and coaching capacity

Introduce a 360° performance feedback model

Strategic Objective:
Competitive rewards systems for attraction and retention of key talent

85% of activated key vacancies filled with suitable calibre of incumbents by 31 March 2016

Implement the second phase of the 3 year Substantive Agreement 2014-17

Implement benchmarked and cost effective sales incentive scheme

Conditions of service reviewed based on confirmed Employee Value Proposition and legislative framework

Regulatory Implications

Regulation	Implications	Challenge/Issue	Intervention	Desired Outcome
Cost to communicate	<p>High costs to communicate driven by</p> <ul style="list-style-type: none"> - Infrastructure monopoly - restrictive municipal by laws - Drive by non ICT SOCS for highest bidder at the expense of universal access 	<ul style="list-style-type: none"> - High cost to end users - Non-ICT SOCs are commercializing their ICT infrastructure to the detriment of ICT SOCs 	<p>Drive SOC cooperation and collaboration</p> <ul style="list-style-type: none"> - Regulate the non ICT SOC's participating in ICT industry - Directive for licensees to abide by their license terms and conditions or in the absence of such terms and conditions, the governing regulations or policy be updated to reflect such 	<p>Reduced Cost to communicate</p> <ul style="list-style-type: none"> - Regulatory oversight on non ICT SOC's
Review ICT policy holistically recognising impact of Convergence,	<p>Policy and legislation should give practical effect to network roll-out requirements of ECNS licensees, e.g., Infrastructure Development Act</p>	<p>Rapid Deployment Guidelines</p>	<p>Policy is being defined by High Court Rulings – DFA, MTN and Link Africa (similar to Altech case of 2006 defining a non optimal structure of the industry)</p>	<p>Fast track network deployment, especially in under-served areas.</p>
Radio Frequency Spectrum	<p>Wireless access recognised as best means of extending broadband connectivity to under-served areas</p>	<p>Access gap Market and policy failure - lack of private sector investment in network provisioning in rural areas and USALs / PUSANOs Operators)</p>	<p>High Demand Spectrum</p>	<p>Universal Access in rural areas. SOCs to collaborate and be provided access to high-demand access spectrum, partnership with private sector</p>



	Strategic Risk	Preventative Action/ Mitigation
1	Inability to continue as a going concern (<i>Lack of Funding</i>)	<ul style="list-style-type: none"> ▪ Continue to engage the Shareholders to support funding efforts either through equity or a guarantee ▪ Assessing cash position on continuous basis and (agreed on payment terms with suppliers)delaying cash flow.
2	Inability to resolve fulfilment value chain issues	<ul style="list-style-type: none"> ▪ Supply Chain Policy has been approved by the Board on the 29th May 2014. ▪ Continuous socialisation of the SCM policy. ▪ Bid specification training provided to the end users. ▪ Appointment of Head of Supply Chain. ▪ Enterprise Operating Model in place. ▪ Process in place to intergrade business processes.
3	Margin pressure	<ul style="list-style-type: none"> ▪ Define financial principles. ▪ Lower incremental costs per bid (CAPEX). ▪ Shared risk through up streaming and down streaming ▪ Partnerships established long-term contracts/lock-in deals with customers. ▪ Improved customer engagement model ▪ Renegotiate contracts with suppliers to amend or reduce the legacy contract costs
4	Lack of information management systems for decision-making and process control	<ul style="list-style-type: none"> ▪ Finalise (Establish delete) core processes for inputs into the user requirement specification. ▪ Identification (and implementation) of core ERP system requirement.
5	Failure to safeguard information and data	<ul style="list-style-type: none"> ▪ Information Security Policy to be approved. ▪ IT policies and procedures to be implemented ▪ IT general and logical access controls to be controlled.



	Risk	Mitigating Action
6	Inadequate Safeguarding of assets	<ul style="list-style-type: none"> Insurance Cover in place. Fixed assets register in place and verification conducted twice a year. Remote access of equipment in place through NOC
7	Inability to retain and attract the critical skills	<ul style="list-style-type: none"> HR policies approved and communicated across all Business units Employee satisfaction survey results were communicated to staff Enforce policy ownership at functional levels Approved HR development strategy Staff development and retention policy approved.
8	Non ICT SOCs like Eskom, Transnet and PRASA are providing telecommunication services to BBI's customers and market.	<ul style="list-style-type: none"> Shareholder support to integrate non-ICT SOCs into aligning to objectives of the Broadband Policy. The non ICT SOCs that want to diversify their mandate to include telecommunication services must be governed by the regulations of the ICT sector. Legislation should be promulgated so that telecommunication services are provided by officially recognized ICT players.
9	Inability to meet license obligations	<ul style="list-style-type: none"> Submission to be made to ICASA to renegotiate the remaining licence obligation.
10	Inability to sustain operations due to Inadequate Revenue	<p>Revenue</p> <ul style="list-style-type: none"> Sales Pipeline managed fortnightly through cross-functional committee which matches demand to infrastructure readiness. Pricing Committee in place to ensure all transactions include desired project margin. <p>Other expenses</p> <ul style="list-style-type: none"> Employee productivity initiative underway to extract more from pre-existing employee base, etc. Business conducted per project against commercial revenue SCM frameworks negotiated on terms favourable to BBI

Thank You