



BACKHAUL PROVIDER OF CHOICE



Presentation to Portfolio Committee on Telecommunications & Postal Services

QUARTER 1
23 August 2016

BMC Ngcobo
Chairperson of the Board

Legislative Mandate of Broadband Infraco



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.

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

9 point Plan

Applicable to broadband roll-out.

- Nr 7. Unlocking potential of SMME's; Cooperatives; townships and rural enterprises.
- Nr 8 Reform & boosting of the role of SOE's ICT or broadband infrastructure rollout.

Broadband Policy Target

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

International Measurements

WEF Ranking = 65 (75: 2015) ITU Ranking

Performance Against Predetermined Objectives



Strategic Objective	KPI	Baseline	2016/17 Target	Q1 Target	Q1 Audited results	YTD	Status	Comments
Maintain reliable Network	Network performance rebates paid as percentage of gross revenue annually	≤0.3% of customer revenue	≤0.3% of customer revenue	≤0.3% of customer revenue	0.02%	0.02%	Achieved	
	Actual Time to Restore Core Network Faults	8 hours	8hours	8 hours	06:50 hours	06:50 hours	Achieved	
	Decrease the rate of Lost Time Injury Frequency	0.4 rate	0.3 rate	0.3 rate	0.41	0.41	Not Achieved	One employee was injured
Ensure financial Sustainability	Percentage increase of actual revenue annually	R452 million	18.6% (R536million)	18.4%	(8%)	(8%)	Not Achieved	
	Percentage decrease of cost of sales excluding depreciation annually	R383 million	(3%)	(22%)	(32%)	(32%)	Achieved	
	Decreased amount of Operating Loss annually	(R91 million)	(R80 million) Operating Loss	(R17 million) Operating Loss	(R30million)	(R30million)	Achieved	
	Number of days per outstanding customer invoice	26 Debtors' days per contract	Debtors' collection of 45 days per contract plus 15 days	Debtors' collection of 45 days per contract plus 15 days	44.3 days	44.3 days	Achieved	
	Reduced period for unallocated creditors	Creditors Suspense Account cleared weekly	Creditors Suspense Account cleared weekly	Creditors Suspense Account cleared weekly	Creditors allocated within one week	Creditors allocated within one week	Achieved	
	Number of STM1 equivalent sold annually	497 STM-1 Equivalent	600 STM-1 Equivalent	100 STM-1 Equivalent	387	387	Achieved	Existing Customers upgraded their services and few new customers
Sound practices	HR Training spend as percentage of payroll annually	1% of the wage bill spend on training	1% of the wage bill spend on training by end of year	0.10% of the wage bill spend on training by end of quarter	0.12%	0.12%	Achieved	

Performance Against Predetermined Objectives



Strategic Objective	KPI	Baseline	2016/17 Target	Q1 Target	Q1 unaudited results	YTD	Status	Comments
Economic Transformation	Number of small BEE companies trained on OSHAS	none	3 Small BEE companies trained in OHSAS18001	Develop a plan for small BEE companies to be trained	Plan developed and one small BEE trained	Plan developed and one small BEE trained	Achieved	All 3 small BEE companies have been identified
	Number of indirect jobs created annually	60 indirect jobs	60 indirect jobs	10 indirect jobs	32 indirect jobs	32 indirect jobs	Achieved	
	Percentage allocation of BBBEE budget discretionary spend annually	114% spend of BBBEE	70% spend of BBBEE	10% spend of BBBEE	126%	126%	Achieved	
	Percentage spend on Black Owned Entities spend annually	40% spend of BBBEE	40% spend of BBBEE	5% spend of BBBEE	55.7%	55.7%	Achieved	

Performance Against Predetermined Objectives



Strategic Objective	KPI	Baseline	2016/17 Target	Q1 Target	Q1 unaudited results	YTD	Status	Comments
	Percentage spend of Black Youth Owned entities annually	10% spend of 40% on BOE	10% spend of 40% on BOE	2% spend of 40% on BOE	0.3%	0.3%	Not Achieved	More measures put in place to address shortfalls
	Percentage spend of Black Women Owned entities	10% spend of 40% on BOE	10% spend of 40% on BOE	1% spend of 40% on BOE	28.1%	28.1%	Achieved	
	Percentage spend on People with Disabilities owned entities annually	R148 000 spend on People with Disabilities	R500 000 spend on People with Disabilities	R50 000 spend on People with Disabilities	0	0	Not Achieved	Stringent measures are being implemented to address this area
	Number of digital learning tools	60 tablets for Grade 12 pupils in adopted schools	Installation of e-curriculum on digital learning platform in adopted school(s)	Installation of e-curriculum on digital learning platform in adopted school(s)	Discussions with University of Limpopo	Discussions with University of Limpopo	Not Achieved	

Fibre Rolled Out per Province (Network Infrastructure): Outcome 6



Province	Fibre roll out (km)	PoP/Customer site optimisation	Status
Eastern Cape	84.6 (31.96)	6 (3)	Completed
	28.5 (81.10)	2 (5)	In Progress
Western Cape	320.3 (313.05)	4 (3)	Completed
	10.5 (17.75)	1 (2)	In Progress
Gauteng	253.59 (253.59)	4 (4)	Completed
	0.00 (0.00)	0 (0)	In Progress
Limpopo	69.3 (63.59)	3 (2)	Completed
	0.00 (5.70)	0 (1)	In Progress
Mpumalanga	123.9 (119.16)	3 (2)	Completed
	8.0 (12.75)	1 (2)	In Progress
North West	101.7 (99.07)	3 (2)	Completed
	11.7 (14.39)	1 (2)	In Progress
Northern Cape	7.93 (2.43)	1 (0)	Completed
	3.5 (9.00)	1 (2)	In Progress
KZN	147.17 (140.37)	8 (7)	Completed
	0.00 (6.80)	0 (1)	In Progress
FreeState	5.3 (0.43)	2 (1)	Completed
	4.9 (9.70)	1 (2)	In Progress
National	1113.79 (1023.64)	34 (24)	Completed
	67.1 (157.19)	7 (17)	In Progress
	1180.83	41	Total

Note: the figures in brackets are results from Q3 of 2015/2016.

Financial Position



	Year to Date 30-Jun-15 Actual R'000	Year to Date 30-Jun-16 Actual R'000	Year to date 30-Jun-16 Budget R'000	Previous year Unaudited 31-Mar-16 Actual R'000	Year end 31-Mar-17 Forecast R'000	Year end 31-Mar-17 Budget R'000
Assets						
Non-current assets	1,333,032	1,351,213	1,498,384	1,366,919	1,292,532	1,499,756
Property, plant and equipment	1,318,387	1,339,047	1,485,706	1,354,471	1,280,025	1,487,249
Deferred Expenses	14,645	12,166	12,678	12,448	12,507	12,507
Current assets	341,920	140,341	105,606	191,392	79,416	122,679
Inventories	0	0	0	0	0	0
Cash and cash equivalents	267,340	81,671	39,344	141,625	26,184	55,795
Short term portion of deferred expense	1,139	1,139	1,139	1,139	1,139	1,139
Trade and other receivables	73,441	57,531	65,123	48,629	52,093	65,745
Total assets	1,674,951	1,491,554	1,603,989	1,558,312	1,371,949	1,622,435
Equity and liabilities						
Equity attributable to owners of the parent	893,033	842,196	773,179	872,267	784,974	718,445
Share capital	0	0	0	0	0	0
Shareholders' loan - DTSP	1,351,130	1,351,130	1,351,130	1,351,130	1,351,130	1,351,130
Shareholders' loan - IDC	478,400	478,400	478,400	478,400	478,400	478,400
Retained earnings	(936,497)	(987,334)	(1,056,351)	(957,263)	(1,044,556)	(1,111,085)
Non-current liabilities	521,066	473,103	659,029	502,857	400,816	731,276
Interest-bearing debt	0	0	155,750	0	0	245,846
Deferred revenue	521,066	473,103	503,279	502,857	400,816	485,430
Current liabilities	260,852	176,254	171,781	183,188	186,159	172,714
Trade and other payables	187,714	102,853	105,543	109,049	119,914	104,982
Current portion of deferred revenue	70,529	70,529	63,798	71,759	63,798	63,798
South Africa Revenue Services - PAYE and VAT	2,608	2,872	2,440	2,380	2,446	3,934
Total liabilities	781,918	649,358	830,810	686,045	586,974	903,990
Total equity and liabilities	1,674,951	1,491,554	1,603,989	1,558,312	1,371,949	1,622,435

Financial Performance



	Jun-15 YTD Actual R'000	Jun-16 YTD Actual R'000	Jun-16 YTD Budget R'000	Utilised %	Mar-16 Year end Prev Year R'000	Mar-17 Year end Forecast R'000	Mar-17 Year end Budget R'000	Year end Utilised %
Continuing operations								
Total revenue	113,040	103,850	133,916	78%	451,648	515,000	535,467	96%
Neotel	30,047	16,913	31,618	53%	125,794	74,927	122,240	61%
SITA	39,990	35,110	40,378	87%	147,420	139,522	161,513	86%
Cell C	14,747	16,758	18,158	92%	67,864	67,033	72,632	92%
National Revenue	9,535	14,515	22,609	64%	47,056	150,486	96,049	157%
WACS	18,721	20,554	21,152	97%	63,514	83,032	83,033	100%
<i>Year on Year Growth</i>		<i>-8.1%</i>				<i>14.0%</i>		
Cost of Sales excluding depreciation	86,134	58,512	66,874	87%	259,573	234,356	253,274	93%
Cost of Sales	120,363	94,264	94,409	100%	380,799	377,207	363,412	104%
<i>Year on Year Growth</i>		<i>-32.1%</i>				<i>-9.7%</i>		
Gross Profit	(7,323)	9,586	39,507	24%	70,849	137,793	172,055	80%
<i>Gross Profit</i>	<i>-6.5%</i>	<i>9.2%</i>	<i>29.5%</i>		<i>15.7%</i>	<i>26.8%</i>	<i>32.1%</i>	
Other income	-	-	-		4,379	-	-	
Operating expenses	42,113	41,986	57,534	73%	175,280	228,794	231,809	99%
Results from operating activities	(49,436)	(32,399)	(18,026)	180%	(100,052)	(91,001)	(59,754)	152%
Finance income	1,914	2,296	-		8,808	3,676	-	
Finance charges and fair value movements	(2)	34	(2,138)		(150)	34	(15,145)	
Profit/(loss) before taxation	(47,525)	(30,070)	(20,164)	149%	(91,394)	(87,292)	(74,899)	117%
Taxation	-	-	-		-	-	-	
Profit/(loss) for the year	(47,525)	(30,070)	(20,164)	149%	(91,394)	(87,292)	(74,899)	117%
EBITDA	(13,065)	6,512	11,659	56%	29,992	64,460	58,988	109%
Employee Cost as % Revenue	28.7%	28.2%	22.7%		24.2%	23.4%	22.7%	

Statement of Cash Flow



	Year to Date Actual 30-Jun-15 R'000	Year to Date Actual 30-Jun-16 R'000	Year to Date Budget 30-Jun-16 R'000	Previous year Actual - Draft 31-Mar-16 R'000	Year end Forecast 31-Mar-17 R'000	Year end Budget 31-Mar-17 R'000
Cash flows from operations	160,312	(38,795)	(15,178)	137,313	(38,135)	14,785
Cash flows from operating activities	1,911	2,330	(2,138)	8,658	3,710	(15,145)
Finance income received	1,914	2,296	-	8,808	3,676	-
Finance charges paid	(2)	34	(2,138)	(150)	34	(15,145)
Taxation paid	-	-	-	-	-	-
Cash (used in)/ generated from operations	162,223	(36,465)	(17,315)	145,971	(34,425)	(360)
Cash flows from investing activities	(51,551)	(23,488)	(21,391)	(161,016)	(81,015)	(111,991)
Proceeds on disposal of property, plant and equipment and intangible assets	-	-	-	-	-	-
Additions to property, plant and equipment and intangible assets	(51,551)	(23,488)	(21,391)	(161,016)	(81,015)	(111,991)
Additions to other investments	-	-	-	-	-	-
Cash flows from financing activities	-	-	65,750	-	-	155,846
Shareholders' loan received	-	-	-	-	-	-
Loans (repaid) received	-	-	65,750	-	-	155,846
Increase in net financial assets	-	-	-	-	-	-
Net increase/(decrease) in cash and cash equivalents	110,672	(59,953)	27,044	(15,045)	(115,439)	43,495
Net cash and cash equivalents at beginning of year	156,668	141,623	12,300	156,668	141,623	12,300
Net cash and cash equivalents at end of year	267,340	81,669	39,344	141,623	26,183	55,795

Funding Update

Mechanism	Elaboration
Funding Context	<ul style="list-style-type: none">• The Company is continuing to drive sales, optimise costs and manage assets optimally (cash and working capital management).• 2015/2016 AGM has been held.• The DBSA and IDC have been approached to fund the deployment of infrastructure for specific projects based on delivery of specific projects• Shareholder is being engaged to convert the shareholder loans to equity.
Funding efforts	<ul style="list-style-type: none">• Funding required for Working Capital.• The IDC is being re-engaged for funding on a commercial basis.• Possible Vendor Financing options are being considered

Human Capital: Outcome 5

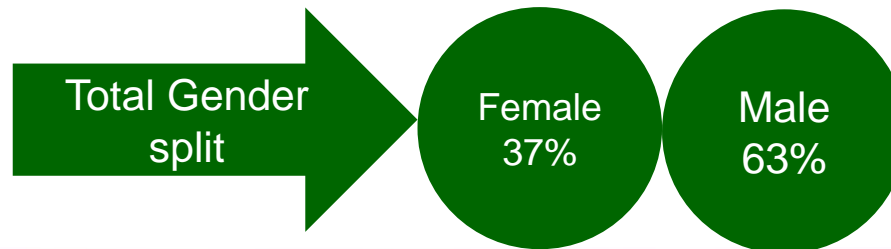


Highlights

- The HR Department facilitated the implementation of the final leg of the substantive agreement with organised labour for 2016/17 FY. Negotiations were held on 01-06 June 2016 and implementation was backdated from 01 April in line with the company's Remuneration policy.
- The Pension fund matter involving member investment losses was resolved with the Fund Administrator. This brought to closure the dispute between the Fund Administrator and the Company.
- 2015/16 final reviews for the performance management system were conducted through the new web based platform of ESS.
- Achieved 0.12% of the wage bill as training spend against the Q1 target of 0.10%. An amount of R28 350.00 was spent to train 25 employees through external service providers. 25 employees received training over 592 hours during Q1

Demographic profile

Job Levels	Male				Female				Foreign Nationals		Sub Totals		Total
	A	C	I	W	A	C	I	W	M	F	M	F	
Executives	2	0	1	1	2	0	0	0	1	0	5	2	7
	29%	0%	14%	14%	29%	0%	0%	0%	14%	0%	71%	29%	100%
Senior Management	7	0	0	1	3	0	0	1	1	0	9	4	13
	54%	0%	0%	8%	23%	0%	0%	8%	8%	0%	69%	31%	100%
Professional Specialist & Middle Management	21	1	2	3	15	0	0	1	0	0	27	16	43
	49%	2%	5%	7%	35%	0%	0%	2%	0%	0%	63%	37%	100%
Supervisory & Junior Management	14	0	0	2	1	0	0	0	0	0	16	1	17
	82%	0%	0%	12%	6%	0%	0%	0%	0%	0%	94%	6%	100%
Operational	27	0	1	2	20	0	0	1	1	0	31	21	52
	52%	0%	2%	4%	38%	0%	0%	2%	2%	0%	60%	40%	100%
Support	2	0	0	0	7	0	0	1	0	0	2	8	10
	20%	0%	0%	0%	70%	0%	0%	10%	0%	0%	20%	80%	100%
Total Permanent and fixed term contracts (Excl Interns)	73	1	4	9	48	0	0	4	3	0	90	52	142
	51%	1%	3%	6%	34%	0%	0%	3%	2%	0%	63%	37%	100%
Interns	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Permanent	73	1	4	9	48	0	0	4	3	0	90	52	142
Temporary workers	0	0	0	0	0	0	0	0	0	0	0	0	0
GRAND TOTAL	73	1	4	9	48	0	0	4	3	0	90	52	142



Procurement Overview: Outcome 4

BBBEE SCORECARD

	Areas	Total Procurement Spend	Target/s	Actual %
SCM Performance Compact	BBBEE Spend	R 10,683,235.13		
	BBBEE Multiplier	R 13,440,449.04	70%	126%
	BOE	R 5,954,937.70	40%	55.74%
	BWO	R 3,005,815.12	10%	28.14%
	PWD	R -	1%	0.00%
	BYO	R 34,582.90	10%	0.32%
Verification Compact	Value Adding	R 8,930,736.28	80%	83.60%
	Generic	R 6,891,437.03	N/A	64.51%
	QSE	R 1,307,316.92	15%	12.24%
	EME	R 2,484,481.18	15%	23.26%
	> 51% Black Owned	R 3,946,403.84	51%	37%
	> 30% Black Women Owned	R 2,223,521.20	30%	21%
	ICT BBBEE (ICT)		70%	

- BBBEE spend has increased slightly during quarter 1 from R12.5 million to R13.4 million.
- The BBBEE multiplier scorecard achieved in this quarter is 126% against ICT sector code target of 70%.
- The Value Adding and Exempted Micro Enterprises (EME) spend have been achieved in this quarter.

External Audits & Irregular Expenditure



Department	Finding Category	Total number of findings 2013/14	Total number of findings 2014/15	Total number of findings 2015/16
Finance	Going Concern (Repeat)		1	1
	Compliance	3	4	
	Commitments; Provisions and Revenue	5	3	
	Property Plant and Equipment (Repeat)	6	6	
	Trade and other payables		1	
	Irregular, fruitless and wasteful expenditure		3	
SCM	Compliance	8		
HRM	Compliance	3		
CEO OFFICE	Compliance :Performance Information	2		5
Shareholder	Compliance (Repeat) (MOI)	1	1	1
Sales & Marketing	Revenue			1
Total		28	19	8

	2013 R'000	2014 R'000	2015 R'000	2016 R'000	2017 R'000
Opening balance	203 462	130 782	136 543	3 009	1 830
Incurred and identified in the current year	396	6 535	38	0	0
Identified in the current year relating to previous years	377	(377)	80	118	0
Condoned during the year	(73 454)	(396)	(133 652)	(1 298)	(0)
Amount not condoned carried over*	130 782	136 544	3 009	1 830	1 830

**Internal processes in progress*

Strategic Top 10 Risks



No.	Vulnerability (Risk description)	Mitigation/ Preventative Actions	No.	Vulnerability (Risk description)	Mitigation/ Preventative Actions
1	Likelihood not to continue as a going concern	<ol style="list-style-type: none"> 1. a. Continue with key focus and drive on sales by all executive and KAMS, and b. Entered into long term tenure with customers 2. a. Continue cost optimisation of Cost of Sales and Operational cost. By Renegotiating fibres maintenance and leases with the suppliers b. Continue with cash management initiatives, through daily bank reconciliations and working capital management 3. Continue with renewed intensity on sourcing funding from commercial banks, developmental institutions and specific vendors 	6	Difficulty to raise Funds	<ol style="list-style-type: none"> 1. Continue interactions with suppliers, commercial banks and developmental institutions to source funding for working capital, ring fenced projects and selective maintenance projects 2. Continue with renewed intensity on sourcing funding from commercial banks, developmental institutions and specific vendors
2	Limitations in resolving fulfilment value chain	<ol style="list-style-type: none"> 1. Improved tracking and monitoring of Projects - this is being managed through weekly status meetings 2. a. Process ownership to be addressed in quarter 2 b. BPM to revise the approach by working with CRA to assess compliance with business processes 	7	Damage to the reputation of Broadband Infracore	<ol style="list-style-type: none"> 1. Pro-active relationships are being put in place with IT Web, Tech Central, Money Web and Business Day to source inputs from BBI before publication. 2. Pro-active integrated PR & Marketing strategy to be activated to convey BBI's positive success stories 3. High brand visibility is being maintained through all stakeholder - related events and programmes
3	Margin pressure	<ol style="list-style-type: none"> 1. Continue to apply the pricing strategy. Also empowers the Company with clear Delegations of Authority in terms of how to structure market pricing especially in over-traded market routes 2. Continue cost optimisation of Cost of Sales and Operational cost 	8	Lack of Regulatory Certainty on new market services	<ol style="list-style-type: none"> 1. Initiative process to acquire ECS licence 2. Entered into MOU with SOC's and other partners
4	The impact of Non ICT SOC's on the cost to communicate	<ol style="list-style-type: none"> 1. Engagement continues with Non ICT SOC's 2. Continue with the engagement with the regulators and other stakeholders 	9	Slow evolution towards IP technology	<ol style="list-style-type: none"> 1. a. All plans has been completed for network expansion b. Negotiations with OEM (original equipment manufacturer) have been conducted with positive results (CFO running with the initiative) c. We waiting for customers since it have to be on the basis of business case.
5	Lack of awareness for new imperatives in privacy and security of information	<ol style="list-style-type: none"> 1. The IT Oversight Committee has been established to exercise oversight on the implementation of IT governance framework 2. Reinforcement of the external communication protocol has been done 3. Formal controls around logical and physical access have been implemented 4. Process to develop policy and socialisation of information regulations is in progress 	10	Difficulty to retain and attract the required skills	<ol style="list-style-type: none"> 1. a. Approval of motivation for recruitment of Interns has been obtained b. Requested to amend the Service Level Agreement with effect date being 1st sept 2016 2. Continued engagement with employees and organised labour on substantive issues