Broadband Infraco

BACKHAUL PROVIDER OF CHOICE

Presentation to
Portfolio Committee on Telecommunications
& Postal Services

QUARTER 3
ending 31 December 2016

BMC Ngcobo
Chairperson of the Board

Performance Against Predetermined Objectives

Broadband Infraco

Strategic Objective	KPI	Baseline	2016/17 Target	Q3 Target	Q1 Audited results	Q2 Audited results	Q3 Audited results	YTD	Status	Comments
Maintain a 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%	0.04%	0.05%	0.05%	Achieved	
	Actual Time to Restore Core Network Faults	8 hours	8hours	8 hours	06:50 hours	05:53 hours	05.38 hours	05.45hours	Achieved	
	Decrease the rate of Lost Time Injury Frequency	0.4 rate	0.3 rate	0.3 rate	0.30 rate	0.30 rate	0.30 hours	0.30 rate	Achieved	
Ensure financial Sustainability	Percentage increase of actual revenue annually	R452 million	18.6% (R536million)	22.2%	(8.1%)	(9.7%)	(13.9%)	(10.6%)	Not Achieved	Vacant positions of KAMS have been filled
	Percentage decrease of cost of sales excluding depreciation annually	R383 million	(3%)	(26.1%)	(32.%)	(20.8%)	(18.4%)	(24.8%)	Achieved	
	Decreased amount of Operating Loss annually	(R91 million)	(R80 million) Operating Loss	(R16.8 million) Operating Loss	(R30.1million)	(R40.6million)	(R12.2 million)	(R82.9million)	Not Achieved	This target is linked to Revenue target
	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	24.4 days	60.6 days	60.6 days	Not Achieved	The collection of the outstanding debt will be improved in Q4
	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	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	150 STM-1 Equivalent	387 STM-1 Equivalent	0.329 STM-1 Equivalent	210.66 STM-1 Equivalent	597.99 STM-1 Equivalent	Achieved	
Sound HR practices	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	0.30% of the wage bill spend on training by end of quarter	0.12%	1.19%	0.24%	1.55%	Achieved	

Performance Against Predetermined Objectives

Strategic Objective	KPI	Baseline	2016/17 Target	Q3 Target	Q1 Audited results	Q2 Audited results	Q3 Audited 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	One BEE company trained	One BEE company trained	Three BEE companies trained	Achieved	All 3 small BEE companies have been identified
	Number of indirect jobs created annually	60 indirect jobs	60 indirect jobs	20 indirect jobs	32 indirect jobs	0 indirect jobs	23 indirect jobs	55 indirect jobs	Achieved	
	Percentage allocation of BBBEE budget discretionary spend annually	114% spend of BBBEE	70% spend of BBBEE	20% spend of BBBEE	125%	112%	104%	112%	Achieved	
	Percentage spend on Black Owned Entities spend annually	40% spend of BBBEE	40% spend of BBBEE	10% spend of BBBEE	55.7%	48.29%	29.66%	39.55%	Achieved	
	Percentage spend of Black Women Owned entities	10% spend of 40% on BOE	10% spend of 40% on BOE	2% spend of 40% on BOE	28.10%	17.08%	11.97%	15.24%	Achieved	
	Percentage spend of Black Youth Owned entities annually	10% spend of 40% on BOE	10% spend of 40% on BOE	3% spend of 40% on BOE	0.3%	0.0%	0.57%	0.46%	Not Achieved	More measures put in place to address shortfalls
	Percentage spend on People with Disabilities owned entities annually	R148 000 spend on People with Disabilities	R500 000 spend on People with Disabilities	R150 000 spend on People with Disabilities	R0	R0	R0	R0	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	Two (2) different content applications have been installed on the tablets and the school server	CSIR engaged to assess the impact of ICT at Seshigo High School	Two different content applications have been installed on the tablets and the school server	Achieved	

Revenue increase plan

The optimised strategy implemented include the following interventions:

- To contract the sales team with the revenue targets which are aligned with the compact and the sustainability of the company;
- To put systems in place to measure and monitor the revenue sales performance per key account manager, i.e. targets vs actuals on a monthly basis;
- Sales team to provide individual account plans prioritising the approved segmentation with specific actions and time lines;
- The sales team to monitor projects for the provisioning of the closed deals for a quick turnaround for billing / invoicing;
- Sales team to focus on building strong customers relations through constant customer engagements;
- To pursue the buy-in from the internal stake-holders i.e. the technical environment on the proposed revenue turnaround strategy, which includes the following:
- To build strong internal teams to respond to public and private tenders; and
- To collaborate with the sales team in promoting infrastructure where the Company has competitive advantage.
- Continue to implement Executive Management intervention where required for strategic deals;
- To leverage off the SOC to SOC relationships in the telecommunications industry; and
- To leverage off the Shareholders local and international initiatives on telecommunications projects.

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

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Province	Fibre roll out (km)	PoP/Customer site optimisation	Status
Eastern Cape	103.8 (84.6)	8 (6)	Completed
	9.3 (28.5)	0 (2)	In Progress
Western Cape	330.8 (320.3)	5 (4)	Completed
	0.00 (10.5)	0 (1)	In Progress
Gauteng	253.59 (253.59)	4 (4)	Completed
	0.00 (0.00)	0 (0)	In Progress
Limpopo	69.3 (69.3)	3 (3)	Completed
	0.00 (0 .00)	0 (0)	In Progress
Mpumalanga	131.91 (123.9)	3 (3)	Completed
	0.00 (8.0)	1 (1)	In Progress
North West	113.46 (101.7)	4 (3)	Completed
	0.00 (11.7)	0 (1)	In Progress
Northern Cape	11.43 (7.93)	2 (1)	Completed
	0.00 (3.5)	0 (1)	In Progress
KZN	147.17 (147.17)	8 (8)	Completed
	0.00 (0.00)	0 (0)	In Progress
Freestate	10.13 (5.3)	3 (2)	Completed
	0.00 (4.9)	0 (1)	In Progress
National	1171.6 (1113.79	40 (34)	Completed
	9.3 (67.1)	1 (7)	In Progress
	1180.83	41	Total

(yellow)	IN-PROGRESS
(black)	CURRENT FIGURES
(red)	PREVIOUS FIGURES

Customer Service Performance Statistics

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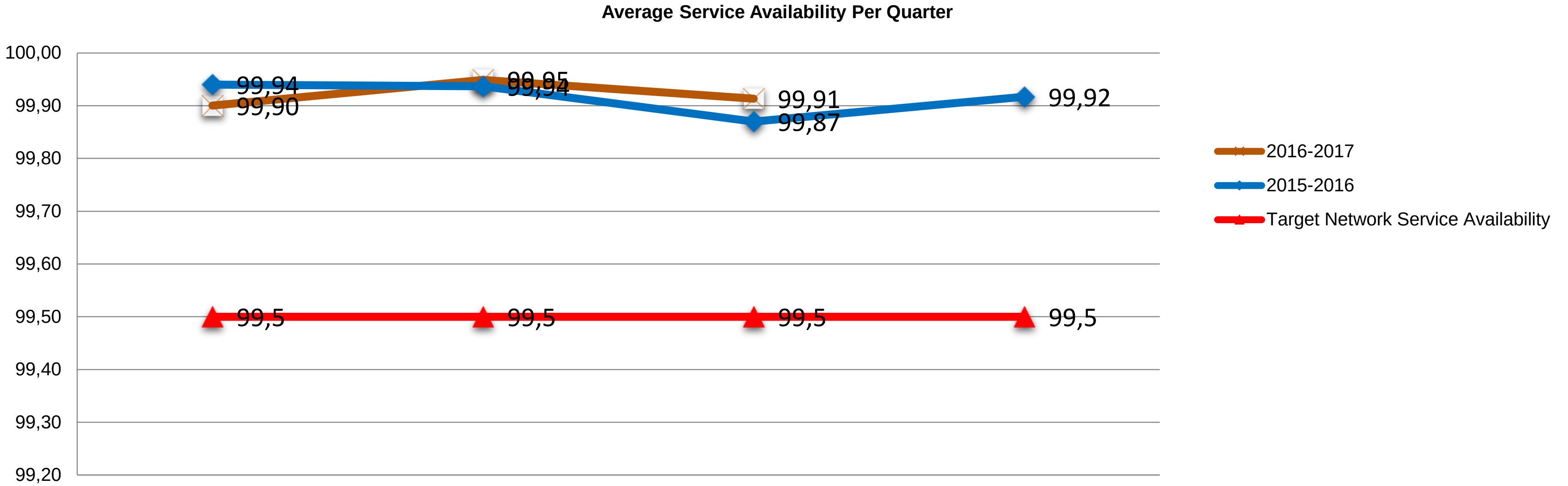

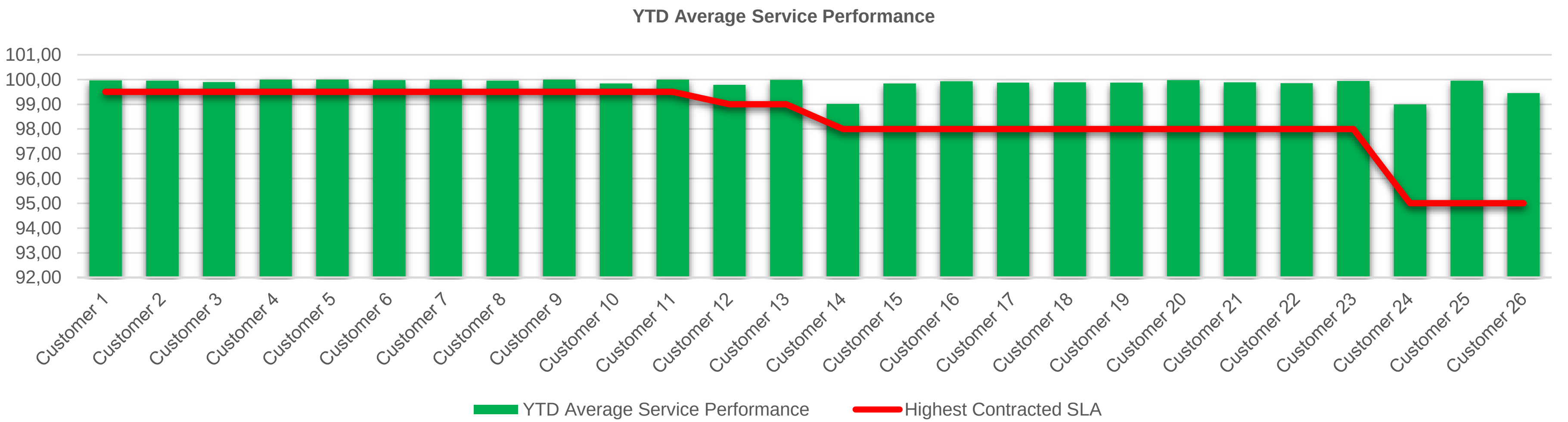

Financial Position

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	Year to Date 31-Dec-16 Actual R'000	Year to date 31-Dec-16 Budget R'000	Previous year Audited 31-Mar-16 Actual R'000
Assets			
Non-current assets	**1,311,247**	**1,497,939**	**1,366,919**
Property, plant and equipment	1,298,526	1,484,985	1,354,471
Deferred Expenses	12,721	12,954	12,448
Current assets	**143,690**	**122,207**	**191,392**
Inventories	0	0	0
Cash and cash equivalents	59,264	56,351	141,625
Short term portion of deferred expense	1,139	1,139	1,139
Trade and other receivables	83,286	64,717	48,629
Total assets	**1,454,936**	**1,620,145**	**1,558,312**
Equity and liabilities			
Equity attributable to owners of the parent	**789,414**	**735,709**	**872,267**
Share capital	0	0	0
Shareholders' loan - DTPS	1,351,130	1,351,130	1,351,130
Shareholders' loan - IDC	478,400	478,400	478,400
Retained earnings	(1,040,116)	(1,093,821)	(957,263)
Non-current liabilities	**458,692**	**715,726**	**502,857**
Interest-bearing debt	0	214,346	0
Deferred revenue	458,692	501,380	502,857
Current liabilities	**206,829**	**168,710**	**183,188**
Trade and other payables	133,081	102,472	109,049
Current portion of deferred revenue	70,529	63,798	71,759
South Africa Revenue Services - PAYE and VAT	3,219	2,440	2,380
Total liabilities	**665,522**	**884,436**	**686,045**
Total equity and liabilities	**1,454,936**	**1,620,145**	**1,558,312**

- **Assets increased by R 23 million for the quarter.**
- **Assets below budget due to reduced spend and increased depreciation.**
- **Remained cash positive throughout quarter.**
- **Deferred revenue is not payable.**
- **Debtor days at 60 days and collections should improve in last quarter.**
- **No debt raised during this quarter.**

Financial Performance

Broadband Infraco

	Dec-16 YTD Actual R'000	Dec-16 YTD Budget R'000	Utilised %	Mar-16 Year end Prev Year R'000
Continuing operations				
Total revenue	**302,408**	**402,901**	**75%**	**451,648**
Anchor Customers	209,863	**268,926**	78%	341,078
National Revenue	42,230	**71,569**	59%	47,056
WACS	50,315	**62,406**	81%	63,514
Year on Year Growth	*-10.6%*			
Cost of Sales excluding depreciation	**161,985**	**191,675**	**85%**	**259,573**
Cost of Sales	**269,167**	**274,279**	**98%**	**380,799**
Year on Year Growth	*-24.8%*			
Gross Profit	**33,241**	**128,622**	**26%**	**70,849**
Gross Profit	*11.0%*	*31.9%*		*15.7%*
Other income	-	**-**		4,379
Operating expenses	**120,959**	**176,202**	**69%**	**175,280**
Results from operating activities	**(87,719)**	**(47,580)**	**184%**	**(100,052)**
Finance income	4,829	**-**		8,808
Finance charges and fair value movements	39	**(10,054)**		(150)
Profit/(loss) before taxation	**(82,851)**	**(57,634)**	**144%**	**(91,394)**
Taxation	-	**-**		-
Profit/(loss) for the year	**(82,851)**	**(57,634)**	**144%**	**(91,394)**
EBITDA	**29,151**	**41,477**	**70%**	**29,992**
Employee Cost as % Revenue	25.4%	22.6%		24.2%

- **Revenue below budget. New sales strategy implemented.**
- **Cost of sales items renegotiated and overall contracted cost savings.**
- **Operating expenses below budget as result of good management of cost containment.**

Statement of Cash Flow

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	Year to Date Actual 31-Dec-16 R'000	Year to Date Budget 31-Dec-16 R'000	Previous year Actual - Audited 31-Mar-16 R'000
Cash flows from operations	**(26,303)**	**9,800**	**137,313**
Cash flows from operating activities	**4,868**	**(10,054)**	**8,658**
Finance income received	4,829	-	8,808
Impairment of fixed assets			
Unrealised foreign exchange gain/ (loss) difference reversed	-	-	-
Finance charges paid	39	(10,054)	(150)
Taxation paid	-	-	-
Cash (used in)/ generated from operations	**(21,435)**	**(254)**	**145,971**
Cash flows from investing activities	**(60,925)**	**(80,041)**	**(161,016)**
Proceeds on disposal of property, plant and equipment and intangible assets	**-**	**-**	**-**
Additions to property, plant and equipment and intangible assets	**(60,925)**	**(80,041)**	**(161,016)**
Additions to other investments	**-**	**-**	**-**
Cash flows from financing activities	**-**	**124,346**	**-**
Shareholders'loan received	**-**	**-**	**-**
Loans (repaid) received	**-**	**124,346**	**-**
Increase in net financial assets	**-**	**-**	**-**
Net increase/(decrease) in cash and cash equivalents	**(82,360)**	**44,051**	**(15,045)**
Net cash and cash equivalents at beginning of year	**141,623**	**12,300**	**156,668**
Net cash and cash equivalents at end of year	**59,263**	**56,351**	**141,623**

Funding Initiatives

DTPS/National Treasury	• Continuous Engagement starting with conversion of shareholder loans
IDC	• Would require support in the form of a guarantee in order to fund the entity
DBSA	• Did indicate that they will be giving specific project finance when the opportunity arises.
Commercial Banks	• Indicated that they will nog be able to supply working capital funding in the form of Debtor finance, due to the risk of serviceability of loan facility. Commercial banks being re-engaged.
Private Equity/ Infrastructure	• Substantially completed Due Diligence but indicated that joint funding proposal with one the portfolio companies. This made management uncomfortable as the identified company is in direct competition with Broadband Infraco. Management opted out of the discussions
Long-medium Term Funding Institution	• Completed Due Diligence through VDR and physical verification of contracts. • Finalising agreements and awaiting approval of request to increase borrowing power.
Vendors/Other	• This remains a very viable option • Term sheet and funding approved for transmission and IT equipment.

Human Capital: Outcome 5

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Highlights

- Conducted interviews for positions within the NOC, Ops and Maintenance, Network Engineering, CPM and CMSO environments and concluded 21 appointments for the quarter under review inclusive of interns;
- Prepared and attended the CCMA conciliation meeting;
- Organizational design and development processes to review human resources capacity and revise content for certain jobs in CTO, CMSO, CFO and HR Divisions;
- Effective management of annual leave provision with a reduction of over 50% as compared to the last quarter;
- Timeous submission of the required BBBEE data verification audit to contribute to the company's level upgrade;
- Rotation of resources for effective utilization within the CMSO environment;
- Achieved 0.24% of the wage bill as training spend against the Q3. An amount of R48 791.00 was spent to train 5 employees through external service providers. The 5 employees received training over 108 hours during Q3;
- The Company has implemented a retention incentive that will be paid in two parts to eligible talent on condition that the employee is still in the employ at the time of payment. The retention strategy includes capacity building from bottom up that enables the Company to recruit from within.

EMPLOYMENT EQUITY DEMOGRAPHICS (inclusive of interns)

Job Levels	Male				Female				Foreign Nationals		Sub Totals		Total
	A	C	I	W	A	C	I	W	M	F	M	F	
Executives	1	0	1	1	2	0	0	0	1	0	4	2	6
	17%	0%	17%	17%	33%	0%	0%	0%	17%	0%	67%	33%	100%
Senior Management	5	0	0	2	4	0	1	1	1	0	8	6	14
	36%	0%	0%	14%	29%	0%	7%	7%	7%	0%	57%	43%	100%
Professional Specialist & Middle Management	18	1	2	3	14	0	0	1	0	0	24	15	39
	46%	3%	5%	8%	36%	0%	0%	3%	0%	0%	62%	38%	100%
Supervisory & Junior Management	14	0	0	1	1	0	0	0	0	0	15	1	16
	88%	0%	0%	6%	6%	0%	0%	0%	0%	0%	94%	6%	100%
Operational	24	0	1	2	20	0	0	1	1	0	28	21	49
	49%	0%	2%	4%	41%	0%	0%	2%	2%	0%	57%	43%	100%
Support	2	0	0	0	6	0	0	1	0	0	2	7	9
	22%	0%	0%	0%	67%	0%	0%	11%	0%	0%	22%	78%	100%
Total Permanent and fixed term contracts (Excl Interns)	**64**	**1**	**4**	**9**	**47**	**0**	**1**	**4**	**3**	**0**	**81**	**52**	**133**
	48%	**1%**	**3%**	**7%**	**35%**	**0%**	**1%**	**3%**	**2%**	**0%**	**61%**	**39%**	**100%**
Interns	12	1	0	0	4	0	0	0	0	0	13	4	17
Total Permanent	**76**	**2**	**4**	**9**	**51**	**0**	**1**	**4**	**3**	**0**	**94**	**56**	**150**
Temporary workers	0	0	0	0	0	0	0	0	0	0	0	0	0
GRAND TOTAL	**76**	**2**	**4**	**9**	**51**	**0**	**1**	**4**	**3**	**0**	**94**	**56**	**150**

Total Gender split

Female 37%

Male 63%

Procurement Overview: Outcome 4

	BBI BBBEE Scorecard			
	Areas	**Total Procurement Spend**	**Target/s**	**Actual %**
SCM Performance Compact	**BBBEE Spend**	R 61 577 761		
	BBBEE Multiplier	R 64 313 235	**70%**	**104%**
	BOE	R 18 261 072	**40%**	**29.66%**
	BWO	R 7 370 479	**10%**	**11.97%**
	PWD	R -	**1%**	**0.00%**
	BYO	R 353 870	**10%**	**0.57%**
Verification Compact	**Value Adding**	R 16 384 1867	**80%**	**26.61%**
	Generic	R 53 891 573	**N/A**	**87.52%**
	QSE	R 1 862 850	**15%**	**3.03%**
	EME	R 6 857 003	**15%**	**11.14%**
	> 51% Black Owned	R 8 325 420	**51%**	**14%**
	> 30% Black Women Owned	R 3 401 295	**30%**	**6%**
	ICT BBBEE (ICT)		**70%**	

- Impacted by limited procurement budget.
- BBB-EE distribution achieved 104% against a ICT sector target of 70%
- The Company achieved a Level 2 BBB-EE - an improvement from the previous year's Level 3.

External Audits & Irregular Expenditure

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Department	Finding Category	Total number of findings	Status Quarter 3		
			Resolved	In Progress	Unresolved
Finance	Going Concern	1		1	
	Revenue	1		1	
Performance Information	Compliance	5	5		
Shareholder	Compliance	1		1	
Total		8	5	3	
Percentage		**100%**	**63%**	**37%**	

	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

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No.	Vulnerability (Risk description)	Mitigation/ Preventative Actions
1	Likelihood not to continue as a going concern	1. (a). Continue with key focus and drive on sales by all executives and KAMS; and (b). Entered into long term tenure contract with key customers (c) Vacant positions were filled 2. (a). Continue cost optimisation of Cost of Sales and Operational cost. Renegotiate fibres maintenance and lease with the suppliers; and (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. Line of credit secured
2	Limitations in resolving fulfilment value chain	1. Improved tracking and monitoring of Projects this is being managed through weekly status 2. (a). Process ownership addressed in quarter 2; and (b). BPM to revise the approach by working with CRA to assess compliance with business processes.
3	Margin pressure	1. Continue to apply the pricing strategy. Also empower the Company with clear Delegations of Authority in terms of how to structure market pricing especially in over-traded market routes. Offer parity pricing in competitive routes 2. Continue cost optimisation of Cost of Sales and Operational cost.
4	The impact of Non ICT SOC's on the cost to communicate	1. Engagement with Non ICT SOC's to continue 2. Continue with the engagement with the regulators and other stakeholders.
5	Lack of awareness for new imperatives in privacy and security of information	1. The IT Oversight Committee has been established to exercise oversight on the implementation of IT governance framework . 2. IT Governance Framework tabled at EXCO 3. Formal controls around logical and physical access has been implemented. 4. Process to develop policy and socialization of information regulations is in progress.
6	Difficulty to raise funds	1. Continue interactions with suppliers, commercial banks and development finance 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. 3. Engagement with DTPS with regards to conversion of subordinated loans into equity
7	Damage to the reputation of Broadband Infraco	1. Pro-active relationships are being put in place with key media publications to ensure that BBI is given a right to reply 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
8	Lack of Regulatory Certainty on new market services	1. Initiate process to acquire ECS licence . 2. Entered into MOU with SOC's and other partners.
9	Slow evolution towards IP technology	1. (a). All plans has been completed for network expansion; (b). Negotiations with OEM (original equipment manufacturer) have been conducted with positive results. (c). Awaiting a bankable customer project
10	Difficulty to retain and attract the required skills	1. (a). 18 interns started in various divisions and most were placed in technical environments (b). Critical positions in M7S and engineering were filled externally and internally 2016. 2. (a) Continued engagement with employees and organised labour on substantive issues. (b) The HRRC approved a retention incentive for performing employees which was paid at the end of Q3