



BBI Funding: Presentation to Portfolio Committee



Background

- ❑ Over the years, Government came to realize that the current market structure is **inefficient, costly, duplicates infrastructure in urban areas and cannot roll-out ICT infrastructure and services to reach all South Africans** in line with the long term vision of a connected society.
- ❑ A new Department of Telecommunications and Postal Services (“DTPS”) was created with the mandate of
 - ❑ Modernising the economy and economic infrastructure to bring the cost down through the **roll-out of Broadband, e-Government, Cybersecurity, Postal, and Postbank services.**
- ❑ A decision was also taken to put together **Telkom, Sentech, SAPO, SITA and Broadband Infraco (“BBI”)** to the new Department to enable Rationalisation and fast track achievement of the NDP goals.
 - ✓ This meant that all ICT SoCs are under a single Department to achieve **greater coordination and efficiency.**
- ❑ As a result in 2014, the President made a proclamation to transfer BBI from the Department of Public Enterprises to the newly formed DTPS **to accelerate Broadband rollout.**



Investment Made to BBI

- ❑ Infraco was formed in 2007 through the Broadband Infraco Act No. 33 of 2007 (the “Act”).
- ❑ Its main objectives as set out in the Act are to expand the availability and affordability of access to electronic communications, including, but not limited to underdeveloped and under serviced areas, 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.
- ❑ Since its inception in 2007, Infraco only received start-up shareholder support over the period **2008 to 2011**.
- ❑ During this period Infraco received a shareholder loan amount of **R1 840 000 000. 00** comprising of:
 - ✓ **R1 361 600 000.00** directly from Government (as the 74% shareholder in Infraco); and
 - ✓ **R478 400 000.00** from the Industrial Development Corporation (which holds 26% shareholding in Infraco).



Overview of BBI's Funding (1/2)

- Historical losses, undercapitalisation and obsolete network infrastructure, have resulted in the Company requiring additional equity contributions. Over time since 2012, the Company has made MTEF and Guarantee applications to Government and has been unsuccessful due to a number of reasons.



- Some of the reasons as stated by National Treasury (NT) relates to a lack of sound business cases which presented:
 - ✓ investment which will significantly increase the company's debt levels whilst decreasing its ability to service debt and thus resulting in significant deterioration in BBI's liquidity position;
 - ✓ Indication of loss making losses for the projected period; and
 - ✓ Indication of Government subsidising commercial contracts undertaken by BBI.
- Also the DTSPS held several engagements with the company to determine the root cause of BBI's funding challenges.



Overview of BBI's Funding (2/2)

- ❑ Amongst others, the department made the following observations:
 - ✓ the company did not have a CFO for a long time;
 - ✓ the company's cost of sale has been higher than revenue generated;
 - ✓ the Company is involved in the litigation battles with its major customer (Neotel) which represented almost 80% of its revenue.

- ❑ BBI was advised to revise its applications and submit proper business cases for each of the capital expenditure categories particularly a business case relating to commercial contracts with a caution of what seemed to be providing indirect subsidies to commercial players under the guise of lowering the cost to communication.

- ❑ As such the Company was advised to structure its submissions around the implementation of SA Connect and the eminent rationalization process.



Motivation for BBI's Funding (1/2)

- ❑ To date Infraco has **not been able to secure any funding or equity injection** from its shareholders and it has been running its **business operations** from its **depleting cash flow** which had an impact on its **current weak balance sheet**.
- ❑ This has had **adverse impact** on the Company and its **business models** which may yield to unintended consequences for both the company and the shareholders.
- ❑ The company is faced with cash-flow problems. Two processes are underway to address the going concern issue as a result of cash flow problems. Government is dealing with the matter through the Treasury request for a guarantee. Second process is through the IDC.
- ❑ Government to write to Parliament to request permission for the delayed submission of the Annual Financial Report



Motivation for BBI's Funding (2/2)

- ❑ The rationalization process thus far considered **all SOCs** that will play a key role in the **rollout of broadband** and also explored different options to realize the rationalization objectives. The department is currently working towards completing the rationalization roadmap which will form part of National Broadband Network.
- ❑ The department notes that BBI holds **strategic assets** which need to be harnessed for purposes of **implementing broadband roll-out** in South Africa



Shareholders Support (1/3)

- ❑ Cabinet approved the appointment of the CFO
- ❑ The immediate problem is the preservation of value and the address of cash flow problems.
- ❑ Both shareholders share a common view **that Infracore requires capitalization** in order to preserve its value for both shareholders.
- ❑ IDC is considering providing BBI with a **guarantee facility of R286 million** (this amount includes a contingency of **R43million**) over the next two years.
- ❑ The department in consultation with the National Treasury, is exploring the following avenues in an effort to secure funding for BBI:
 - ✓ Guarantee Application facility; and
 - ✓ MTEF application process;



Shareholders Support (2/3)

❑ Guarantee Application

- ✓ On 01 July 2015 BBI made a Guarantee application of R243million to department.
- ✓ In analysing the application and engagements with BBI, the department concluded that BBI has managed to lock-in the shareholder with the CAPEX commitment (SITA and Cell C) which has financial implications.
- ✓ The department made the following efforts:
 - Engaged National Treasury
 - On 08 July 2015 the department together with Treasury engaged BBI's auditors (NEXIA SAB&T) to validate Infraco's financials with regards to R243 million going concern funding required by Infraco.
 - On 06 August 2015 the department received the letter from the auditors confirming that based on their assessment
 - National Treasury is assessing the application. The assessment of BBI's guarantee application by end of September 2015.



Shareholders Support (3/3)

❑ MTEF application

- ✓ BBI made an MTEF application of R1.7billion to department.
- ✓ The department submitted the MTEF application to NT
- ✓ The outcomes of the discussions with NT were that given the rationalization process, it is critical to consider a guarantee of R243million for going concern purposes.



Thank You