SENTECH connecting You

# SENTECH Integrated Annual Report 2016/17

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# ABBREVIATIONS

| | |
|---|---|
| AG | Auditor-General of South Africa |
| ARC | Audit and Risk Committee |
| ASB | Accounting Standards Board |
| ASO | Analogue Switch Off |
| ATV | Analogue TV |
| B-BBEE | Broad-Based Black Economic Empowerment |
| BC | Business Continuity |
| BTV | Business television |
| C&MS | Content and Multimedia Services |
| CAPEX | Capital Expenditure |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| CICP | Companies and Intellectuals Property Commission |
| COO | Chief Operations Officer |
| CS | Connectivity Services |
| CSI | Corporate Social Investment |
| CWU | Communication Workers Union |
| DPSA | Department of Public Service and Administration |
| DTT | Digital Terrestrial Television |
| DTH-S | Direct-to-Home Satellite Platform |
| DR | Disaster Recover |
| DTPS | Department of Telecommunications and Postal Services |
| EA | Enterprise architecture |
| EBIT | Earnings before interest and taxes |
| ECA | Electronic Communications Act (No. 36 of 2005) |
| EE | Employment equity |
| EIA | Environmental Impact Assessment |
| EME | Emerging micro enterprises |
| EPG | Electronic program guide |
| ESD | Enterprise and supplier development |
| EXCO | Executive Committee |
| ERMCO | Enterprise Risk Management Committee |
| FM | Frequency Modulation |
| GRAP | Generally Recognised Accounting Practice |
| HR | Human Resources |
| HRRNC | Human Resources, Remuneration and Nominations Committee |
| IAF | Internal Audit Function |
| IIA | Institute of Internal Auditors |
| IIR | Institute of Integrated Reporting |
| IASB | International Accounting Standards Board |
| IFRS | International Financial Reporting Standards |
| ICASA | Independent Communications Authority of South Africa |
| ICT | Information and Communications Technology |
| I-ECNS | Individual Electronic Communications Network Service |
| I-ECS | Individual Electronic Communications Service |

| | |
|---|---|
| IMS | Infrastructure Management Services |
| IOT | Internet of Things |
| ISO | International Standards Organisation |
| KPI | Key Performance Indicators |
| LTIR | Lost Time Injury Frequency Rate |
| MOI | Memorandum of Incorporation |
| MTEF | Medium-Term Expenditure Framework |
| MW | Medium Wave |
| NA | Not Applicable |
| NAB | National Association of Broadcasters |
| NED | Non-executive director |
| OAG | Office of the Accountant-General |
| OC | Operational Centre |
| OD | Organisational design |
| OPSCO | Operations Committee |
| OTT | Over-the-top |
| PFMA | Public Finance Management Act (No. 1 of 1999) |
| QSE | Qualifying Small Enterprises |
| RDI | Research Development and Innovation |
| SADIBA | South African Digital Broadcasters Association |
| SCM | Supply Chain Management |
| SEC | Social and Ethics Committee |
| SED | Socio-Economic Development |
| SKA | Square Kilometre Array |
| SLA | Service Level Agreement |
| SMME | Small, medium and micro-sized enterprise |
| SOC | State-owned company |
| SW | Short Wave |
| TM | Talent management |
| TPRC | Technology, Policy and Regulatory Co-ordination |
| TRIR | Total Recordable Incident Rate |
| VSAT | Very Small Aperture Terminal |
| YTD | Year-to-Date |

# ABOUT THIS REPORT

This report presents SENTECH SOC Limited's Integrated Report for the year ended 31 March 2017. The Board approved this report on 31 July 2017. This report aims to provide all stakeholders with a concise, material, transparent and understandable assessment of SENTECH's governance, strategy and business performance. SENTECH is committed to applying the corporate governance principles contained in King III. Details of the Company's application of these principles appear in Section 5.5.

## Basis of Preparation

This report has been prepared in terms of the Integrated Reporting Framework. In addition, the following Acts, Codes and Guidelines have been considered:

- SENTECH Act (No. 63 of 1996) as amended;
- International Financial Reporting Standards;
- Companies Act (No. 71 of 2008) (Companies Act) as amended;
- King Report on Corporate Governance (King III);
- National Treasury Framework for Managing Programme Performance Information;
- Public Finance Management Act (No. 1 of 1999);
- Treasury Regulations 2005 (Issued by National Treasury); and
- Broad-Based Black Economic Empowerment Code.

## Report Scope and Boundaries

This report covers SENTECH's activities for the financial year ended 31 March 2017.

## Determination of Report Content

The information presented in this Integrated Report is selected by the Board and Executive Committee (EXCO) such that, in its view, it offers the most value or 'materiality' to those who will read this report. Both quantitative and qualitative aspects of a matter, together with an anticipated timeframe, were considered when determining its materiality. SENTECH's Board and management are confident that the information presented is that which is most material to its stakeholders and which will inform their assessment of the Company's ability to create value in the short, medium and long term.

## Combined Assurance

SENTECH's combined assurance model recognises three lines of defence, namely review by management, supplemented by internal and external assurance in order to optimise governance oversight, risk management and control. The Audit and Risk Committee (ARC) and the Board rely on combined assurance in forming their view of the adequacy of SENTECH's management and internal controls. A combined assurance approach has been adopted in the preparation of this report.

## Forward-looking Statements

The report may contain forward-looking statements. Words such as "believe", "anticipate", "intend", "seek", "will", "plan", "could"," may", "endeavour" and similar expressions are intended to identify such forward-looking statements, but are not the exclusive means of identifying such statements. While these forward-looking statements represent our judgments and future expectations, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. These include factors that could adversely affect SENTECH's businesses and financial performance.

## Statement of Responsibility

The Board is responsible for the preparation of the Company's Integrated Report and for the judgments made in this information. The Board is responsible for establishing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the Integrated Report.

In our opinion, the Integrated Report fairly reflects the operations of SENTECH for the financial year ended 31 March 2017.

**Mr M Booi**
Chief Executive Officer

M.A. Mello
**Mr M Mello**
Chairperson

# PERFORMANCE RESULTS AT A GLANCE

**Revenue**
**R1.23 billion**

Revenue Grew By
**5%**

**EBIT**
**R33.95 million**

EBIT Declined By
**83%**

**Audit Outcome**

Clean Audit
**5 Years** in a Row

**Customer Satisfaction**

Customer Satisfaction Index Rises to
**76%**

**Disaster Recovery**

Disaster Recovery Site Built and Commissioned

**SED and ESD Expenditure**

**13.72%** of NPAT spent on SED and ESD initiatives against a budget of **6%**

**KPIs**

**100%**
of all KPIs achieved

**B-BBEE**

B-BBEE
**Level 4**
Maintained

**Employees**

**93%**
of training interventions implemented

Figures 1–3 sets out SENTECH's financial performance for the current and preceding four years.

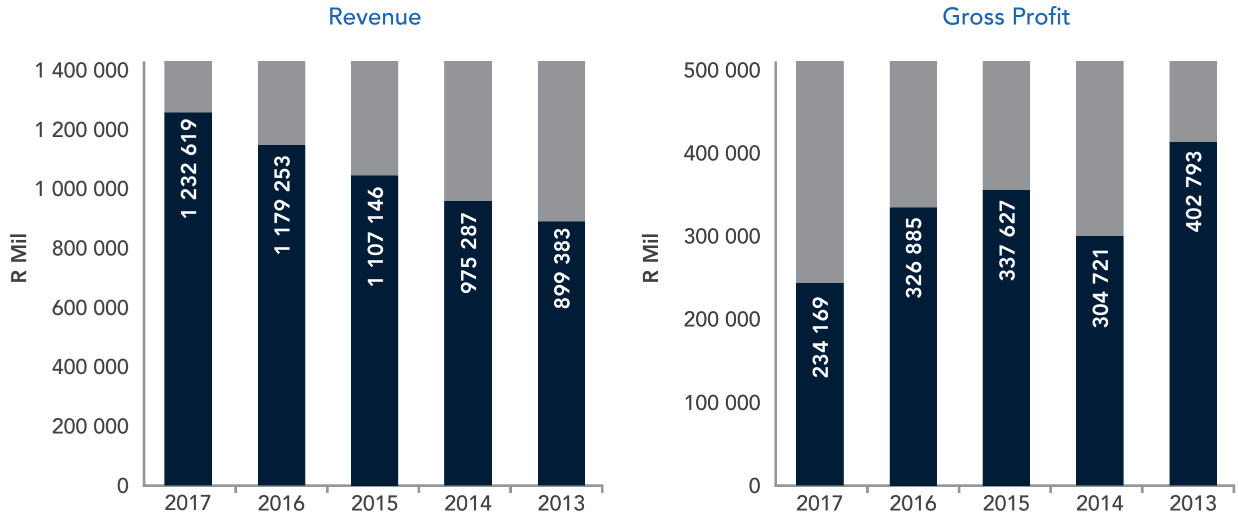


**Figure 1: Revenue and Gross Profit**

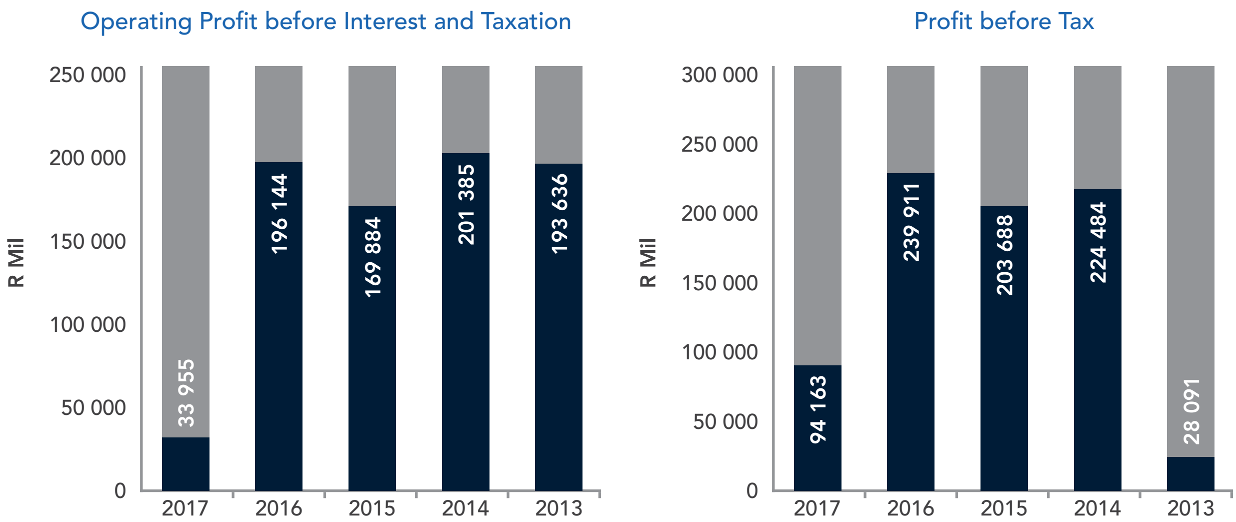


**Figure 2: 5-Year EBIT and Profit before Tax**

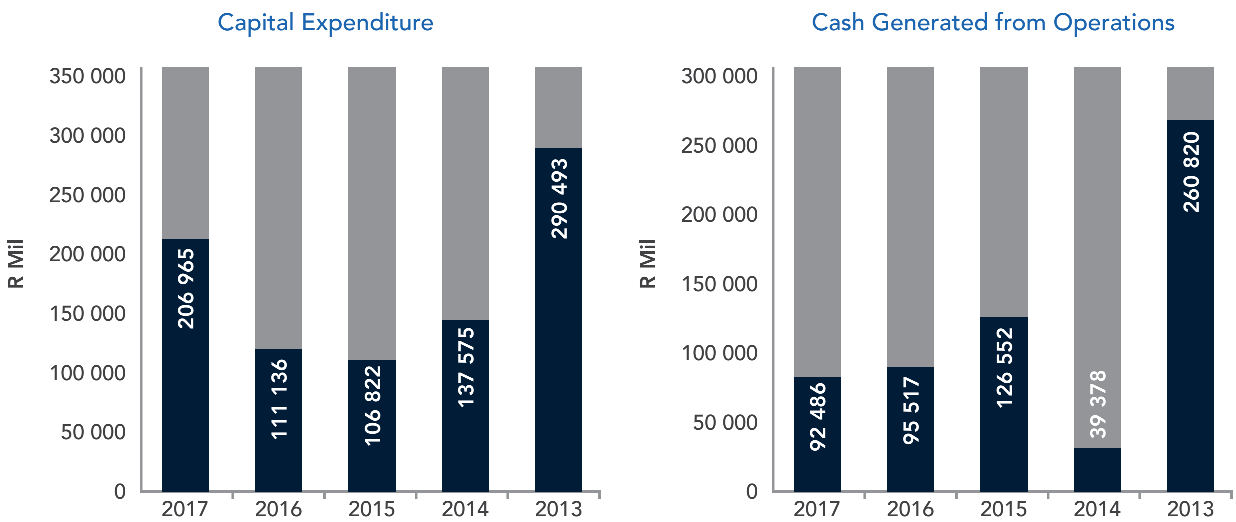


**Figure 3: 5-Year Cash Generated by Operations and Capital Expenditure**

# ABOUT US

# 1 ABOUT SENTECH

## 1.1 Evolution of SENTECH

SENTECH was established as a technical division of the SABC, responsible for the corporation's signal distribution services. In 1992, the division was corporatised as SENTECH, a wholly-owned subsidiary of the corporation. In 1996, the SENTECH Act (No. 63 of 1996) was amended, converting SENTECH into a separate public entity, responsible for providing broadcasting signal distribution services as a common carrier to licensed television and radio broadcasters.

## 1.2 Ownership

The Company is wholly owned by the Government of the Republic of South Africa and the Shareholder Representative is the Minister of Telecommunications and Postal Services.

## 1.3 Legislative Framework

SENTECH's legislative foundation is the SENTECH Act. The Public Finance Management Act (PFMA) and National Treasury Regulations published in terms thereof, and the Companies Act serve as the authority for the organisation's financial reporting requirements. Policies have been put in place to ensure that there is compliance with all relevant legislation. The organisation is further guided by the principles embodied in the King III Report on Corporate Governance for South Africa and the Protocol on Corporate Governance in the Public Sector 2002.

In 2002, following the deregulation of the telecommunications sector, SENTECH was granted two additional licences by ICASA, allowing the Company to provide international voice-based telecommunications and multimedia services. These licences were subsequently converted into an Individual Electronic Communications Network Service (I-ECNS) and an Individual Electronic Communications Service (I-ECS), licensed in terms of the Electronic Communications Act (ECA).

## 1.4 Legal and Operating Structure

SENTECH SOC Ltd has four subsidiaries as set out in Figure 4. These entities are all 100% directly and indirectly (in the case of InfoSat (Pty) Ltd) owned by SENTECH SOC Ltd. These subsidiaries are currently dormant. The Company intends to utilise these Companies as part of its Pan-African expansion.

SENTECH's head office is based in Honeydew, Johannesburg and has operational centres and terrestrial broadcasting sites in all nine provinces. SENTECH does not have any representation outside the borders of South Africa.

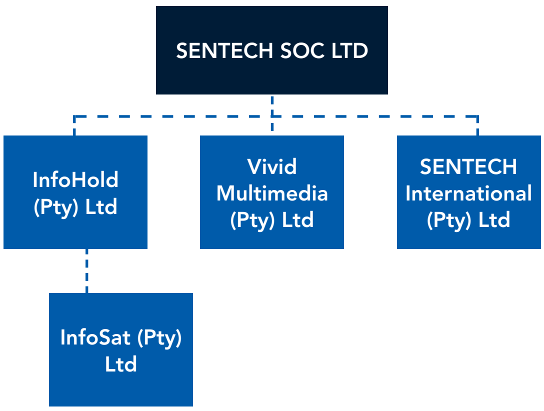


**Figure 4: Legal and Operating Structure**

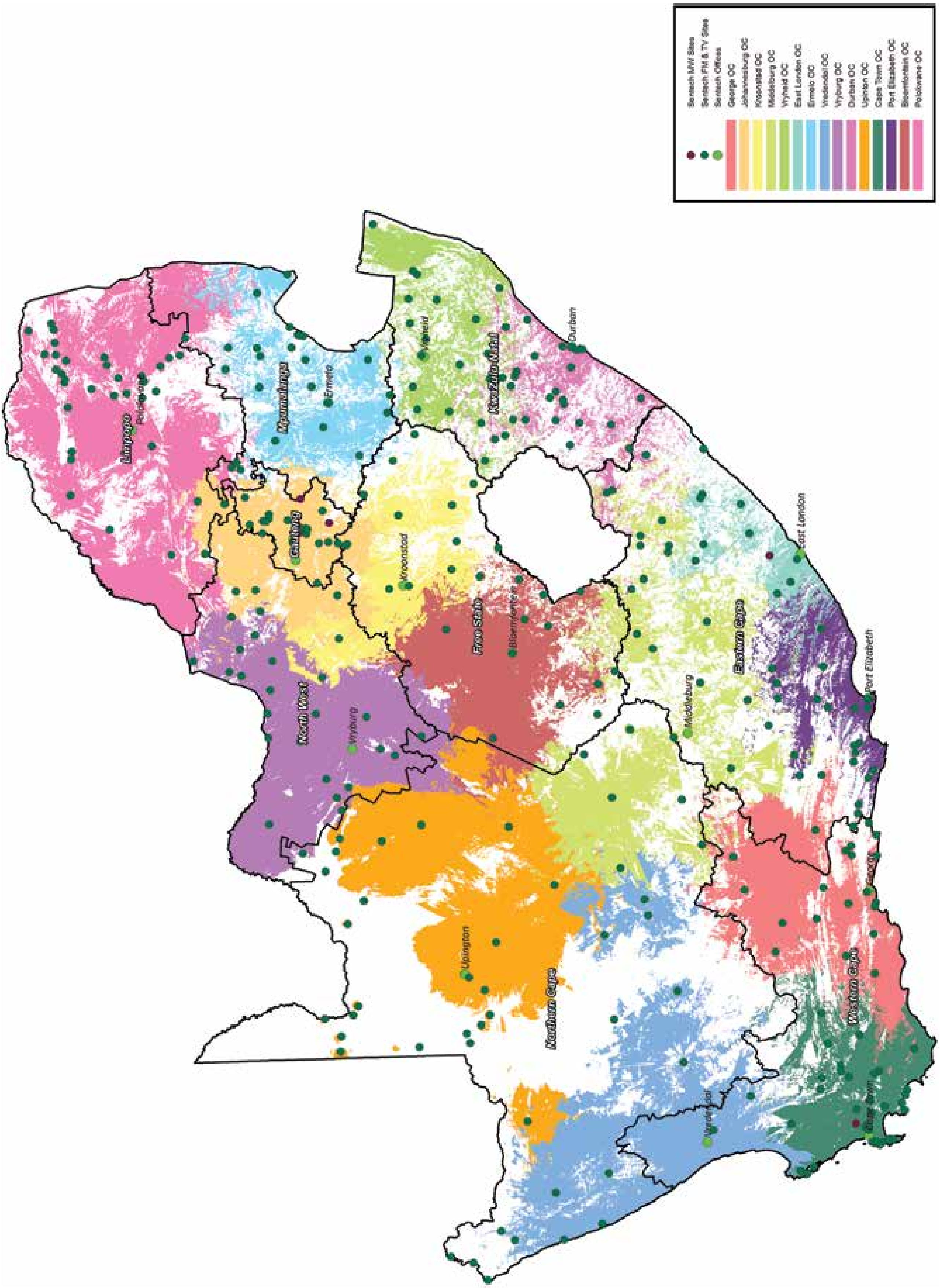


Figure 5: Geographical Spread

## 1.5 Vision, Mission and Corporate Values

### Vision

A global enabler of broadcasting and digital content delivery.

### Mission

To enable our customers to reach their audiences anywhere through innovation.

### Corporate Values

In seeking to promote good governance and conduct, SENTECH has developed and promoted the following values:

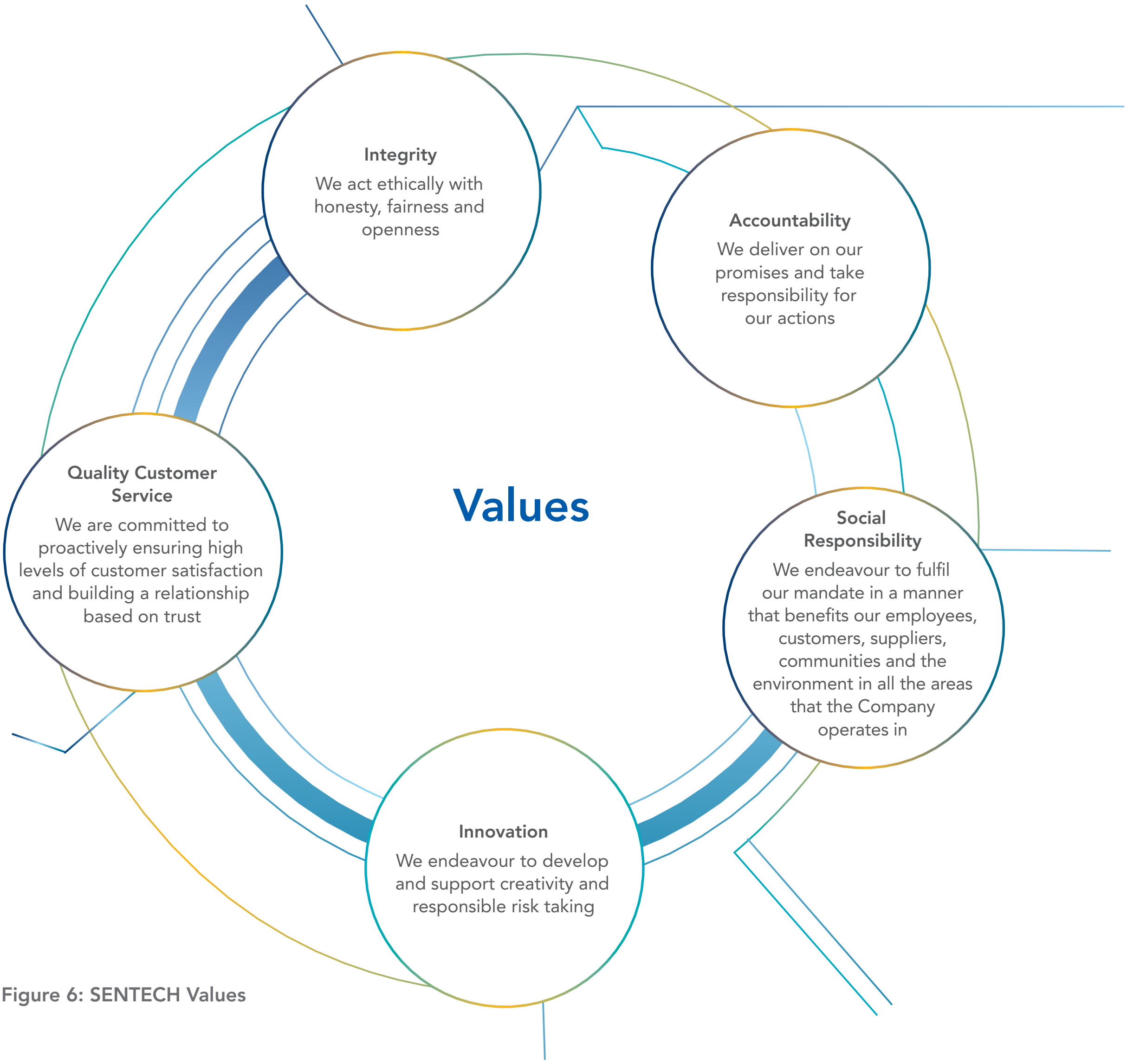


**Figure 6: SENTECH Values**

## 1.6 Products and Services

SENTECH's primary product portfolio consists of Content and Multimedia Services (C&MS), Infrastructure Management Services (IMS) and Connectivity Services (CS) as set out in Figure 7. The C&MS products comprise Direct-to-Home (DTH) satellite, television and radio services. IMS are offered in the form of facilities leasing and infrastructure hosting, with wireless (satellite and terrestrial) being the technology used for providing CS. As detailed in section 2.4, SENTECH will, over the next Medium-Term Expenditure Framework (MTEF) 2017–2020, attempt to expand the breadth and depth of its content distribution services and increase the scope of its activities in support of the general communications industry.

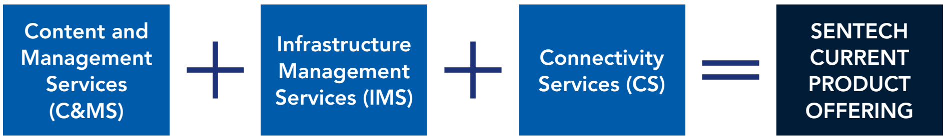


**Figure 7: SENTECH Products**

## 1.7 Organisational Structure

During the 2016/17 financial year, SENTECH continued to implement its organisational structure designed in the previous financial year as set out in Figure 8. As at the end of the financial year, there were no vacancies at executive and non-executive director level.

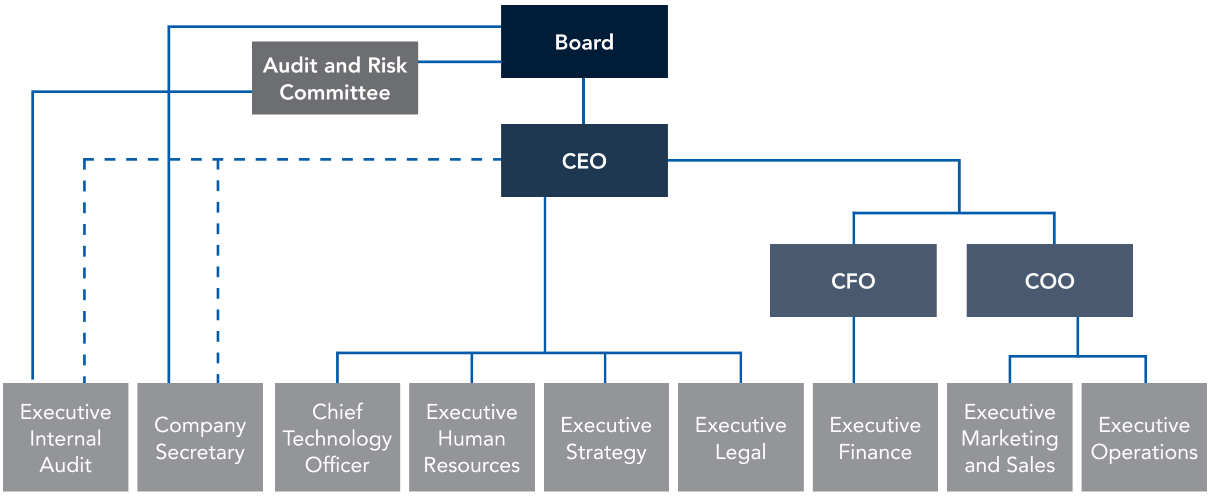


**Figure 8: Organisational Structure**

### 1.7.1 Board Composition

As at 31 March 2017, the Board comprised of nine directors; three executive directors and six non-executive directors. Details of all changes the Board made during the financial year are set out in the Board's Report. The profiles of the current Board members are set out in Table 1.

Table 1: Executive and Non-executive Directors

| Non-executive Directors |
| --- |

**Mr Magatho Mello**

Position: Chairperson

BSc (Electrical Engineering), N HD (Electrical Engineering), MSc (Electrical Engineering)

1 March 2015 – to date

Mr Mello has served on the boards of Swiftnet and the SABC. He serves on the boards of Tel-Net-Com Consulting, U-Network Telecoms, Yabroo, PLC South Africa Services, PLC Sub-Sahara and PLC System South Africa.

**Ms Reitumetse Huntley**

Position: Non-executive Director

B Proc, LLB, Cert (Management Advanced Programme)

15 November 2013 – to date

Ms Huntley has served on the boards of, among others, Telkom, Petro SA, Blue Label and Capitec Bank. She currently serves on the board of ASH Brook Investments 15.

**Ms Ntombizodwa Mbele**

Position: Non-executive Director

CA (SA)

15 November 2013 – to date

Ms Mbele serves on the board of Vergenoeg Mining Company as a Non-executive Director. She is an Independent Credit Committee member of the Stanlib Infrastructure Fund. She served as CFO and Executive Director of Alexkor SOC Ltd until 30 September 2016.

**Mr Lumko Mtimde**

Position: Non-executive Director

BSc (Biochemistry and Physiology), PG Dip (Telecommunications and Information Policy)

1 March 2015 – to date

Mr Mtimde has served on the boards of, among others, Media Advertising Information and Communication Technology Sector Education and Training Agency (MICT SETA), Eastern Cape Information Initiative (ECITI), member of the Africa Steering Committee for the Global Forum and member of the High Level Panel of Advisors of Global Alliance for ICT and Development. Mr Mtimde serves on the boards of, among others, Radio Freedom Association, Eastern Cape Information Technology Initiative, NSFAS, USAASA and Digital Mzantsi.

**Ms Lungi Ndlovu**

Position: Non-executive Director

BA, HDip (Personnel Management), MA

12 December 2016 – to date

Ms Lungi Ndlovu is the former Chief Human Resources Officer for the Vodacom Group, a position she held for 11 years. She is a seasoned HR practitioner, having operated at executive level for a number of blue-chip companies. She is well versed with corporate governance, having been a Non-executive Director of a number of Vodacom subsidiaries as well as Perigrine, a listed financial services company.

**Mr Seth Radebe**

Position: Non-executive Director

CA (SA)

1 March 2015 – to date

Mr Radebe's past directorships include but are not limited to Non-executive Chairman Merchant West Holdings, Lead Independent Director at Platfields Limited, Non-executive Director at SAFCOL. He serves on the boards of, among others, Africa Cellular Towers, Fintis, Arthur ELS Consulting Actuaries and Yebo Yethu.

He is currently the Chairperson of the Audit Committee of the Mining Qualification Authority, and Audit Committee member of Mangaung Metropolitan Municipality and of the Department of Defence and Military Veterans.

## Executive Directors

**Mr Mlamli Booi**

Position: CEO

MSc degree (Electrical Engineering), PG Dip (Project Management)

15 October 2015 – to date

Mr Booi is the founder of Z-Coms and a Professional Electrical Engineer with more than 20 years' experience in engineering, policy, regulatory and management. He has held several advisory roles including advising the SA Government on telecommunications policies, DTI on BPO and call centre market; JP Morgan on the telecommunications landscape and business model, developing a licensing policy and universal access policy for the SADC region. He served as a councillor of the IBA until the establishment of ICASA in 2000.

**Mr Kganki Matabane**

Position: COO

N Dip (Cost and Management Accounting), B Tech (Cost and Management Accounting) PG Dip (Business Administration), Cert (Financial Analysis), Cert (Leadership Development Programme).

1 July 2012 – to date

Mr Matabane served as an Executive Director of Transformation Policy and Operations at Business Unity South Africa (BUSA). He held various strategic positions at the Black Management Forum (BMF), the Gauteng Provincial Legislature, City Power Johannesburg, Spoornet and Anglo Platinum. Mr Matabane serves on various boards and is a practising member of the South African Institute of Professional Accountants.

**Mr Siphamandla Mthethwa**

Position: CFO

BCom (Accounting), BCompt (Hons), H Dip (Accounting), CA(SA)

1 December 2016 – to date

Mr Mthethwa served as Group CFO for CEF SOC Limited, a diversified state owned energy utility. He is also a former General Manager-Finance at Eskom Holdings SOC Limited. Mr Mthethwa has worked in the merchant and corporate banking sector, at Absa Capital and Standard Corporate and Merchant Bank.

## Company Secretary

**Ms Fefekazi Sefara**

LLM

1 August 2014 – to date

Ms Sefara is an attorney by profession and an accomplished corporate governance professional for a period spanning more than ten years. She has previously worked at Intersite Asset Investments and Transnet as a Company Secretary, and Independent Development Trust as an Assistant Company Secretary.

### 1.7.2 Executive Team

The organisational structure discussed in the previous section provides for nine divisions led by an Executive Manager to assist the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Operations Officer (COO) where applicable. Table 2 sets out the profiles and qualifications of all Executive Managers. As at 31 March 2017, one vacancy existed, which is expected to be filled by 30 June 2017.

**Table 2: Executive Management**

**Mr Dumisa Ngwenya**

Position: CTO

MSc (Electrical Engineering)

1 June 2016 – to date

Mr Ngwenya is an accomplished professional with over 20 years' experience in the ICT industry.

**Mr Obrey Nekhavhambe**

Position: Executive – Finance

CA (SA)

3 February 2014 – to date

Mr Nekhavhambe is an accomplished financial services professional with more than 11 years' experience in financial management consulting.

**Mr Tebogo Leshope**

Position: Executive – Operations

N Dip (Electrical Engineering)

1 August 1999 – to date

Mr Leshope has over 17 years' of experience in Broadcast Signal Distribution, with proven leadership capabilities in the complex technology and projects environment.

**Mr Kopano Thage**

Position: Acting Executive – Marketing and Sales

BSc (Computer Science)

17 January 2017 – to date

Mr Thage is an accomplished professional with over 14 years' of experience in the telecommunications sector.

**Mr Zunaid Adams**

Position: Executive – Legal

BA, BProc, Admitted Attorney (RSA)

7 August 1995 – to date

Mr Adams is an accomplished Admitted Attorney and has more than 20 years' experience, all of which are at senior management level.

**Ms Kereng Motlhabi**

Position: Executive – Human Resources

BCom (Hons) Industrial Psychology

15 August 2016 – to date

Ms Mothlabi is an accomplished Human Resources professional with 17 years' experience of which ten years has been at senior management level.

**Mr Itumeleng Segaloe**

Position: Executive – Strategy

MBA (Corporate Strategy)

1 May 2016 – to date

Mr Segaloe is a business executive with 20 years' experience in the media, ICT, management consulting and development sectors.

**Mr Phuti Phukubje**

Position: Executive- Internal Audit

RGA (SA)

1 February 2013 – to date

Mr Phukubje is an accomplished financial and accounting professional and has more than 16 years' experience of which seven years has been at senior management to Executive level.

## 1.8 Stakeholder Relationships Management

SENTECH's approach to stakeholder engagement is informed by best practice and recommendations in terms of the King III Report. The Company views engagement with stakeholders as central to its sustainability. Progress and impact of engagements is tracked on a monthly basis and results are submitted to the Social and Ethics Committee quarterly. The monitoring process has evolved from output-based to outcomes-based reporting, to establish whether its activities fulfil the required impact. Through these reports, the Company can monitor the impact of engagements, the key issues and whether the issues are sufficiently addressed.

There were numerous interactions between SENTECH and its stakeholders during the year. Table 3 sets out only the material issues, which SENTECH believes had an impact on both the Company and its stakeholders during the financial year.

**Table 3: Stakeholder Interactions**

| Stakeholder | Profile | Stakeholder expectations | Issues | Action against issue | Frequency and Mode of Interaction |
|---|---|---|---|---|---|
| Shareholder | Government (DTPS) | • ICT development and contribution to economic growth<br>• Achievement of strategic goals<br>• Timeous and quality reporting<br>• Government Focus Week<br>• International delegation | • Rationalisation of SOCs within the DTPS<br>• Missed quarterly targets on the Annual Performance Plan<br>• Supported the Minister and Deputy Minister in advancing the ICT development agenda<br>• Bilateral agreements | • SENTECH submitted its input on the SOC rationalisation<br>• SENTECH has achieved its strategic objectives for the year<br>• Participated in all the Minister and Deputy Minister public participation programmes | • Quarterly interactions and ad-hoc meetings where necessary<br>• Annually<br>• Anniversary<br>• Ongoing<br>• When required |
| Government | DoC | • Broadcast industry development and contribution to economic growth<br>• DTT network roll-out | The impact of the dual illumination funding shortfall on SENTECH's financial resources | • Escalated the budget shortfall to DTPS and funding was allocated by DTPS<br>• Support of DTT awareness campaigns with other BDM stakeholders<br>• Process of stabilising the network for DTT commercialisation | Ad-hoc DTT awareness campaigns with other BDM stakeholders |
| Employees | Staff complement of 550 | Conducive, empowering and fair working environment | • Establish an Employee Equity and Skills Development Forum<br>• Improve employee engagement score (2015: 6.59) | • An Employment Equity and Skills Development Committee has been established<br>• Employee engagement score improved from 6.59 in 2015 to 6.91 in 2016 | Continuous communication to employees through internal communiques, the intranet and quarterly BTV sessions |
| Customers | • Commercial and community broadcasters<br>• Government departments<br>• State-owned companies<br>• Private sector | Excellent customer services and value for money | Response times to customer queries within agreed SLA | Improve turnaround times on operational processes | Ongoing engagement with customers either face-to-face; telephone or email contact to ensure and maintain positive relations with customers |

| Stakeholder | Profile | Stakeholder expectations | Issues | Action against issue | Frequency and Mode of Interaction |
|---|---|---|---|---|---|
| Suppliers | Various suppliers of goods and services | • Collaboration and payment on time<br>• Sustainability of their business enterprises | Lack of ICT SMME development and growth | • The organisation has identified SMMEs within the supplier database for early payment commitment. These SMMEs do not wait for the 30 days payment cycle, but are paid within 10 working days<br>• The organisation strives to ensure 95% of our suppliers are paid within 30 days. The remaining 5% still experience delays due to non-compliance issues<br>• A Supplier Demand Plan was developed, highlighting areas that require development | Engagement with suppliers on an ongoing basis |
| Government and other agencies | Legislators, DTPS, the DoC, other spheres of government, the regulator and industry bodies | Compliance, partnership and collaboration | • Quarterly and annual performance reports are tabled in parliament successfully with limited adverse comments<br>• Review of the National Radio Frequency Plan radio frequency bands allocated only to analogue sound broadcasting | • Cordial relations are maintained at all material times<br>• SENTECH lobbied ICASA to extend the allocation of both DTT and DSB services | SENTECH participates in quarterly Portfolio Committee and Select Committee meetings |
| Public and media | • Communities and traditional leaders<br>• Social partners<br>• Media<br>• Interest groups | • Informed and consulted communities and leaders<br>• Creation of shared value | • Brand visibility<br>• Land issues on sites | • A brand audit and perception was commissioned to establish brand visibility and awareness baseline<br>• Focused engagements with communities near operations to resolve overuse of land for sites | • Milestone-based media statements and company announcements distributed to media and posted on its corporate website<br>• Distribution of corporate plan and integrated report to key stakeholders annually |
| Trade union (CWU) | More than 60% of employees belong to the bargaining unit under CWU | Consultation and involvement in decision-making that affects workers | Review of policies and migration of employees in the bargaining unit to hay grading system | Ongoing consultation and engagement between management and labour on issues that impact on employees | Meetings between labour and its constituencies and management |

## Looking Ahead

Towards the end of the 2016/17 financial year, a revised Stakeholder Relationships Management Strategy was developed and approved and the Stakeholder Engagement Policy was reviewed. The new strategy integrates an issue-based approach that acknowledges that stakeholders do not remain stagnant within the stakeholder universe, but their level of influence and impact can be determined by issues and topics within the company's environment.

This approach has led to classifying stakeholders further and mapping them as three types of stakeholders set out in Figure 9. The reason is that some stakeholders are seasonal, and even the constant ones shift and move in the stakeholder universe based on the environment at that moment in time.

| Organisational | Issues-based | Event-based |
|---|---|---|
| Stakeholders forming around SENTECH's attributes | Stakeholders forming around topics of discussion or even behave in a manner that may cause management issues | Stakeholders affected or will be potentially affected by an event |

**Figure 9: SENTECH Stakeholder Types**

During the financial year, SENTECH saw it critical to gauge the influence and impact of its stakeholder relationships and thus implemented an employee engagement plan during the year under review based on the employee survey of 2015/16. A customer satisfaction survey has been conducted and has shown improvement in satisfaction levels from 72 to 76%. A full-scale stakeholder survey has been initiated and will run during the 2017/18 financial year. A company-wide central stakeholder database is in the process of being developed for completion in the 2017/18 financial year. This database will be monitored and updated at least bi-annually. The regular updating in conjunction with outcomes-based reporting will allow SENTECH to have an aerial view of what is happening in its universe as well as put controls in place for strategic and purpose driven engagements.

# STRATEGIC REVIEW

"SENTECH is committed to ensuring that South African citizens receive superior quality broadcasting services through a reliable infrastructure."

# 2 STRATEGIC REVIEW

## 2.1 Chairman's Report

It gives me great satisfaction and is an honour to share SENTECH's story of our value creation with all our stakeholders. The 2016/17 financial year has been characterised by uncertainty, volatility and constraint, and companies around the world had to operate within a less buoyant economic environment, including SENTECH. I am therefore pleased that this report demonstrates the value we create by generating sustainable financial returns while playing a meaningful role in society through corporate citizenship. Sound strategy and execution, robust risk management and the work of both a skilled leadership team and the committed people who work for SENTECH create the value we are sharing with our stakeholders in this Integrated Report.

In this disruptive environment, the Information and Communications Technology (ICT) industry has undergone and continues to experience unprecedented levels of change. The competitive environment has shifted substantially and only organisations that remain focused on digital innovation and excellence in customer service are likely to survive. The fast-changing pace of technology, which is in part driving different customer needs, has revolutionised the face of broadcasting. Whilst the levels of change are disruptive, they also bring opportunities. SENTECH finds itself in a position where it needs to diversify revenue from the traditional sources of broadcasting and signal distribution. SENTECH plays a crucial role in the ICT and economic ecosystem of our country and is committed to ensuring that South African citizens receive superior quality broadcasting services through a reliable infrastructure.

Our customers are at the heart of our business and we know that both their needs and expectations of SENTECH are changing. To this end, we continue to adapt our business model accordingly, requiring us to align with our values and change our behaviour to ensure we are able to achieve the desired client outcomes. The Company is well positioned to weather the challenges and I am pleased with the changes we have introduced to ensure we remain relevant to our customers.

As a state-owned company, SENTECH's commitment to remaining relevant in a transforming society is a business imperative. Much work remains to be done to address unemployment, poverty, economic exclusion and education, which are at the centre of our socio-economic challenges. This requires us all within the ICT sector to accelerate economic and social transformation. As a Board we placed particular focus on Broad-Based Black Economic Empowerment through implementation of our Socio-Economic and Enterprise Development Strategy and the Enterprise and Supplier Development Strategy.

Following on our commitment to retain presence on the African Continent, we have approved the Pan-African Business Case which will be implemented in the 2017/18 financial year. This bold strategic direction will assist us in diversifying our revenues.

Through implementation of our Environmental Management Strategy, we have been able to reduce our electricity costs and deploy hybrid energy solutions.

The digital migration in the Square Kilometre Array has been completed successfully. During the year under review, SENTECH has supported the Ministry of Communications in its Digital Terrestrial Television (DTT) awareness campaigns. The dual illumination costs continue to pose a financial risk to the Company due to the lack of full funding. The Board is monitoring the risk posed by the SABC's financial challenges on SENTECH.

The focus of the Board this year has been on monitoring the execution of the strategy that has been approved by the Board, as well as SENTECH's sustainability and implementation of the outcomes of the organisational design. The strategy has been tweaked to address the sustainability challenges facing SENTECH. SENTECH's business model has been reviewed as a result of the organisational design to respond to the needs of our customers.

Having observed the cost of satellite rental on SENTECH's operational costs, the Board tasked the management team to develop a business case for a satellite that will be operated by South Africa. A pre-feasibility study has been undertaken in this regard and the study report has been submitted to the Shareholder. One of the strategic objectives that has been adopted for the 2017/18 financial year is development of a business plan and funding model for a South African-based satellite in support of the DTPS strategy.

There have been changes at Board level. One non-executive director retired at the end of her term and two non-executive directors had their terms extended. One Director was appointed to the Board. Siphamandla Mthethwa was appointed as Chief Financial Officer.

I would like to express my gratitude to the Chief Executive Officer and his executive team; my fellow Board members; and SENTECH's staff members for their commitment to building a SENTECH that is future-fit and a formidable force for good. Thank you also to the Shareholder Representative, Honourable Minister Dr Cwele; the Portfolio Committee on Telecommunications and Postal Services; our customers; and our stakeholders at large for their efforts in making SENTECH the success it is today.

M.A. Mello

**Mr M Mello**

Chairperson of the Board

"The Company's vision of being "a global enabler of broadcasting and digital content delivery" reflects the growth path the organisation is pursuing."

## 2.2 Chief Executive Officer's Report

In the midst of a volatile micro and macro-economic environment, I am delighted to present an organisational performance which ensures that SENTECH is on track towards long-term sustainability. We have also operated with a clean administration as demonstrated by the consecutive clean audits for five years. However, EBIT fell by 83% due to the shortfall in funding of dual illumination and an increase in operational costs, driven largely by exchange rate fluctuations.

### Operational Review

SENTECH achieved 100% of all the key performance indicators it had committed to for the period under review. I am grateful to the SENTECH team for such an achievement.

The key highlights for the year under review were the following:

- Network availability exceeded the annual target of 99.80% by reaching 99.88%. This was made possible by our robust infrastructure with a national footprint and excellent management of our operations. Our outstanding infrastructure was recently recognised when we received a Certificate of Excellence in the Infrastructure Development category of the 2016 National Business Awards;
- Customer satisfaction levels were above target at 76%, an increase from the previous year's 72%;
- A disaster recovery site has been completed and commissioned to ensure business continuity and minimise disruptions to customer service delivery;
- We have exceeded our target of 85% training interventions by implementing 93.3% of our training plan to ensure skills development and competent staff; and
- We have focused our attention on human resource development to enable delivery of service as we move deeper into the digital world. As part of this we established a high tech laboratory for testing new technologies.

### Financial Review

Revenue grew by 5% from R1.11 billion in 2016 to R 1.2 billion in a tough economic environment; this was driven by the Frequency Modulation (FM) expansion for the existing customers and signing up new connections. Cash generated from operations declined to R133 million (2016: R161 million). This was caused by some of our customers' inability to weather the storm of financial volatility. Earnings before interest and taxes (EBIT) of R34 million is reported for the year, which is a decline from the previous year. This was caused by, amongst others, expenditure on critical preventative maintenance, high energy costs, and increase in employee costs to support growth in the future.

## Looking Ahead

The Company has reflected on opportunities to expand its corporate activities internationally and through acquisitions. This is in line with the Shareholder's strategic foundation and general mandate. The Company's vision of being "a global enabler of broadcasting and digital content delivery" and its mission "to enable our customers to reach their audience anywhere through innovation" is a simplified response to our mandate. Our vision and mission reflect the growth path the organisation is pursuing towards long-term sustainable growth.

In order to achieve our objectives, the Company will expand its content distribution services and increase the scope of its activities through organic growth and acquisitions where possible. In addition to pursuing business sustainability, the Company will focus on identifying growth areas to substitute any revenue losses that arise due to differences between the DTT and Analogue TV (ATV) service tariffs. This revenue challenge will be experienced fully after the completion of digital migration.

We will also be guided by our strategic architecture, ensuring universal, open access, financial sustainability by enhancing customer orientation. The Seven Strategic Pillars will guide the achievement of our strategic objectives. In addition, the Company's business model provides more focus on the core business. SENTECH's products are clustered into three main portfolios consisting of: Content and Multimedia Services; Infrastructure Management Services and Connectivity Services.

Our strategy is a roadmap to realise the SENTECH of the future – the SENTECH that is innovative and responsive to the disruptive technology environment, caring for its employees, sustainable, growing, agile, transforming, a global player and fulfilling the Shareholder's expectations. The SENTECH Executive Committee and staff will pursue the defined annual performance plans with zeal and deliver on the results through focus on strategy execution.

In conclusion, I would like to express my gratitude to the Board for their continuous guidance and support. I would also like to pay special tribute to our Shareholder, the Department of Telecommunications and Postal Services (DTPS), as well as to our customers and stakeholders. Last, I would like to sincerely thank the staff of SENTECH, your dedication has been an inspiration. Teamwork has made us achieve our targets and we will strive to do more.

**Mr M Booi**
Chief Executive Officer

## 2.3 Operating Environment

SENTECH's operating environment is impacted primarily by South Africa's policy and regulatory environment, together with South Africa's economic conditions. Over the past decade, numerous studies have highlighted the inherent potential for countries in developing economies to leapfrog some of the first-world economies through the adoption and implementation of digital technologies focused on the specific needs of each country. Table 4 sets out a summary of South Africa's current regulatory, policy and economic environments applicable to SENTECH.

**Table 4: Current Operating Environment**

| Current Policy Framework | Current Regulatory Environment |
|---|---|
| In the 2016/17 financial year, the March 2015 DTPS Integrated ICT Policy Review Report culminated in a policy (white paper) document. The ICT Policy White Paper proposes changes in both the legislative and regulatory framework pertaining, *inter alia,* to:<br><br>• Percentage increase of contributions for Universal Service and Access from 0.2% to 1% of annual turnover;<br>• Separation of infrastructure and services in the licensee cost-model to encourage service-based competition;<br>• Assignment of spectrum on a non-exclusive basis;<br>• Formation of a Wireless Open Access Network consortium (WOAN); and<br>• Creation of two regulators to replace ICASA.<br><br>In the 2017/18 financial year, it is expected that the DoC will publish the Draft White Paper on Broadcasting for public comment. | In the 2016/17 financial year, ICASA announced that all applications for the DTT Multiplex (Mux 3) had been unsuccessful due to non-compliance with the Invitation to Apply (ITA). According to the Regulator's 2016/17–2021 Strategic Plan, ICASA plans to assign capacity in Mux 3, for both subscription and Free-to-Air (FTA), by 2019. ICASA also plans to assign the remaining 15% capacity on Mux 1 and the capacity in Mux 4-7 by 2019. The timelines and project schedule for the DTT migration process have been the main regulatory issues affecting terrestrial broadcasting in the 2016/17 financial year. ICASA also made its intentions known regarding the introduction, in the near future, of technologies making use of 'white spaces' in the 470–694 MHz bands.<br><br>In the 2017/18 financial year, SENTECH expects ICASA to finalise the National Radio Frequency Plan (NRFP) and submit it to the Minister of Telecommunications and Postal Services for approval. The final NRFP, as approved by the Minister, will indicate whether terrestrial broadcasting services will still be operating legally in the 694–862 MHz band. In 2017, SENTECH also expects ICASA to initiate the regulatory process for the migration of Studio-to-Transmitter Links (STLs) to a new frequency band. |
| **Projected Market Conditions** | |
| Despite the South African economy's overall current and projected sluggish growth, the South African entertainment and media market is buoyant, and continues to offer significant potential for ICT operators. During the MTEF, as set out in Figure 10, it is projected that there will be a shift from the current entertainment and media revenues, by share of market, away from the traditional segments to the internet. This will have an overall share of the market of 43.59% in 2020 from a forecasted base of 33.92% in 2016. For the same period, the forecasted 2016 market share of television of 26.74%, and radio of 3.75%, is expected to shrink to 26.97% and 3.01% respectively. | |

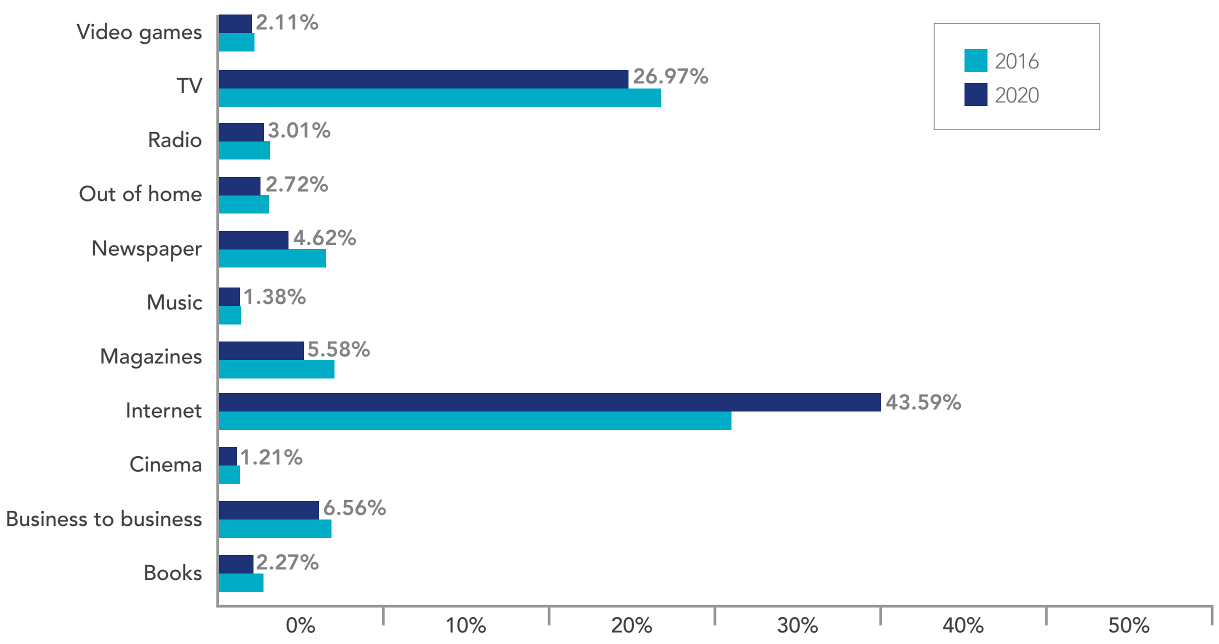


**Figure 10: Future Market Share**

## 2.4 Business Strategy

### 2.4.1 Background

To respond to the changing market conditions, SENTECH reviewed its business strategy before the beginning of the 2017 financial year. The organisational strategy is aimed at ensuring sustainable business growth. The strategy considers the need for revenue growth in the context of technology disruptions, the future of broadcasting, changing consumer behaviour and socio-economic transformation imperatives. SENTECH's strategy is centred on the Seven Strategic Pillars as shown in Figure 11, namely growth, innovation, customer focus, culture change, transformation, efficiency and reputation.

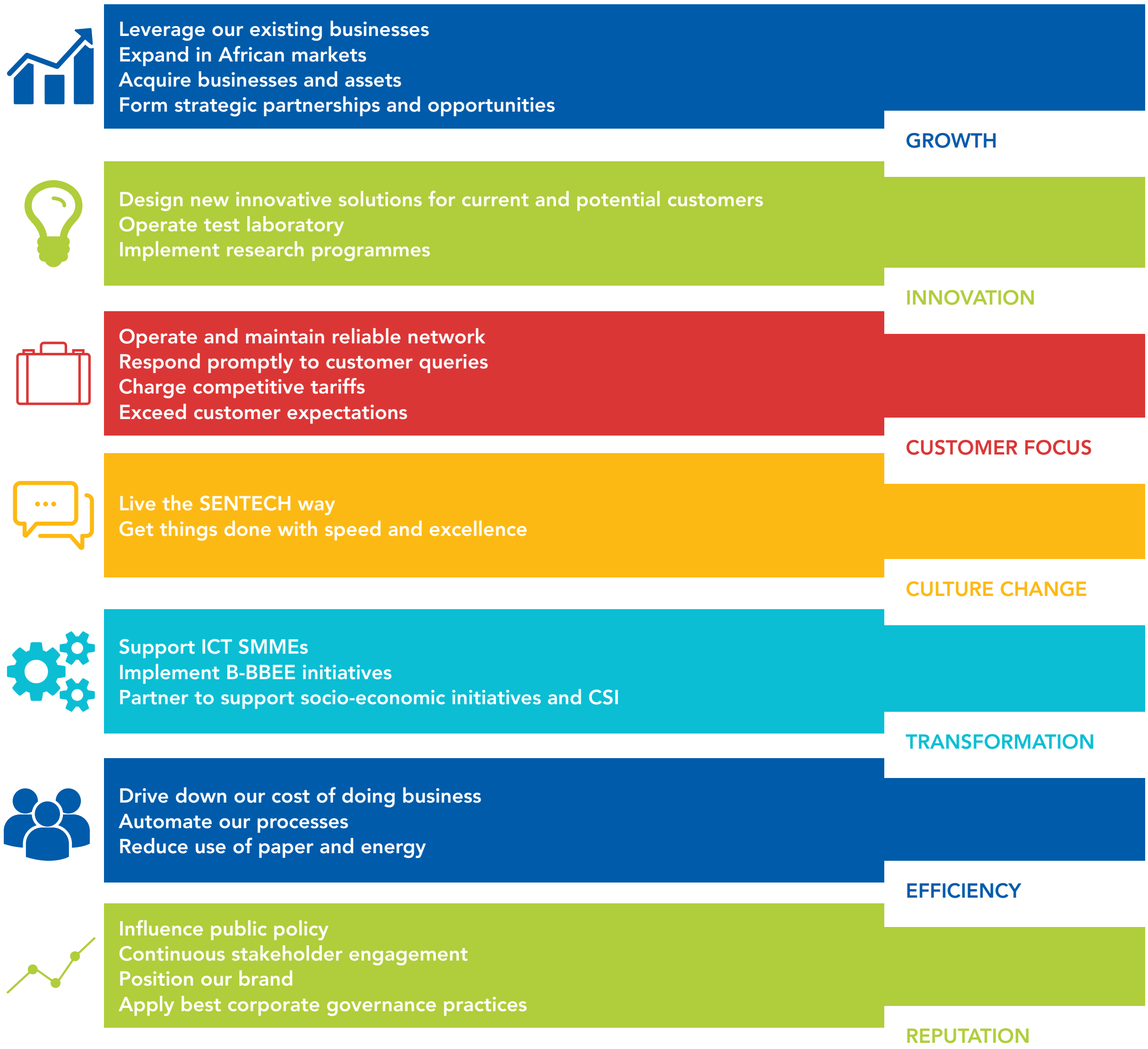


**Figure 11: Strategic Pillars**

### 2.4.2 Interaction with the Six Capitals

Table 5 sets out the link between the Six Capitals and SENTECH's Strategic Pillars. From this, it is evident that these strategic thrusts are integrated and incorporate all aspects of the business and value created over time.

Table 5: Alignment with the Six Capitals

| Strategic Pillars | Financial Capital | Productive Capital | Intellectual Capital | Human Capital | Social and Relationship Capital | Nature Capital |
|---|---|---|---|---|---|---|
| Growth | X | X | X | | X | |
| Innovation | | | X | | | X |
| Customer Focus | | | | | X | |
| Culture Change | | | | X | X | |
| Transformation | | | X | X | X | |
| Efficiency | X | X | | | | X |
| Reputation | | | | | X | |

SENTECH is confronted by risks across its Strategic Pillars; however these risks have been mitigated as the Strategic Pillars are very closely integrated, any adverse shift in one inadvertently influences another. This requires a concerted effort to balance competing priorities in an appropriate manner, including the need to do maintenance, manage financial constraints and ensure sustainability in the longer term. This cannot be achieved independently, leading SENTECH to rely on partnerships with all stakeholders, as well as various demand-side management interventions to help it succeed.

## 2.5 Operating Model

The Board reviewed SENTECH's business model before the beginning of the 2017 financial year to ensure that the Company implements its business strategy, as set out in Section 2.4. The business model set out in Figure 12 places more emphasis on across-the-board research, development and innovation. The model's products and services are focussed on three categories, namely Content and Multimedia Services, Infrastructure Management Services and Connectivity Services.

**Core business**

*Content and multimedia services*

- Radio and television – analogue and digital services
- Content platform applications (DTH and play-out centre)
- Business applications
- OTT/On-demand services
- Value-added services
- Consultancy services

*Infrastructure management services*

- Third party facility management
- Facilities leasing
- Managed infrastructure services
- Consultancy services

*Connectivity services*

- Wireless broadband
- Smart City
- Public safety
- IoT
- Consultancy services

**Core functions – Technology, Operations, Marketing and Sales**

**Support functions – Strategy, Finance, HR, PMO, Legal, IT, Risk and Internal Audit**

**Research, Development and Innovation**

Figure 12: Operating Model

## 2.6 Strategic Risk Profile

Risk is the effect of uncertainty on outcomes or objectives and therefore successful risk management depends on clearly defined objectives. The aim is not only to identify every risk facing SENTECH, but to identify those risks that are most significant to the organisation's ability to realise its core business strategy and objectives supporting value creation and sustainability. SENTECH is committed to the effective and efficient preservation, promotion and management of shareholder value and undertakes to do so in a way that minimises exposure that could have an adverse impact on its reputation. This is done after considering the risk appetite and tolerance levels.

The Company continued to manage its risk exposures on an enterprise-wide approach. Through this approach, there was consideration of the potential impact of all types of risks in an integrated manner. Risks were identified and assessed from a strategic level right down to operational levels of the business. Continual reviews were undertaken during the performance period to assess the status of risk mitigation in relation to the reported business performance. Most of these risks have been well managed and resulted in the achievement of most of the objectives of the organisation, as well as successful implementation of projects. During these review processes, new and emerging risks were identified, assessed and mitigation plans developed for those risks. Some of these risks are still relevant going forward into the 2017/18 financial year as their mitigation interventions require medium to long-term initiatives. The risks carried forward with the MTEF review process appear in the new Corporate Plan 2017-2020. In the year ahead, SENTECH will continue to embed a risk culture to ensure the Company's mandate and objectives are achieved and Shareholder value is created.

## Business Continuity Management

SENTECH's Business Continuity Management policy is aligned with ISO 22301 standards to ensure that business continuity risks are managed in a structured manner. Business continuity risks relate to the continuity of critical products and services in the event of a business disruption or disaster. These may be due to incidents involving SENTECH's buildings, assets and equipment, IT and operating systems, technologies, human resources, etc. To address the main risks surrounding equipment and system failures, a disaster recovery (DR) centre was established and commissioned by the end of March 2017.

## Key Risks

Table 6 provides a summary of the key risks that were identified and managed during the 2016/17 performance period.

**Table 6: Strategic Risk Response**

| Risk No. | Risk Description | Risk Mitigation |
|---|---|---|
| 1. | **Unsuitable policy and regulatory framework that threatens business sustainability** | SENTECH continues to participate in interventions established by the Shareholder. ICASA has been engaged, with the objective of ensuring that the impact of the final frequency plan on broadcasters and signal distributors is noted.<br>The ICT Policy White Paper which has an impact on SENTECH has been issued addressing tariff structures for telecommunication services particularly IECNS and IECS licensees. |
| 2. | **Complexity of DTT migration**<br>This risk involves the migration process as well as the ASO and dual illumination. | The DoC is being engaged regularly through the DTT PMO. Analogue Switch Off started in the Northern Cape during October 2016 and a total of five sites have been switched off. |
| 3. | **Sustainability of suppliers or service providers**<br>SENTECH relies on external solution manufacturers and service providers for mission critical equipment, operating in a volatile global economic environment that has an impact on the long-term sustainability of technology partners and ability to remain in business. | The Company has implemented a process of due diligence on suppliers of its mission critical equipment and services on an annual basis. Strategic partnerships are also being formed with these suppliers to ensure their sustainability and continued supply of services and equipment. A process of identifying strategic commodities and classifying strategic suppliers has also been started. |
| 4. | **Ageing Infrastructure**<br>This is due to technology obsolescence and the delayed Analogue Switch Off. | A technology replacement plan and roadmap have been developed and are being implemented.<br>SENTECH continued to implement its maintenance programmes to ensure network performance aligned to customer service level agreements. |
| 5. | **Cyber attacks**<br>The risk of cyber criminals hacking into SENTECH systems. | Security assessments have been performed to determine exposure and vulnerabilities to attacks. The results have been analysed and recommendations are being implemented. |
| 6. | **Inadequate physical security**<br>SENTECH sites are mostly in remote locations and this exposes these sites to theft and vandalisation. | A physical security plan has been developed and is being implemented. |

| Risk No. | Risk Description | Risk Mitigation |
|---|---|---|
| 7. | **Unavailability of reliable energy to run efficient operations** | Energy back-up power expansion and energy management strategies have been developed and are being implemented. Standby generators (STGs) have been procured and installed in some of the high-risk sites. More STGs will be installed at identified sites to ensure continued energy supply. |
| 8. | **Foreign exchange**<br>SENTECH is exposed to foreign exchange rates fluctuations as a significant amount of the Company's operational (e.g. satellite) and capital costs are denominated in foreign currencies | In a volatile market it is difficult to manage foreign exchange fluctuations. The management of forex volatility is on course and forward contracts have been put in place for main forex commitments (in supplier contracts). SENTECH is currently managing its forex exposures reasonably well and there is continued monitoring of rates. |
| 9. | **Lack of a dynamic workforce to take SENTECH into the future** | There are several initiatives that have been implemented to ensure we have a dynamic workforce as well as a healthy talent balance sheet. These include: leadership development assessments to address competency gaps; career progressions for technical positions; university collaborations to strengthen our talent pipeline; and implementation of the talent management framework. The SENTECH training and development policy has been implemented to enable a culture of learning and high performance. |

# OPERATIONAL PERFORMANCE

"Significant progress was made in streamlining business processes, creating an agile organisation and implementing initiatives that positively drive Shareholder value, including diversification of revenue in the medium to long-term period."

# 3 OPERATIONAL PERFORMANCE

## 3.1 Chief Financial Officer's Report for the Year Ended 31 March 2017

### Overview

The 2016/17 financial year was a challenging one for SENTECH, the broadcasting sector and the entire ICT industry. This was mainly caused by the weak South African and global economy. The impact on the broadcasting sector was lower than anticipated advertising revenue, which put pressure on existing and new broadcasters, in both radio and television. For SENTECH there were delays in expansion programmes for existing customers and servicing of new ones. Thus, some of the capital expenditure was either postponed or reduced in line with changing business requirements.

In addition, SENTECH faced an ongoing challenge of dual illumination cost, which was not fully funded, and this is likely to continue in the foreseeable future due to the delay in the digital migration programme for South Africa.

Efforts to build a financially sustainable company within the overall financial strategy continued during the financial year. Significant progress was made in streamlining business processes, creating an agile organisation and implementing initiatives that positively drive Shareholder value, including diversification of revenue in the medium to long-term period. The outcome of this continuous work is an organisation that can withstand volatile trading conditions, grow and fulfil the mandate given to it by the Shareholder.

### Financial Performance

The key highlights on financial performance are set out in Table 7:

Table 7: Salient Features 31 March 2017

| Description | Year ended 31 March 2017 R'000 | Year ended 31 March 2016 R'000 | Year ended 31 March 2015 R'000 |
|---|---|---|---|
| **Turnover** | **1 232 619** | **1 179 253** | **1 107 146** |
| Gross profit | 234 169 | 326 885 | 337 627 |
| Gross profit margin % | 19% | 28% | 30% |
| **EBIT** | **33 955** | **196 144** | **169 884** |
| EBIT margin % | 3% | 17% | 15% |
| **Net profit** | **104 153** | **199 803** | **168 836** |
| Cash generated from operations | 133 482 | 161 540 | 126 552 |
| **Cash balances** | **907 357** | **957 242** | **889 704** |
| **Net asset value** | **1 767 472** | **1 662 603** | **1 305 616** |
| Solvency ratio | 9:1 | 7:1 | 4:1 |
| **Liquidity ratio** | **6:1** | **5:1** | **3:1** |

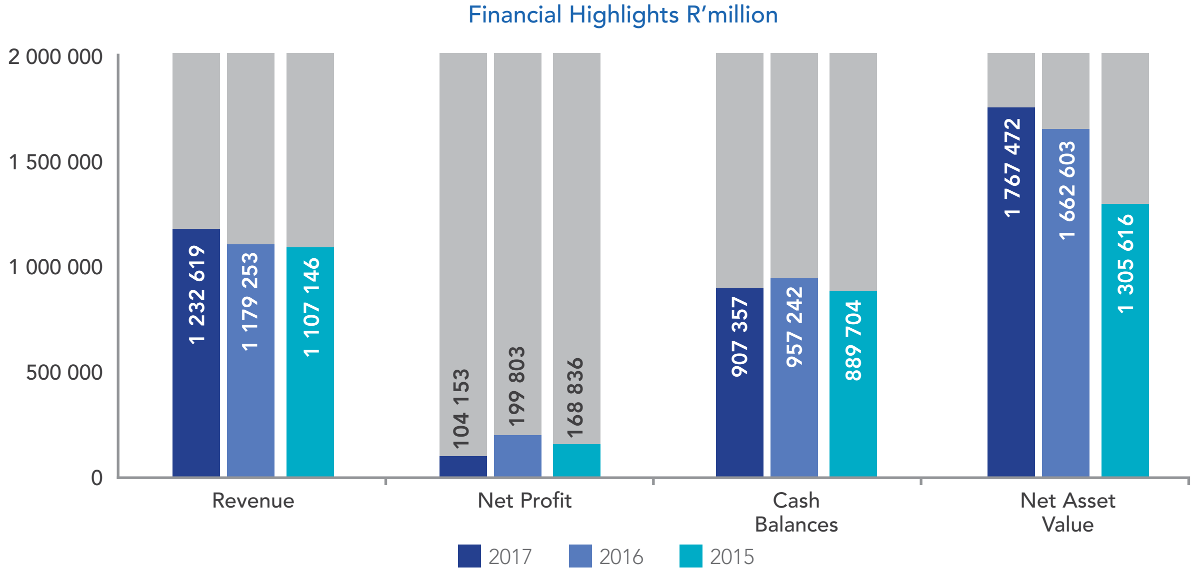


**Figure 13: Financial Highlights over three years**

The financial performance for the year was acceptable given the tough economic conditions experienced during the financial year. Turnover increased marginally by 5% to R1.2 billion, this was due to the growth in FM radio. Public FM revenue growth came mainly from the expansion of 14 additional transmitter sites; in addition 15 community FM services were put on air during the year.

The shortfall in dual illumination funding of R69 million; the cancellation by the DTH customers; delays in commercialisation of DTT; decline is Short Wave (SW) revenue; and delay in radio customers coming on board had a negative impact on revenue growth for the year.

Gross profit and EBIT also declined. The main reason for this was the increase in employee costs, preventative maintenance, satellite rental and the increase in the provision for doubtful debts. SENTECH had to fill some of the critical vacancies to position the Company for growth, and strengthen some of the areas which are important for the improvement of the overall efficiency of the organisation. Satellite rental costs increased by 9% due to additional transponders that were leased. These will, however, only start to generate revenue in the next financial year. The provision for doubtful debts was increased to R30.5 million as a result of community broadcasters and some commercial broadcasters who are struggling to service their accounts.

Overall, the Company reported a net profit of R104 million, which was boosted by the interest income of R64 million from surplus cash funds invested. There was deliberate effort to preserve cash throughout the financial year. This was achieved by reprioritising capital expenditure; and executing only the most critical projects.

The Company continued to generate positive cash flows from operations, despite the pressures already mentioned above, and closed the year with a cash balance of R907 million. The financial position improved, the net asset value of the Company improved to R1.7 billion (R1.6 billion in 2016) due profits of the year. The Company remain solvent and liquid with solvency and liquidity ratios of 9:1 and 6:1 respectively, there is also no debt in the balance sheet.

## Outlook

The coming financial year and the remainder of the MTEF period will be challenging for SENTECH and the broadcasting industry. The South African economy is expected to grow by at most 1.5 % in 2017 and by almost the same in the next two years, which means that it is unlikely there will be much recovery in the advertising revenue throughout this period. One of our major customers also started experiencing financial difficulties following the reporting period and this is being monitored closely by the Board. All of this will be compounded by uncertainties arising from South Africa's recent downgrade to below investment grade.

SENTECH will continue to streamline processes, strengthen business development, execute capital projects aimed at growing revenue, contain costs and diversify revenue. The Company expects much-improved performance in 2017/18 as a result of an increase in revenue, cost optimisation and the focused management of debtors. The focus for the 2017/18 financial year will be:

- Growing the managed infrastructure services and connectivity services business;
- Identify possible acquisition targets;
- Execute the Pan-African business strategy; and
- Develop a funding plan for both acquisition and the Pan-African strategy.

**Mr S Mthethwa**
Chief Financial Officer

## 3.2 Key Strategic Objectives Outlined in the Shareholder's Compact

The Board adopted a set of strategic objectives for the 2016 – 2019 MTEF planning period which ensured that the Company would achieve its public service mandate objectives, remain aligned to Shareholder priorities and ensure financial sustainability. There are nine key performance indicators for the 2016/17 financial year and SENTECH's performance against these key performance indicators is set out in Table 8.

**Table 8: Annual Performance Report**

| Strategic Goal | Strategic Objectives | KPI | Annual Target | Actual Performance | Achieved/Not Achieved | Variance Explanation |
|---|---|---|---|---|---|---|
| SG 1: Ensure that ICT infrastructure is accessible, robust, reliable, affordable and secure to meet the needs of the country and its people | Ensure universal access of the digital broadcasting signal distribution network | Disaster recovery (DR) and business continuity (BC) centre established | Build and commission disaster recovery capability sites planned for the 2016/17 Financial Year | All disaster recovery capability sites planned for the 2016/17 financial year built and commissioned | Achieved | Not applicable |
| SG 2: Ensure high levels of customer and stakeholder satisfaction by meeting their needs at all times | Ensure network availability meets SLA requirements across all platforms | Weighted average availability based on product revenues | Weighted average availability based on product revenues of 99.80% | Weighted average availability based on product revenues of 99.88% | Achieved | This target has been over-achieved due to the better management of the SENTECH network |
| | Improve customer satisfaction | Customer service index | Baseline +5% | A baseline of +5% or 76% was achieved | Achieved | This target was achieved due to the implementation and monitoring of recommendations to improve customer satisfaction |
| SG 3: Drive organisational performance to improve organisational effectiveness | Achieve a high-performance culture<br><br>Effective talent management | Performance ratings achieved | Average employee performance score of 3.2 achieved | Average employee performance score of 3.83 achieved | Achieved | This target has been over-achieved as a result of various interventions, including training and development and the active monitoring of employee performance |
| | | % Training Plan implemented | 80% of the 2016/17 approved training plan interventions implemented | 93.3% of the approved training plan implemented | Achieved | This target has been over-achieved due to effective implementation of the training plan during the year |
| SG 4: Ensure that the Company is financially sustainable | Revenue diversification into international markets | Develop and implement Pan-African Strategy | Pan-African Business Case Completed | Pan-African Business Case Completed | Achieved | Not applicable |
| | Implement ESD and SED initiatives | % actual NPAT spent for the 2016/17 financial year | 6% of actual NPAT spent for the 2016/17 financial year | 13.72% of actual NPAT spent for the 2016/17 financial year | Achieved | This target has been over-achieved due to an additional number of ESD and SED activities |

| Strategic Goal | Strategic Objectives | KPI | Annual Target | Actual Performance | Achieved/Not Achieved | Variance Explanation |
|---|---|---|---|---|---|---|
| SG 4: Ensure that the Company is financially sustainable | Implement effective internal control systems and compliance with applicable legislation | Clean audit achieved | Clean Audit Achieved | Clean Audit Achieved | Achieved | Not applicable |
| | Maintain a healthy EBIT | Earnings before interest and tax | R5.22 million | R33.95 million | Achieved | This target has been over-achieved based on savings against budget for the following categories of expenditure: Other Cost of Sales and Operating Expenses, Legal and Consulting Expenditure. In addition, Finance Income exceeded Budget |

## 3.3 Product and Network Performance

### 3.3.1 Background

SENTECH operates approximately 330 terrestrial distribution sites and a satellite platform to provide customers with C&MS and CS. These networks operate 24 hours a day, seven days a week, and are continually maintained to improve reliability, ensure service availability and long-term operations continuity. Figure 14 presents a high level signal distribution value chain for the above outlined services.

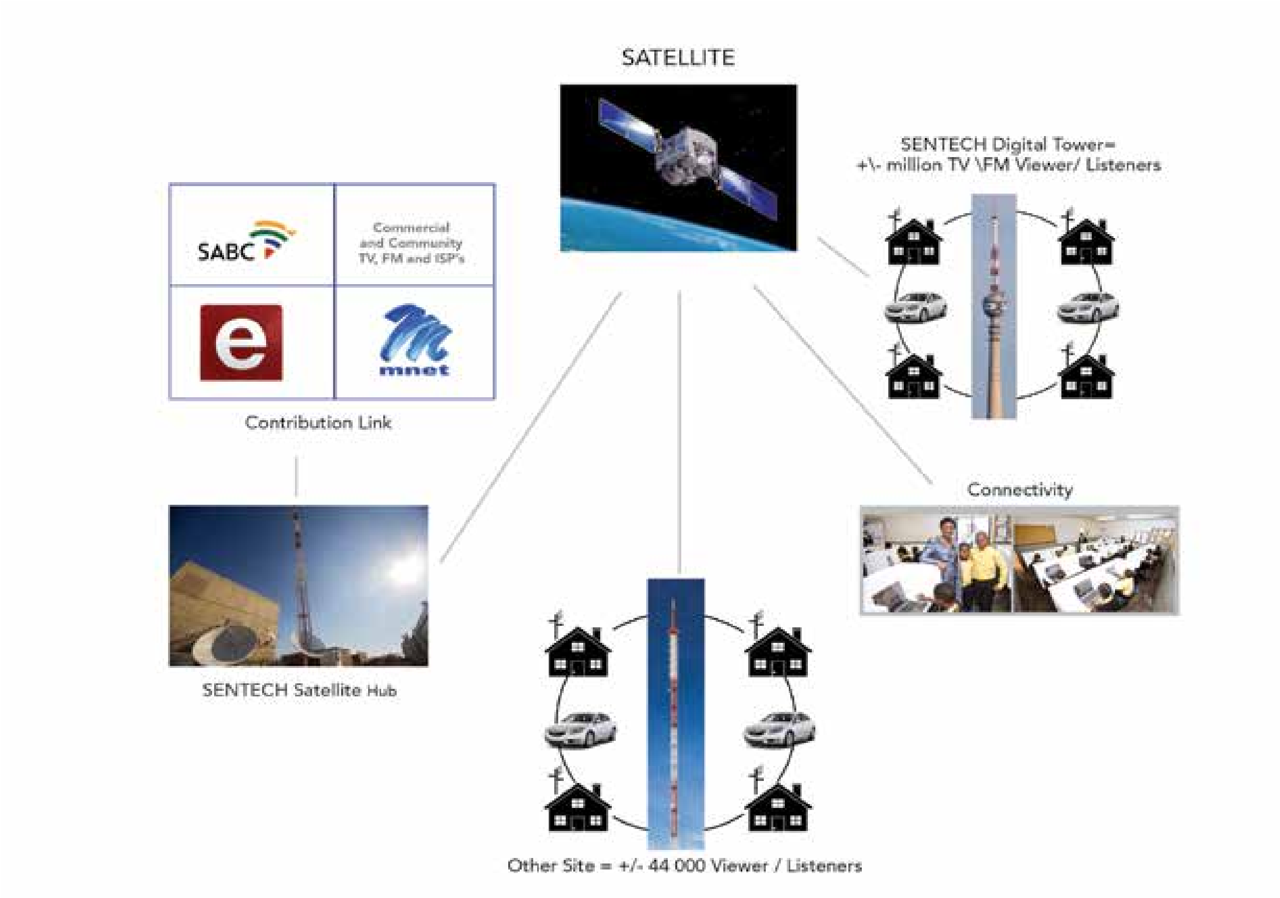


**Figure 14: Signal Distribution Value Chain**

### 3.3.2 Overall Product and Network Performance for the 2016/17 Financial Year

*Product Performance*

The C&MS services currently account for 87% of the SENTECH revenue base, while IMS accounts for 5% of revenue, with the smallest contributor being CS at 1%. Overall revenue increased by 5% from the previous year mainly because of growth in network expansions on the signal distribution side; however this is expected to flatten in the following financial year as growth will be constrained by the availability of frequencies for FM and the migration from analogue to digital terrestrial television.

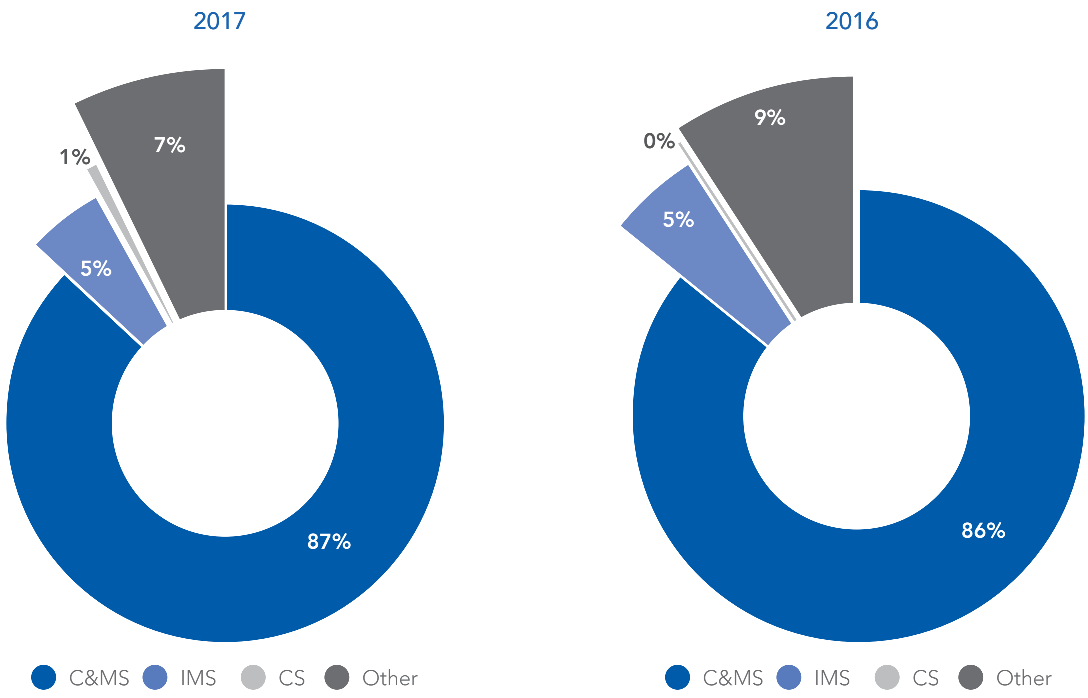


**Figure 15: Revenue Contribution per Product**

*Network Performance*

SENTECH has exceeded the corporate plan network availability target of 99.80% and delivered an overall network availability of 99.88% across its Terrestrial Television, Terrestrial Radio and Direct-to-Home (DTH) platforms. Figure 16 sets out SENTECH's network performance for the past year across all platforms, whilst Figure 17 sets out SENTECH's year-on-year performance for the past MTEF period.

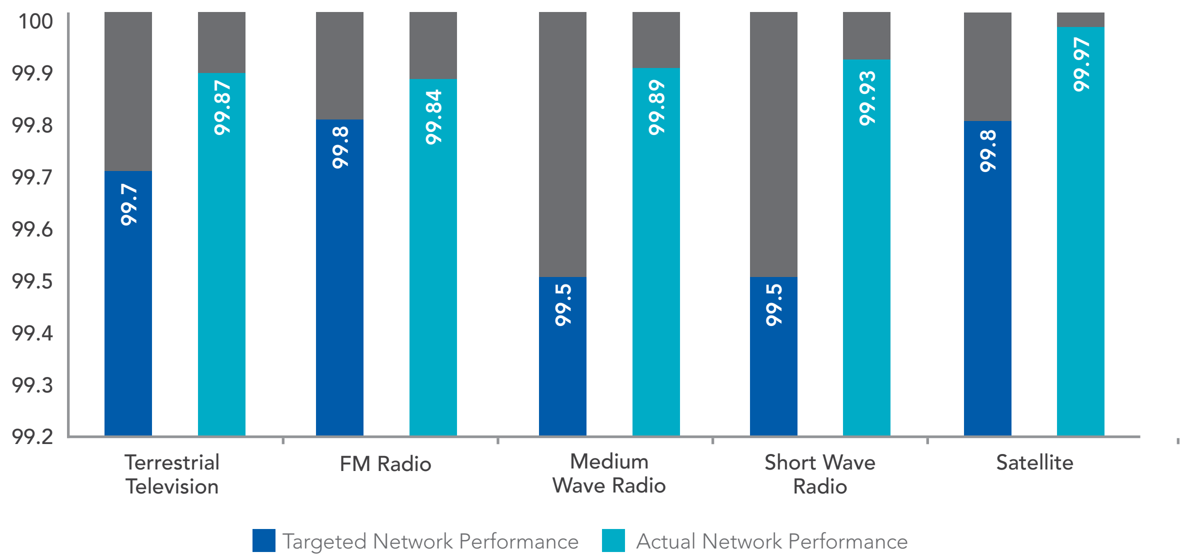


**Figure 16: Network Performance per Service**

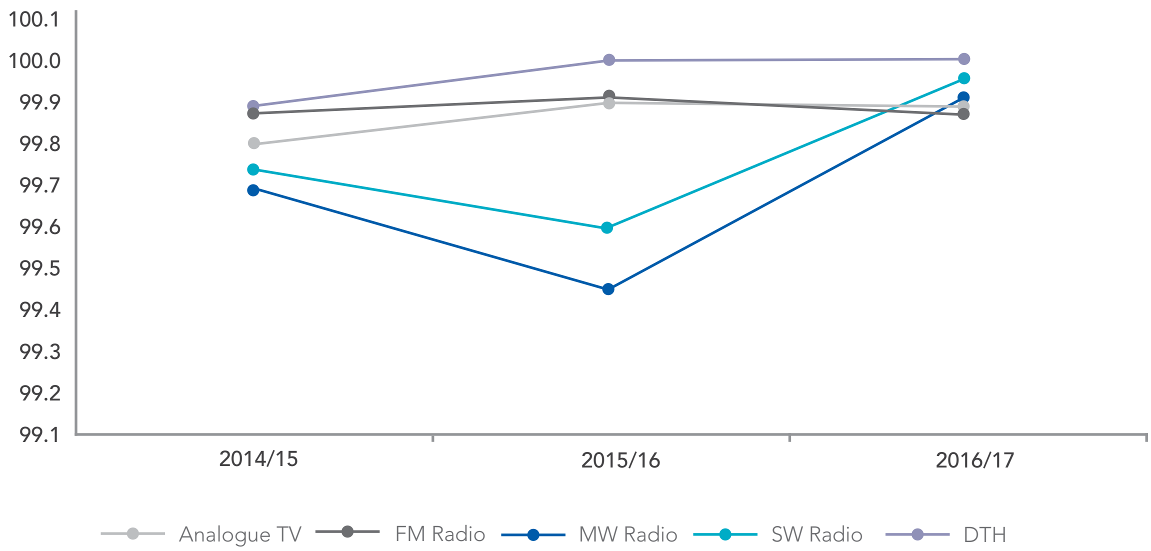


**Figure 17: Network Performance per Service for Three Years**

The main drivers for over-achieving on this critical objective during the past year are efficient platform management (corrective and preventative maintenance) coupled with technology refreshes. SENTECH will continue to put forth a concerted effort to service provisioning in the following years to ensure enhanced listener and viewer experience.

## *Network Performance*

### Service Interruption Analysis

While SENTECH has been able to exceed the network availability target for the past years, the organisation remains challenged with cable theft and power outages impacting services availability. A process of enhancing security at sites prone to theft has commenced, but there is a greater need to curb the cable theft challenge holistically. Figure 18 sets out the major service interruption contributors for the 2016/17 financial year. Power supply remains the main contributor followed by the distribution network.

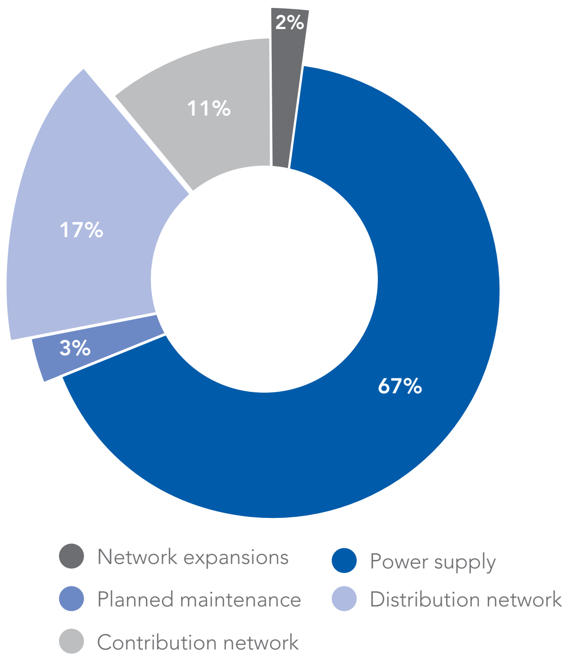


**Figure 18: Service Interruption Analysis**

### *3.3.2.1 Analogue TV*

SENTECH operates a network of television transmitters across the country to provide its customers and citizens of South Africa with television coverage services.

#### Product Performance

The ATV product achieved a 4% year-on-year growth and yielded revenue of R576 million (2016: R555 million).

ATV increased below inflation primarily due to the delay of DTT commercialisation for the 2016/17 financial year. The highlight for the year for television was the successful DTT migration programme in the Northern Cape. Additional revenue was anticipated from the implementation of the DTT Contact Centre which was not realised due to capital budget constraints; however, limited resources have been made available to provide support during the DTT migration process. With the country in transition from analogue to digital television, the continued focus within television was the completion of tariff negotiations and formalisation of SLA negotiations with broadcasters which will be concluded during the second quarter of next financial year.

#### Network Performance

The ATV platform has exceeded the set service level target of 99.70% by achieving network availability of 99.87%.

### *3.3.2.2 Terrestrial FM*

SENTECH operates a network of radio transmitters across the country to provide its customers and citizens of South Africa with FM radio coverage services.

#### Product Performance

SENTECH has provided FM services to 18 SABC radio stations, 18 commercial radio stations and 124 community radio stations.

The FM product achieved a 10% year-on-year growth and yielded revenue of R291 million (2016: R265 million). Public FM revenue growth came mainly from FM expansion of 14 additional transmitter sites. Two additional commercial services were expected in this financial year, in line with the licenses issued by ICASA, however the broadcasters are awaiting additional licenses to be issued prior to launching the additional radio services.

Commercial FM revenue contributors were a combination of transmitter power upgrades, network linking enhancements and network expansions for various customers. In addition, 15 community FM services were put on air.

#### Network Performance

The FM radio platform has exceeded the set service level target of 99.80% by achieving network availability of 99.84%.

### *3.3.2.3 Terrestrial MW*

SENTECH operates a network of MW transmitters in Gauteng, Eastern Cape and Western Cape to provide its customers and citizens of South Africa with radio coverage services.

#### Product Performance

SENTECH has provided MW services to two SABC radio stations, one commercial radio station and six community radio stations.

The MW product achieved a 4% year-on-year growth and yielded revenue of R9.1 million (2016: R8.7 million). MW increased below inflation primarily due to two commercial services which were expected in the 2016/17 financial year in line with the licenses issued by ICASA, but which experienced delays in implementation. These services are expected to be implemented in the 2017/18 financial year.

#### Network Performance

The MW radio platform has exceeded the set service level target of 99.50% by achieving network availability of 99.89%.

### *3.3.2.4 Terrestrial SW*

SENTECH operates a network of Short Wave transmitters from Gauteng province to provide its customers and citizens of South Africa, Africa and Europe with radio coverage services. This network is supported and maintained to ensure continuous services availability.

#### Product Performance

During the 2016/17 financial year, SENTECH provided SW services to two SABC stations and two commercial broadcasters. The SW product achieved a 11% year-on-year decline and yielded revenue of R25 million (2016: R28 million).

The three-year sustainability plan for SW, launched in September 2015, was expected to return the SW product to sustainable operating profits. The plan involved costs reduction, and aligning the organogram of the SW station. However, delay in the implementation of some activities such as re-organising the Meyerton cost structures have proven to be a challenge in getting the SW radio product to be profitable, resulting in product generating losses.

During the 2017/18 financial year, SENTECH will embark on an exercise to curb the poor performance of the Short Wave product and determine its participation into the future due to technology obsolescence that has led to high maintenance costs.

#### Network Performance

The SW radio platform has exceeded the set service level target of 99.50% by achieving network availability of 99.93%.

### *3.3.2.5 DTH Satellite Network*

#### Product Performance

The Direct-to-Home Satellite (DTH-S) Service has four main customer categories, namely, existing terrestrial broadcasters, as part of the DTT gap-filler platform, Free-To-View broadcasters, Super PAs and Business TV/Radio customers.

The DTH-S product achieved a 7% year-on-year growth and yielded revenue of R160 million (2016: R150 million). DTH-S revenue grew marginally above inflation primarily as a result of tariff increases and because of two content aggregators not materialising as anticipated.

#### Network Performance

The DTH Satellite Platform has exceeded the set service level target of 99.80% by achieving network availability of 99.97%.

### *3.3.2.6 Connectivity Services*

SENTECH operates a Very Small Aperture Terminal (VSAT) platform to provide government institutions, enterprises and individual users with internet connectivity services.

#### Product Performance

The VSAT product achieved a 13% year-on-year growth and yielded revenue of R7.1 million (2016: R6.3 million). The revenue performance was largely due to the tariff increase and the few new connections for transactional service customers as there was new business acquired for the year. The Company continues to identify opportunities to grow the connectivity service.

### *3.3.2.7 Infrastructure Services*

SENTECH rents out over 220 sites to more than 90 service providers (public and private) who use the infrastructure for various communication services.

#### Product Performance

The facilities rental product has achieved a 11% year-on-year growth and yielded revenue of R65 million (2016: R59 million).

The revenue performance was largely due to the tariff increase, accompaniment fees, as well as shortfall billing adjustments of a few customers. Increasing competition, along with investments in ever-changing technology, has resulted in telecom operators finding new ways of maintaining margins. Considering that the cost of building and operating infrastructure is significant for operators, market trends continue to prove that new operator business models are leaning towards managed services and leased facilities models. The Company is in the process of developing a business model that will aggressively grow the managed infrastructure services portfolio and capitalise on its capacity to provide facilities management and leasing. For the broader communications industry, the Company will consolidate its current capabilities in the management of transmitter networks and network facilities, to offer specialised and focused third-party networks and facilities management services

## 3.4 Key Projects

### 3.4.1 Digital Terrestrial Television

In the financial year under consideration, SENTECH continued to stabilise and refresh the DTT platform with a view to improving its reliability and availability. A state-of-the-art network management system was fully commissioned at all sites to enable end-to-end monitoring and management of the DTT network. In October 2016, the first analogue terrestrial sites were switched off in the Northern Cape SKA areas, particularly sites near the town of Carnavon. It is expected that as the phased ASO programme progresses, the interaction with neighbouring countries on technical issues will increase.

### 3.4.2 DTT Commercialisation and Awareness Plans

SENTECH continued to engage and collaborate with various industry stakeholders to create DTT awareness and implement the national DTT migration programme. During the year under review several awareness campaigns were conducted in partnership with the DoC, SABC, ICASA, SAPO and USAASA. One of the biggest highlight for the year was the Analogue Switch-Off (ASO), which commenced with the SKA during October 2016. To date over 20 sites have been successfully switched-off. The next ASO phases will focus on completing the rest of the Northern Cape province and move to other provinces.

### 3.4.3 Technology Refresh

Technology evolves daily and refreshing and replacement are key to ensuring continued availability of quality services, improved energy efficiency and enhanced capabilities. SENTECH's technology refresh programmes focused on:

- The network management platform to enhance platform monitoring and management capabilities;
- The FM and television platform solution to improve reliability; and
- The standby plants, to ensure power supply continuity.

During the year, SENTECH managed to deploy a new network management platform and replaced its national radio performance measurement gear with the latest compact all-in-one technology solution.

### 3.4.4 SABC FM Services Language Expansion

Services deprivation and access to a preferred language remain a challenge for the South African media industry. SENTECH, together with the SABC, is continuing to expand radio media services across the country to ensure diversified content and services availability. During the 2016/17 financial year, SENTECH deployed language expansion networks at 17 infrastructure sites, improving language diversification and making diversified content available to more than four million citizens. The programme is intended to ultimately achieve a diversified language network across the country and will continue during the following years.

### 3.4.5 MW-LM Radio Infrastructure Establishment

Implementation of Medium Wave infrastructure was completed in conjunction with Lifetime Music Radio to broadcast on 702 kHz at 50 kW transmitter power output and 66 kW EMRP. The transmitter is an analogue system with future proof digital capability using DRM30 technology.

### 3.4.6 Disaster Recovery

As part of the programme for business continuity, SENTECH completed implementation of a disaster recovery site at NASREC, which started as part of 2010 FIFA World Cup legacy projects. The facility can handle two DTT multiplexes and it is a full replica of the main site for broadcast signal distribution. The site is equipped with online data backup storage and processing.

### 3.4.7 SAP

SENTECH initiated a SAP upgrade in the 2015/16 financial year. Phase one of the project, consisting of technical upgrade and basic functionality such as human resources and finance, was completed with a few challenges. Phase two of the implementation, consisting of functional upgrade of the supply chain, customer relations and business intelligence, was started in the 2016/17 financial year. Design and development have been completed and realisation is underway. Stabilisation of phases one and two will be completed in the 2017/18 financial year.

# VALUE CREATED BY CAPITAL EMPLOYED

# 4 VALUE CREATED BY CAPITAL EMPLOYED

## 4.1 Financial Capital

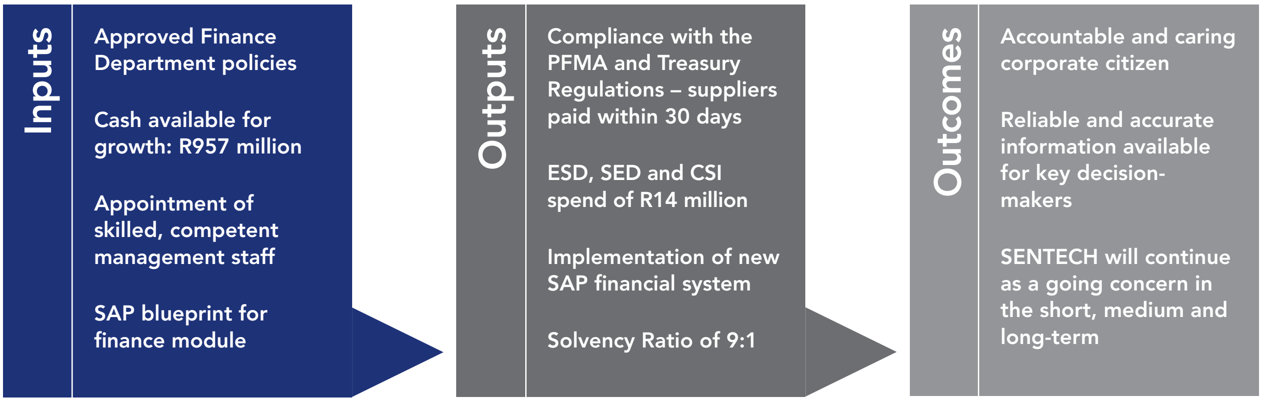


**Figure 19: Financial Capital**

Enhancing Financial Capital is not the function of a single division within the Company. All divisions within SENTECH have worked together to achieve the financial results for the 2016/17 financial year.

### 4.1.1 Financial Capital Creation

During the 2016/17 financial year, SENTECH generated an amount of R92 million (2016: R96 million) from its operations. Additional interventions included the review of SENTECH's policies to ensure that they were optimised to support SENTECH's business; the appointment and training of competent staff to drive these policies; and the implementation of a new SAP system. These interventions have yielded positive benefits in both the internal and external environment.

The positive benefits include SENTECH:

- Having sufficient resources at any point in time to ensure suppliers are paid within 30 days on average. This supports SENTECH's suppliers to enable them to continue as going concerns without the need for short-term financing;
- Having a strong Statement of Financial Position as evidenced by the solvency ratio of 9 times;
- Generating sufficient cash to pay employees market-related salaries;
- Implementing Corporate Social Investment (CSI), Enterprise and Supplier Development (ESD) and Socio-economic Development (SED); and
- Contributing to the fiscus by way of taxation.

These outcomes have resulted in SENTECH entrenching itself in the market as an accountable corporate citizen; having the appropriate systems to generate accurate and timely information for both internal and external decision-makers; and being able to continue into the foreseeable future.

### 4.1.2 Wealth Creation by a South African Company for South Africans

Table 9, supported by Figure 20, sets out the wealth created during the year, together with how it was distributed. It is worth noting that the majority of the wealth was distributed to employees, with a sizeable amount invested towards CSI, ESD and SED-related projects.

Table 9: Value-added Statement

| | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|
| Revenue | 1 232 619 | 1 179 253 |
| Expenditure | (778 589) | (608 331) |
| **Value added by operations** | **454 030** | **570 922** |
| Other income | - | 31 |
| Interest income | 64 415 | 53 889 |
| **Total wealth created** | **518 445** | **624 842** |
| Distributed as follows: | 414 292 | 425 039 |
| **Employees** | | |
| Salaries and wages | 409 986 | 368 276 |
| ESD, SED and CSI | 14 296 | 16 655 |
| **Government** | | |
| Taxation | (9 990) | 40 108 |
| **Re-invested** | **104 153** | **199 803** |

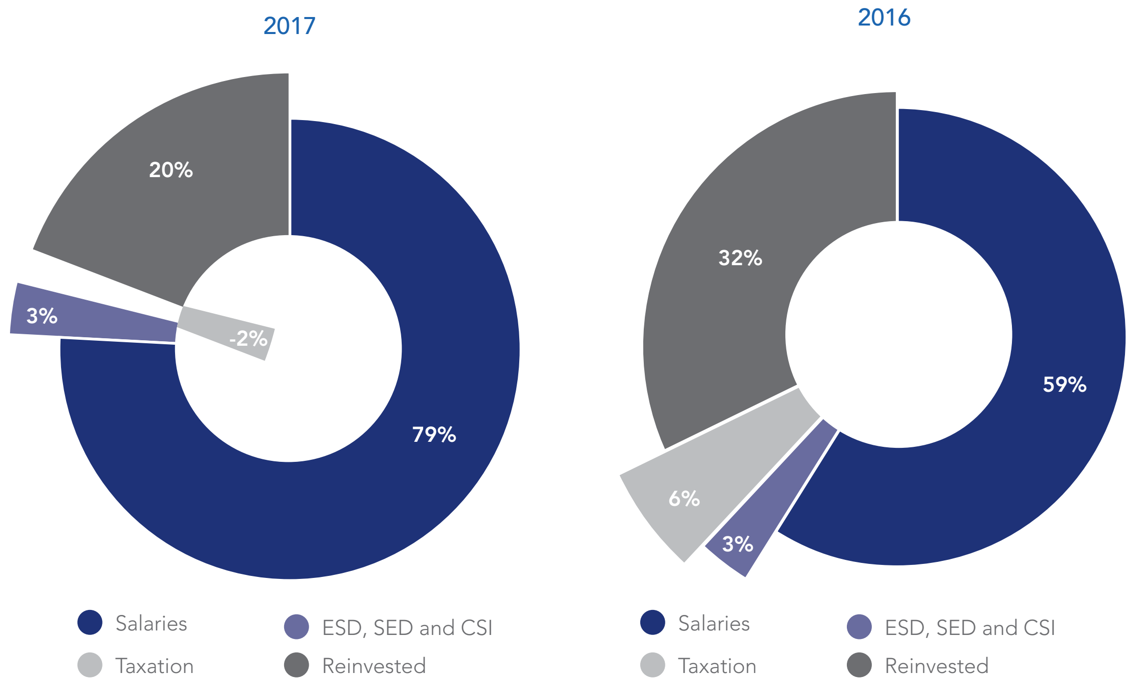


Figure 20: Value-added Activities 2017 vs 2016

## 4.2 Manufactured Capital

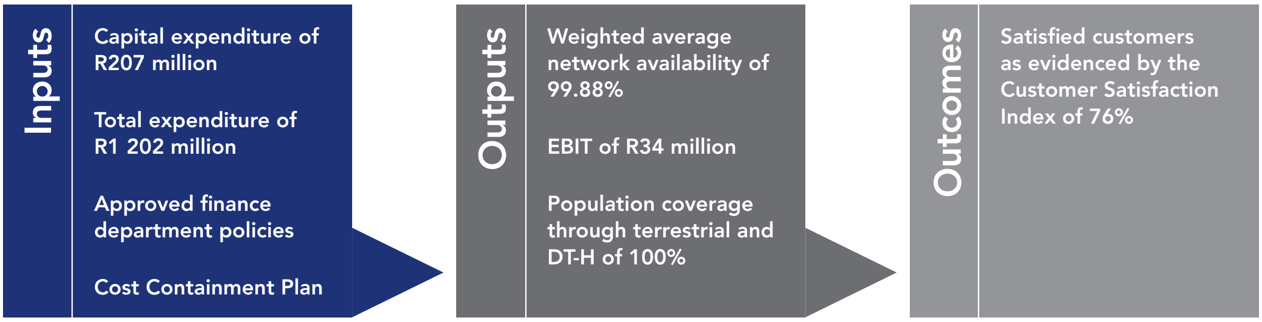


Figure 21: Manufactured Capital

### 4.2.1 Manufactured Capital Creation

SENTECH has incurred capital expenditure amounting to R207 million (2016: R111 million) and operational expenditure amounting to R1 202 million (2016: R993 million). The primary set of reasons, excluding salaries and wages, include the following: the provision of SENTECH's products and services; key projects and its investment in technology; and innovation. Additional interventions included the review of SENTECH's policies to ensure that it is optimised to support SENTECH, the appointment and training of competent staff to drive these policies, together with the implementation of a new SAP system. These interventions have yielded positive outputs in both the internal and external environment.

The positive outputs include:

- Weighted average network availability, which at 99.88%, was slightly lower than last year; and
- SENTECH having a strong Statement of Comprehensive Income and Position as evidenced by its EBIT of R34 million.

These outputs have resulted in SENTECH satisfying the needs of customers as evidenced by its 76% positive customer satisfaction rating and supporting the Company's going concern ability.

## 4.3 Social and Relationship Capital


Figure 22: Social and Relationship Capital

In this regard, SENTECH has sought to increase its social and relationship capital by way of:

- Stakeholder engagement outcomes set out in Section 1.8 and 4.3.1; and
- B-BBEE set out in Section 4.3.2.

### 4.3.1 Stakeholder Engagement Outcomes

All stakeholder relationships impact directly or indirectly on the business and its reputation. Because of the importance of stakeholder engagement and responsiveness to SENTECH, stakeholder engagement is integrated into the Risk Management Framework. Every aspect of the Company interacts with stakeholders who are relevant to that particular part of the business.

Stakeholder Management is discussed in Section 1.8. SENTECH utilises a wide range of communication channels, including business television (BTV) meetings, face-to-face meetings, telephonic and electronic communication, websites, electronic and paper-based employee and customer newsletters, brochures, employee and customer forums and customer roadshows. Stakeholder engagements are monitored on a regular basis.

### 4.3.2 B-BBEE

SENTECH is acutely aware of the need for transformation in the South African society in order to overcome the consequences of previous discrimination and to create an equitable society in which all individuals have equal opportunities, free from prejudice. By so doing, South Africa will benefit from the social reparation of past injustices and the added economic contribution of inclusive and unrestricted participation by all citizens.

To this end, SENTECH is fully supportive of constructive measures introduced by government to facilitate effective transformation in South Africa. B-BBEE for SENTECH is not just a matter of compliance to these codes but an integral part of its mandate for bridging the digital divide and ensuring universal access.

SENTECH maintained a Level 4 B-BBEE rating based on its financial performance and activities conducted during the 2015/16 financial year (2014/15 – B-BBEE Level 4). The ultimate aim is to achieve a B-BBEE level 1 rating by the end of the 2017-20 MTEF period. SENTECH's B-BBEE rating for the 2016/17 financial year is in the progress of being evaluated. This is primarily due to the financial year only recently having been completed. The following initiatives were implemented during the 2016/17 financial year and a more favourable rating is anticipated.

#### *4.3.2.1 Review of the SCM Policy*

During the 2016/17 financial year, the Supply Chain Management (SCM) Policy was reviewed and approved after a consultation process. The purpose of reviewing the SCM policy was to create efficient and effective support of SENTECH's operations and at the same time support SMMEs.

#### *4.3.2.2 Enterprise and Supplier Development*

SENTECH's ESD Programme is aimed at empowering small businesses with the development support necessary to remain competitive and sustainable. SENTECH's development programmes include support in strategy, finance and capacity development within the ICT sector. The support is both financial and non-financial. The non-financial support for SMMEs includes an early payment benefit that SENTECH aims to advantage qualifying small enterprises (QSEs) and emerging micro enterprises (EMEs) in order to have a sustainable or healthy cash flow. The SENTECH team also takes time to advise and mentor the SMMEs that it appoints on a short or long-term basis to render services. The financial support that is granted in terms of the Grant Funding Programme has also given the supported SMMEs a better competitive advantage to increase their participation in other opportunities such as finding opportunities in other companies. Table 10 provides more detail in relation to the programmes implemented by SENTECH together with its outcomes.

**Table 10: ESD Programmes**

| Intervention | Outcome |
|---|---|
| Grant Funding Programme | The Grant Funding Programme supported four beneficiary suppliers who focus on SENTECH's core business and operations. The funding was used for equipment, IT systems, office infrastructure and training.<br><br>All supported entrepreneurs are still operational; have increased their supply base; and are no longer dependent on SENTECH's support. Some have managed to contribute to job creation, including full-time job opportunities such as internships.<br><br>Five SMMEs were offered capacity building support and have benefited from SENTECH's Enterprise and Supplier Development Programme which amounted to R6.19 million. |
| Incubation Programme | SENTECH procured an innovative high-touch incubation programme designed to be instrumental in growing entrepreneurial business success through a structured learning and guiding process. Entrepreneurial development is the fundamental principle behind the learning and guiding that participants receive to help them shift into a growth and opportunity-seeking mindset.<br><br>The programme creates an environment in which entrepreneurs are able to develop the entrepreneurial competencies required to grow profitable and sustainable businesses. The programme had an intake of two groups (Phase 1 and 2). The principle behind the programme is to provide learning and guidance to beneficiaries to help them shift to a growth and opportunity-seeking mindset. SENTECH committed to actively invest, nurture, up-skill and develop existing and potential suppliers. |

The entrepreneurs in the programme have shown growth as indicated in Table 11.

**Table 11: Entrepreneur Benefits**

| | |
|---|---|
| **Turnover Growth** | The overall turnover growth for the portfolio is positive. The nine companies incubated in phase two saw a total increase of 439% post incubation, growing from R389 222 to R1 709 828. |
| **Job Creation** | 29 jobs from the grant offering intervention were created. |
| **Early Payment** | This initiative is driven through SCM where SMMEs are given a short payment benefit of ten days over the normal Company payment terms. The request forms are included with the SCM documents for completion. |

#### *4.3.2.3 Socio-Economic Development*

The objective is to measure initiatives that contribute to community development. The programmes promote access to the economy for black people. Most black people in South Africa are still unable to access the mainstream economy owing to poverty and a lack of education and better learning systems. Table 12 sets out SENTECH's SED initiatives, together with their outcomes during the 2016/17 financial year.

**Table 12: SED Initiatives**

| Partner | Outcome |
|---|---|
| Mindset Network | SENTECH provided Mindset Network with satellite bandwidth for the broadcast of its Learn Channel to government schools in the country. The commercial value of the bandwidth is R5 295 918. SENTECH's contribution has assisted Mindset Network in pursuing its mandate to uplift under-developed and under-resourced communities through education. More than 75% of the beneficiaries that benefit from SENTECH's contribution are black. |
| School Connectivity | The initiative, which is the company's CSI, is aimed at uplifting under-serviced or rural communities through connecting institutions of learning to a world of information and technology. The schools are chosen by the DTPS, and SENTECH is supporting fifty-two schools.<br><br>As a good corporate citizen, SENTECH takes pride in assisting and investing in educational facilities to help achieve excellent matriculation results and a good future performance for all learners in the respective communities. |

#### *4.3.2.4 Corporate Social Investment*

CSI is a company's sense of responsibility towards the community and improving their wellbeing in terms of education and environment. SENTECH is no exception, we pride ourselves in the educational investment to improve the lives of learners through maths and science as well as school maths and science laboratory donations in rural areas.

Table 13: CSI Projects

| Partner | Outcome |
|---|---|
| SENTECH Kutlwanong Centre for Maths and Science | SENTECH established an extra mathematics and physical sciences education programme for Grade 10 and 11 learners in previously disadvantaged communities. The programme runs in township and rural high schools in Winterveld, Mabopane.<br><br>This was prompted by the difficulty experienced by learners from these communities to access studies in the fields of engineering and technology, medicine, commerce and other maths and science-related fields at institutions of higher learning. Classes are held over weekends and during school holidays at IR Lesolang Secondary School in Mabopane.<br><br>The results showed that, over the period of operation, the programme has been hugely beneficial to this cohort of learners. The results highlight the success of the programme, illustrating significant improvement in the provision of quality basic education in the areas of maths and science. The support will continue for a further two-year period. |

## 4.4. Human Capital

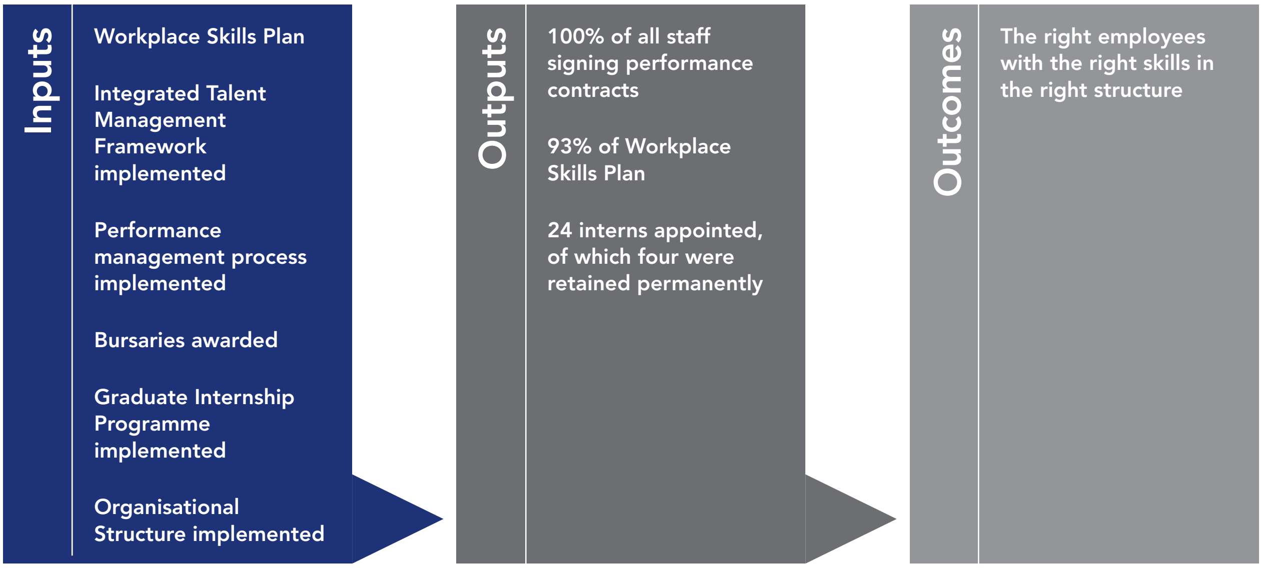


Figure 23: Human Capital

In this regard, SENTECH has adopted various interventions to support its Human Capital, as set out in Section 4.4.1 to 4.4.13.

### 4.4.1 Background

Our people are at the heart of our organisation, and strive to deliver an excellent customer experience and achieve sustainable business growth. The primary focus of our HR strategy is to position SENTECH as an employer of choice to attract, develop and retain the best talent, while ensuring that we have the right capabilities to achieve our strategic objectives. We will achieve this by creating an enabling organisational culture that encourages innovation, accountability, reliability, speed, customer focus, results-driven performance and leadership excellence. In last year's Integrated Report, several specific focus areas were outlined during the 2016/17 financial year.

### 4.4.2 Talent Management

SENTECH is committed to being an employer of choice. An integrated talent management (TM) framework to enhance the effort of being an employer of choice was developed. This framework is based on the five pillars of attracting, engaging, building, leveraging and retaining talent.

Attracting the best talent remained a key driver of the HR agenda during the 2016/17 financial year, especially female African talent. Great strides were made in senior management appointments during this period, which included a blend of external appointments and internal promotions to ensure a well-balanced management team. As part of the integrated TM framework, executive succession management was introduced and is in the process of being implemented to identify and develop talent with potential within the organisation.

## 4.4.3 Learning and Development

SENTECH is committed to promoting a learning culture which enables its employees to develop and grow to reach their full potential. Staff benefited from a range of in-house and external learning and development opportunities, including programmes on technical and functional skills.

In total, 1 596 training interventions were delivered during the 2016/17 financial year. The training target of 80% was over-achieved with a total amount of R12 978 642 spent on training, of which R12 179 923 was spent on historically disadvantaged groups. The total SD expenditure constituted 3.6% of the payroll expenditure as set out in Table 14 and 15. To enable employees to maximise their potential and get the most out of their careers, 29 bursaries were awarded to internal staff for the 2016/17 financial year.

**Table 14: Training Costs**

| Functional Level | Training Expenditure | Training Expenditure as a % of Payroll | Number of Training Interventions | Number of Employees Trained | Average Training Cost per Employee |
|---|---|---|---|---|---|
| Top management | R225 695 | 0.06% | 55 | 16 | R14 106 |
| Snr management | R262 563 | 0.07% | 70 | 15 | R17 504 |
| Professional qualified | R1 410 359 | 0.40% | 363 | 95 | R14 846 |
| Skilled | R5 208 564 | 1.46% | 887 | 244 | R21 347 |
| Semi-skilled | R288 796 | 0.08% | 91 | 45 | R6 418 |
| Unskilled | R647 188 | 0.18% | 130 | 42 | R15 409 |
| **Total** | **R8 043 165** | **2.25%** | **1 596** | **457** | **R17 600** |

**Table 15: SD Costs**

| SD Category | Spend | EE Spend | Average Individual Investment |
|---|---|---|---|
| University collaboration | R3 000 000 | R3 000 000 | R214 286 (including Res fees) |
| Internships | R1 935 477 | R1 935 477 | R80 645 (including stipends) |
| Staff training | R7 548 402 | R6 791 183 | R19 158 |
| Staff bursaries | R494 763 | R453 263 | R17 061 |
| **Total** | **R12 978 642** | **R12 179 923** | |

## 4.4.4 Building SENTECH'S Skills Pipeline

Investment in skills and accelerating employees' personal development are essential components of the SENTECH Talent Management strategy. This is reflected in the talent and development agenda which entails growing and strengthening the talent pipeline through strategic partnerships with the University of the Witwatersrand, University of Pretoria and University of Cape Town to provide academic assistance to students from previously disadvantaged backgrounds with tertiary level bursaries and mentoring in the field of electronic engineering and Information Technology engineering. SENTECH awarded bursaries to 14 students to the value of R3 million for tuition, project work and research. Preference for these bursaries is given to female black engineering students.

Further to enhancing this pipeline and strengthening the bench strength, a one-year graduate internship programme has been implemented. In total, 24 learners were provided with an opportunity to learn and gain skills to ensure employability by training at SENTECH. Four interns from the internship programme have been appointed permanently at SENTECH. The total spend for the internship programme was R1.9 million.

## 4.4.5 Performance Management

It is increasingly important to manage and develop employees in a holistic manner and SENTECH is committed to taking appropriate actions where necessary and giving regular feedback to employees. A key principle underpinning SENTECH's approach to managing performance is ensuring all employees sign performance agreements at the beginning of the financial year and receive regular performance feedback, both informal and formal. All employees signed performance agreements.

### 4.4.6 New Organisational Architecture

During the 2016/17 financial year, SENTECH implemented the recommendations of the new organisational structure emanating from the organisational design project started during the 2015/16 financial year. The new organisational architecture ensures that the Company is properly structured and sufficiently resourced to deliver on the strategic objectives. The process of enhancing our competency framework to ensure SENTECH has the right skills and capabilities to meet the strategic objectives has been finalised.

### 4.4.7 Remuneration Philosophy

Remuneration plays an integral role in attracting the best talent and the retention thereof, which is critical to the successful delivery of SENTECH's strategic objectives. We pay competitive salaries by subscribing to annual salary surveys for the purposes of benchmarking and paying market-related salaries.

SENTECH subscribes to a total remuneration philosophy, which includes basic salary, employer contributions (medical/retirement/group life), and short-term incentives (performance bonuses), however, excludes long-term incentives as SENTECH is a SOC. The short-term incentive scheme is linked to the individual's performance contribution and organisational performance. During the 2016/17 financial year, short-term incentives were paid to all employees as rewards for good performance.

### 4.4.8 Employee Engagement

SENTECH continued to focus on employee engagement through the implementation of employee engagement improvement plans and initiatives aimed at driving continuous engagement across SENTECH. The company believes that highly-engaged employees will provide the best experience to our customers.

### 4.4.9 Safety

SENTECH is committed to fostering an environment that maintains the health and safety of our employees. We strive for zero fatalities and injuries in the workplace through awareness campaigns and training. The lost-time injury rate (LTIR), which is a proportional representation of the occurrence of lost-time over the past 12 months per 200 000 working hours was 0.1496%.

### 4.4.10 Employment Equity

Transformation is a strategic imperative and underpins the successful implementation of the SENTECH strategy. SENTECH's objective is to have a workforce reflective of the demographics of South Africa. Diversity and inclusion are entrenched in talent management, as well as a learning and development agenda which allows the Company to improve its talent pipeline for designated groups.

As at 31 March 2017, SENTECH had 557 permanent employees as set out in Table 16. The current employment equity statistics reflect that 83% of staff in the organisation is black and 35% female. At top management levels, 100% are black and 18% female; 87% of senior management is black and 27% are female, whilst 78% of specialists and middle-management levels are black and 30% female. The Company's disability rate is 0.9 % of the total staff complement.

**Table 16: Employment Equity Profile**

| Occupation levels | MALE | | | | | FEMALE | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | African | Coloured | Indian | White | Employees with disabilities | African | Coloured | Indian | White | Employees with disabilities | |
| **Top management** | | | | | | | | | | | |
| Current | 8 | 0 | 1 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | **11** |
| **Senior management** | | | | | | | | | | | |
| Current | 8 | 1 | 0 | 2 | 0 | 4 | 0 | 0 | 0 | 0 | **15** |
| **Professionally qualified and experienced specialists and mid-management** | | | | | | | | | | | |
| Current | 44 | 6 | 2 | 23 | 0 | 23 | 2 | 1 | 5 | 0 | **106** |
| **Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents** | | | | | | | | | | | |
| Current | 128 | 12 | 10 | 51 | 2 | 106 | 5 | 3 | 6 | 3 | **321** |
| **Semi-skilled and discretionary decision-making** | | | | | | | | | | | |
| Current | 21 | 1 | 0 | 0 | 0 | 22 | 5 | 2 | 5 | 0 | **56** |
| **Unskilled and defined decision-making** | | | | | | | | | | | |
| Current | 38 | 7 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 0 | **48** |
| **Total permanent** | **247** | **27** | **13** | **76** | **2** | **160** | **12** | **6** | **16** | **3** | **557** |

### 4.4.11 Personnel Remuneration by Salary Band

SENTECH had 557 permanent employees as at 31 March 2017. The average personnel remuneration total cost per employee is R619 384 of which top management accounts for 6.5% as set out in Table 17.

**Table 17: Personnel Remuneration**

| Level | Personnel Remuneration | % of Total Personnel Cost | No. of Employees | Average Personnel Remuneration per Employee |
|---|---|---|---|---|
| Top management | R22 388 480 | 6.5% | 11 | R2 035 316 |
| Snr management | R18 819 331 | 5.5% | 15 | R1 254 622 |
| Professional qualified | R101 217 250 | 29.3% | 106 | R954 880 |
| Skilled | R171 196 897 | 49.6% | 321 | R533 324 |
| Semi-skilled | R18 734 009 | 5.4% | 56 | R334 536 |
| Unskilled | R12 640 964 | 3.7% | 48 | R263 353 |
| **Total** | **R344 996 931** | **100** | **557** | **R619 384** |

### 4.4.12 Employment and Vacancies

Table 18 sets out SENTECH's employee turnover and recruitment profile:

**Table 18: Employee Turnover and Recruitment Profile**

| Programme | 2015/16 No. of Employees | Approved Posts | Planned to be Filled | 2016/17 No. of Employees | Vacancies | 2016/17 Vacancies Planned To be Filled | Vacancy Rate on Planned Posts |
|---|---|---|---|---|---|---|---|
| Top management | 10 | 12 | 12 | 11 | 1 | 1 | 8% |
| Senior management | 18 | 20 | 18 | 15 | 5 | 5 | 25% |
| Professionals | 108 | 121 | 121 | 106 | 15 | 15 | 12% |
| Skilled technical and Academically qualified | 300 | 338 | 326 | 321 | 17 | 17 | 5% |
| Semi-skilled | 58 | 57 | 57 | 56 | 1 | 1 | 2% |
| Unskilled | 47 | 52 | 50 | 48 | 4 | 4 | 8% |
| **Total** | **541** | **600** | **584** | **557** | **43** | **43** | **7%** |

### 4.4.13 Employment Change

Table 19 sets out SENTECH's employment profile as at 31 March 2017. The Company had 43 vacancies as at 01 April 2016. It made 51 appointments within the period, which includes 32 external appointments and 19 internal appointments.

**Table 19 Employment Statistics**

| Salary band | Employment at Beginning of Period | Appointments | Terminations | Internal Appointments | Employment at End of Period |
|---|---|---|---|---|---|
| Top management | 10 | 3 | 3 | 1 | 11 |
| Snr management | 17 | 1 | 3 | 1 | 15 |
| Professional qualified | 109 | 1 | 5 | 2 | 106 |
| Skilled | 310 | 22 | 3 | 14 | 321 |
| Semi-skilled | 55 | 2 | 1 | 0 | 56 |
| Unskilled | 47 | 3 | 1 | 1 | 48 |
| **Total** | **548** | **32** | **16** | **19** | **557** |

### *4.4.13.1 Reasons for Employees Leaving*

SENTECH's turnover rate for 2016/17 was 2.9%, comprising 2.0% voluntary (resignations) and 0.9% involuntary terminations (retirement, dismissals and death) as set out in Table 20.

Table 20 Reasons for Employees Leaving

| Salary Band | Number | % of Total no. of Staff Leaving |
|---|---|---|
| Death | 2 | 13% |
| Resignation | 11 | 69% |
| Dismissal | 1 | 6% |
| Retirement | 2 | 12% |
| **Total** | **16** | **100%** |

### *4.4.13.2 Employee Relations*

SENTECH has a long history with the Communication Workers Union (CWU) due to its highly-unionised workforce. The quality of the relationship with the Union has varied over time and, in recent years, the relationship has been maintained at a healthy level. The team is committed to strengthening the relationship with CWU. A healthy relationship and partnership between management, employees and CWU is crucial for the achievement of SENTECH's strategic objectives. SENTECH will always endeavour to ensure effective and accessible communication between employees, management and labour.

## 4.5 Intellectual Capital

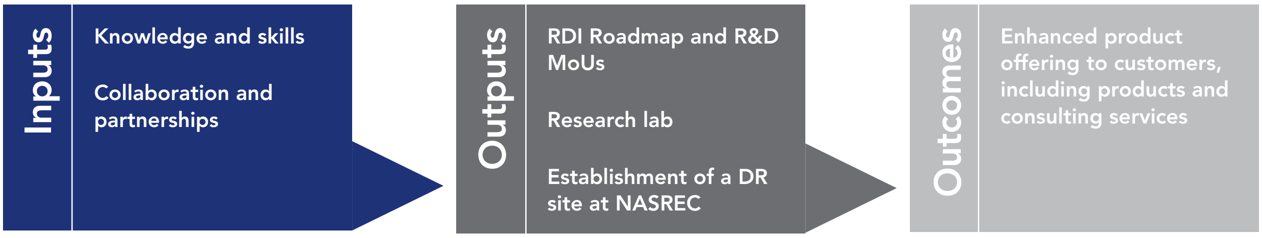


Figure 24: Intellectual Capital

In this regard, SENTECH has implemented various initiatives in relation to enhancing innovation. These include:

- Human capital interventions in relation to training and development set out in Section 4.4.3;
- Leveraging current and conventional platforms in Section 4.5.1;
- Digital Transformation in Section 4.5.2; and
- Research, Development and Innovation in Section 4.5.3.

### 4.5.1 Leveraging Current and Conventional Platforms

DTT is currently the main platform for SENTECH's future broadcast signal distribution business and sustainability. In the financial year under review SENTECH continued to stabilise and refresh the DTT platform to improve its reliability and availability. A state-of-art network management system was fully commissioned in all transmitter sites to enable end-to-end monitoring and management of the DTT network.

SENTECH identified that in addition to the digital television migration, it was important to consider evaluating digital radio technologies as part of leveraging conventional platforms, to find a means through which the current spectrum availability challenges can be addressed, and to further leverage the service enhancement brought about by digital technology. Digital radio not only maximises the use of frequency spectrum, it also delivers value-add capability that can be exploited for sustainability of broadcasters. The aim of the digital trials is to find means by which promotion of diversity and entrants of new players are supported and enabled. The trial outcomes also aim to work together with industry stakeholders to find suitable regulatory frameworks and ultimately derive the roadmap towards commercial realisation. In this regard, SENTECH continues to evaluate DAB+ in band III, DRM30 in medium wave and DRM+ in band II FM band with various stakeholders.

### 4.5.2 Digital Transformation

SENTECH's digital transformation programmes are aimed at exploiting recent technology trends in cloud computing and artificial intelligence to create value, and to prepare and develop a business resilient future-proof broadcast distribution infrastructure. This will counter threats of technology disruption brought about by convergence of broadband and broadcast, while leveraging SENTECH's strong faculty in broadcast signal distribution.

### 4.5.3 Research, Development and Innovation

SENTECH has defined research, development and innovation (RDI) as one of the critical success factors in leveraging existing, current and future capabilities. To facilitate its RDI programme, SENTECH has established a research laboratory and developed an RDI roadmap. In the short-term SENTECH's RDI programme focuses on:

- Extending SENTECH's network to cover the Internet of Things (IOT) and wireless connectivity as value add and for rural connectivity; and
- Convergence of broadcast and broadband infrastructure and applications. SENTECH is planning to be involved at both network level and applications level on IOT, and to exploit the converging environment for broadcast value add. The long-term focus is on cloud broadcasting and Infrastructure-as-a-Service (including DR as-a-Service) in the broadcasting environment, as means of improving end-user experience and expansion of the broadcast signal distribution environment.

## 4.6 Natural Capital


**Figure 25: Natural Capital**

In this regard, SENTECH has implemented various initiatives in relation to enhancing its Natural Capital. These include:

- Stakeholder engagements as set out in Sections 1.8 and 4.3.1; and
- Environmental preservation initiatives as set out in Section 4.6.1.

### 4.6.1 Environmental Preservation

Communications infrastructure deployment and the management thereof require integration of technical, economic and environmental factors in planning, implementation and operations to ensure sustainability and preservation of the environment for future generations.

In accordance with the National Environmental Management Act and Regulations of South Africa, SENTECH has established an Environmental Impact Management Policy and Process and continued to implement these during the year. Operations were aligned to ensure preservation of the environment. SENTECH's internal processes include:

- Waste management;
- Technology disposal management;
- Hazardous chemical management; and
- Environmental Impact Assessment (EIA) compliance.

The policy is aligned to ISO standards and seeks to position and align SENTECH's operations to minimise the impact to the environment and comply with environmental conservation objectives, including compliance with the requirements of environmental management legislation. The policy ensures a controlled environment that entrusts careful management of materials utilisation to:

- Avoid human exposure to health hazards;
- Minimise pollution during day to day operations; and
- Preserve the environment for the future.

During the 2016/17 financial year SENTECH procured additional mobile diesel tankers that are compliant with diesel transportation regulations to effectively control diesel spillages. Diesel and fire control mechanisms were installed at infrastructure sites. SENTECH also appointed waste management, hazardous chemical management and auctioneering companies to ensure effective management of waste and control of hazardous chemicals.

SENTECH also continues to deploy bird diverters on towers that are located on game reserves to minimise the mortality of birds at sites.

SENTECH's policies and procedures regarding environmental management have resulted in the organisation not encountering any significant environmental incidents during the year. Minor diesel leaks were recorded during diesel theft and the damage was controlled using treatment chemicals.

To ensure continuous improvement, SENTECH established further key research projects to improve on its environmental preservation objective, namely:

- Use of green energy at infrastructure sites;
- Determining of carbon footprint; and
- Exploration of bird diverter solutions.

Some of the above projects have yielded positive results and SENTECH has made financial provision in the following MTEF periods to migrate some of its facilities to green energy to minimise pollution.

# CORPORATE GOVERNANCE

# 5 CORPORATE GOVERNANCE

## 5.1 Commitment to Good Governance

SENTECH is committed to the highest standards of governance, ethics and integrity. SENTECH regards corporate governance as more than a set of policies, procedures, structures, rules and frameworks. It entails abiding by the principles and structures enabling it to facilitate and foster healthy relationships between the Board, the Shareholder Representative, stakeholders and employees. We believe that good governance contributes to living our values through enhanced accountability, strong risk and performance management, transparency and effective leadership. Good governance is the vehicle towards business integrity, sound business practices and the creation of value for the various stakeholders. We are constantly reviewing our governance practices and processes to ensure that we act in the best interests of our stakeholders.

SENTECH embraces governance principles and practices that are underpinned by an independent and diverse Board striving to ensure the creation of value in a manner that is sustainable for its stakeholders. The Board has ultimate accountability and responsibility for the performance and affairs of SENTECH and ensures that SENTECH adheres to high standards of ethical behaviour.

Governance at SENTECH entails a culture committed to sound processes and procedures, which goes beyond legal compliance and ensures sustainability long after a law and its iterations have been implemented.

## 5.2 Board of Directors

In terms of the SENTECH Act, the Board shall consist of three executive directors and at least four non-executive directors, who are all appointed by the Minister. Non-executive directors and executive directors are appointed for a three-year and five-year term respectively.

**Table 21: SENTECH Board of Directors**

| Executive Directors | Non-executive Directors |
|---|---|
| The executive directors shall be the persons performing the functions of a CEO, COO and CFO and shall constitute the Company's EXCO. | The independent non-executive directors have diverse experience, background and skills. They contribute a variety of skills, business acumen, independent judgment and experience on various issues that include strategy, ethical leadership, governance, transformation and performance. They have unrestricted access to the Company's information, documents, records and property in the interest of fulfilling their responsibilities as independent non-executive directors. |
| **Chairman** | **CEO** |
| The Board Chairperson is responsible for leading the Board and ensuring its effectiveness. | The collective responsibilities of management vest in the CEO and as such the CEO bears ultimate responsibility for all management functions. The EXCO assists the CEO in the performance of his duties. |

The roles of the Board Chairperson and the CEO are separate, with their responsibilities clearly defined.

Biographical details of the directors are set out in Section 1.7.1, whilst the responsibilities, attendance of meetings and matters considered during the financial year are set out in the Board's Report.

## 5.3 Board Sub-committees

Board Committees facilitate the discharge of responsibilities and provide in-depth focus, oversight and guidance on specific areas, and report to the board through their respective chairpersons. The Company Secretary assists the Committee chairpersons with drafting the reports which they present to the Board. To this end, the Board has established four Board Committees, set out in Figure 26.

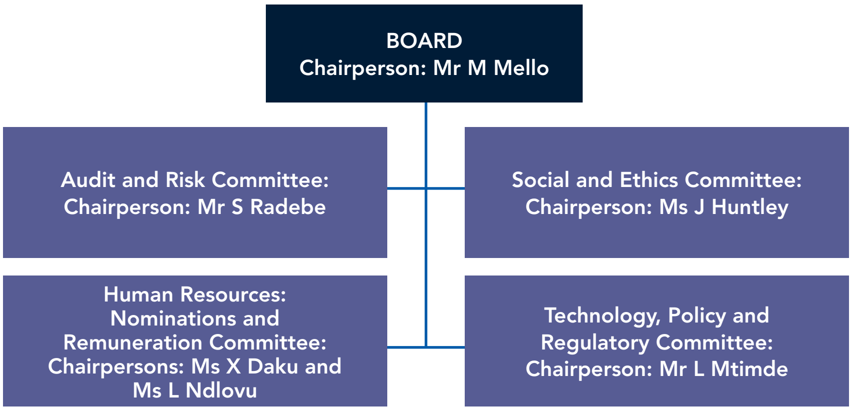


**Figure 26: Board and Its Committees**

The responsibilities, composition, meetings attended and key focus areas in relation to the 2016/17 financial year for each of the above committees are set out in the Board's Report.

## 5.4 Board Continuity Programme

The Board continuity programme addresses the skills, experience and other qualities required for the effective function of the Board. It sets out the induction and ongoing training of directors, and evaluation of the Board performance. The evaluation of the Board's performance is underway. Refer to the Board's Report in this regard.

## 5.5 Approach to Compliance

SENTECH's risk appetite policy is based on a zero tolerance approach towards compliance risk.

### 5.5.1 Compliance with King III

The board has embraced the King Code on Governance (King III), which has been embedded in our approach to governance and reporting. During the period under review, the Board was satisfied with the way the recommendations in King III have been applied, or put alternative measures in place where necessary.

There are 75 governance principles within King III which apply to SENTECH. SENTECH has implemented 91% of the King III principles, 2% were not applicable, and 7% have not been implemented as set out in Figure 27.

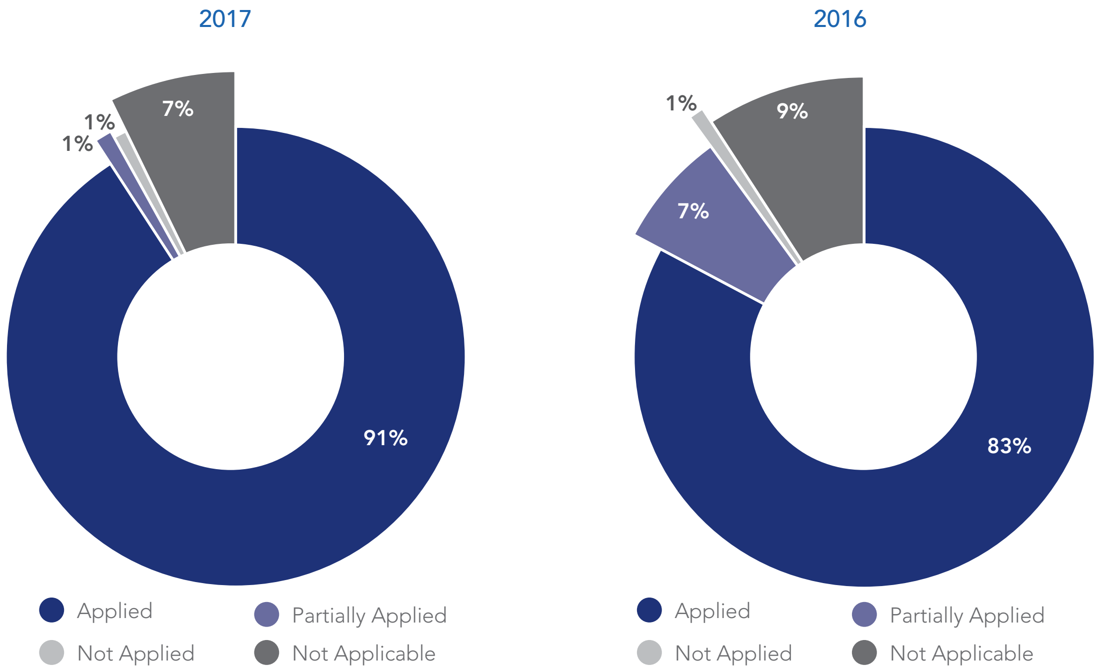


**Figure 27: Compliance with King III**

### 5.5.2 Remedial Action for Non-compliance

Table 22 sets out the instances of non-compliance with King III identified, together with the reasons and remedial action implemented in support thereof.

**Table 22: Remedial Action King III**

| Instances of Partial or Non-compliance with King III Identified During 2015/16 are as Follows: | Reason for Non-compliance | Remedial Action |
|---|---|---|
| The audit committee should satisfy itself of the expertise, resources and experience of the Company's finance function | Only one Committee member out of four completed the evaluation questionnaire | One member has completed the assessment |
| The Board should elect a Chairman of the Board who is an independent non-executive director. The CEO of the Company should not also fulfil the role of the Chairperson | Beyond the Board's control – The Chairman, an independent non-executive director, is appointed by the Minister. The role of the CEO and the Chairman are not vested in one individual | None |
| The Board should appoint the CEO and establish a framework for the delegation of authority | Beyond the Board's control – The CEO is appointed by the Minister following a recommendation from the Board. The Board has approved the Delegation of Authority document | The Board conducts the interviews and makes a recommendation to the Minister |
| Shareholders should approve the Company's Remuneration Policy | The shareholder approves non-executive and executive directors' remuneration | None |
| Sustainability reporting and disclosure should be independently assured | Sustainability issues that need independent assurance have not been identified | The sustainability issues will be identified in the 2017/18 financial year |

The King IV Report on Corporate Governance was published on 1 November 2016. SENTECH's existing governance framework and culture provide a solid foundation for the implementation of King IV. Adopting King IV is a commitment to the philosophy of stakeholder inclusivity, corporate citizenship and protecting the value that we create. By applying King IV, we will ensure that principles are applied with a focus on achievement of the four corporate outcomes, namely, ethical culture, good performance, effective control and legitimacy. The Board will provide effective leadership which will be results-driven and about achieving strategic objectives and positive outcomes.

## 5.6 Leadership through Ethics

The Board assumes ultimate responsibility for the company's ethics performance, but delegates this function to the executive management. A Code of Ethics and Business Conduct and a Tip-offs Anonymous line are in place to manage ethics. The Compliance Officer provided awareness training to employees. Ongoing awareness training on the Fraud Prevention Plan and use of the Tip-offs Anonymous are carried out regularly.

The Fraud Prevention Plan and Whistle Blowing Policy have been reviewed during the 2016/17 financial year. The Code of Conduct and Business Ethics will be reviewed in the 2017/18 financial year.

## 5.7 Internal Audit

### 5.7.1 Mandate

SENTECH's Internal Audit Function (IAF) is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the organisation. It assists SENTECH in accomplishing its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of the organisation's governance, risk management and control processes.

### 5.7.2 Internal Audit Function (IAF) performance

The Internal Audit Executive is responsible for co-ordinating internal audit efforts to ensure appropriate coverage, while maximising efficiency. IAF conducts a robust risk-based planning process that incorporates various criteria to prioritise and classify the Cost Centres and functions in the Company. Business Units classified as high risk were included in the audit universe. Depending on the risk classification, all other material business units will be included in the three year rolling plan.

For the 2016/17 financial year, the IAF was able to discharge its responsibilities in line with the charter and as outlined in the Internal Audit plan, and further performed ad hoc assignments as and when it was required. Tables 23 and 24 highlight the summary of audits performed during the 2016/17 financial year.

**Table 23: Planned vs Actual Audits**

| Details | 2016/17 Plan | Reports Issued 2016/17 | Performance | 2015/16 Plan | Reports Issued 2015/16 | Performance |
|---|---|---|---|---|---|---|
| Planned Audits | 23 | 23 | 100% | 17 | 17 | 100% |
| Ad-hoc Audits | N/A | 4 | 100% | N/A | 6 | 100% |
| Consulting Services | N/A | 2 | 100% | N/A | 2 | 100% |

**Table 24: Operational Centre Audits**

| Details | 2015/16 Number of Audits Performed | 2016/17 Number of Audits Performed |
|---|---|---|
| 16 Operational Centres | 10 | 11 |

Outsourced Internal Audit processes were included in the planning process and included in the audit universe, where appropriate. IAF outsourced the Information Technology and Forensic Audit functions.

## 5.8 ICT Governance

As part of its responsibility for the governance of ICT the Board established a supporting ICT Governance Policy Framework and Charter – based on the Department of Public Service and Administration (DPSA) prescripts for the corporate governance of ICT (GCICT).

A prioritised ICT governance initiative was undertaken and SENTECH committed to and made progress in implementing the CGICT priority processes during the 2015/16 financial year. Progress made in the 2016/17 financial year is highlighted by the following milestones:

- Continuity: The SENTECH Business Continuity (BC) Policy, scope and objectives are in place. Remedial data backup and recovery actions have been implemented. The disaster recovery infrastructure completed at NASREC include the IT domain.
- Security: An independent network-based vulnerability assessment was conducted and a remedial plan was implemented. An aligned leading cyber security practice assessment was also concluded to benchmark and determine controls of maturity targets. A request for proposal was published for a technology partner for security services and solutions. SENTECH has started measuring its security capability maturity and intends to increase it.
- Enterprise architecture (EA): The EA baseline was completed to establish compliant domain artefacts. The reference models have been augmented in a central repository to establish the discipline foundations and continuum. The next step is to map EA with knowledge management and intellectual capital views of the organisation.
- Operations: The availability management processes have been formalised, the IT core service metrics and performance requirements have been reviewed, and monitoring solutions have been acquired. The next step is to increase visibility of the performance and metrics dashboards.
- Programme and projects: IT dashboards were enhanced and incorporated into IT operations reporting.

Also initiated was the knowledge management project and the establishment of records management consistent with the National Archives precepts. The approved SENTECH file plan awareness and implementation at head office is complete.

## 5.9 Combined Assurance

The combined assurance model introduced by King III is an essential and fundamental element relied on by the ARC and the Board in forming their view of the adequacy of risk management and internal control in the organisation. The model guides assurance providers to reach consensus on the key risks faced by the Company and aids in reducing the likelihood that significant risks remain unidentified.

The combined assurance model adopted by SENTECH recognises three levels of assurance as set out below. Combined assurance assists management in identifying duplication in assurance work or potential assurance shortfalls, and developing improvement plans for those areas identified.

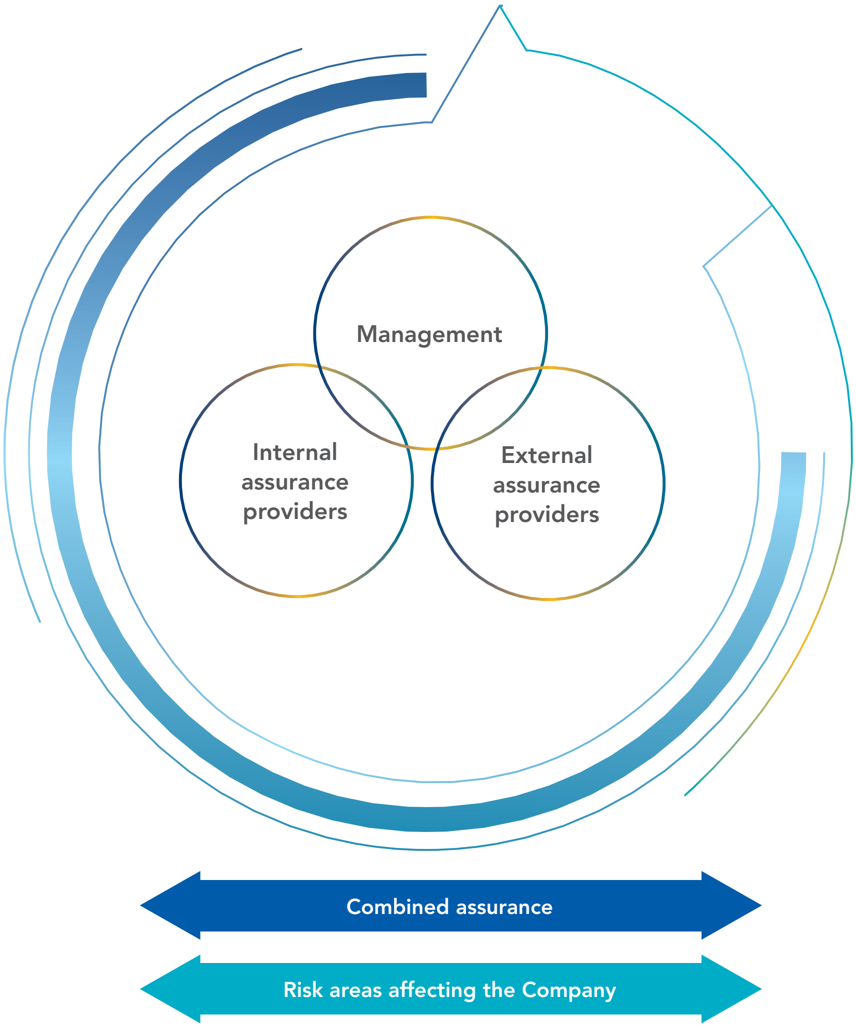


**Figure 28: SENTECH Combined Assurance Model**

The following key principles guide and inform SENTECH's combined assurance approach:

- Identification of significant risks needing assurance;
- Identification of assurance providers most suited to provide adequate assurance;
- Delivering quality assurance results which the Board can rely on; and
- Reporting and escalating assurance results to the required level, thus ensuring the required attention and focus to address significant matters.

# GROUP ANNUAL FINANCIAL STATEMENTS

# CONTENT

# BOARD'S RESPONSIBILITIES AND APPROVAL

The Group's Board is responsible for the preparation and fair presentation of the Group's consolidated and separate annual financial statements of SENTECH SOC Limited comprising the consolidated and separate Statement of Financial Position as at 31 March 2017, the consolidated and separate Statement of Comprehensive Income, the Statement of Changes in Equity and Cash Flows Statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act (No. 71 of 2008) and the Public Finance Management Act (No. 1 of 1999) . In addition, the Group's Board is responsible for preparing the Board's Report.

The Board is also responsible for such internal control as deemed necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The Board has made an assessment of the Group's ability to continue as a going concern and there is no reason to believe the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the Group financial statements are fairly presented in accordance with the applicable reporting framework.

## Approval of Group annual financial statements and Company annual financial statements

The Group annual financial statements and annual financial statements of SENTECH SOC Limited, as identified in the first paragraph, were approved by the Board on 31 July 2017 and are signed on its behalf by:

**Mr M Booi**
Chief Executive Officer

**Mr M Mello**
Chairperson

# STATEMENT BY THE COMPANY SECRETARY

I certify that SENTECH SOC Limited has filed all its returns and notices for the year ended 31 March 2017, as are required of a public company in terms of Section 88(2) (e) of the Companies Act, and that such returns and notices are, to the best of my knowledge and belief, true, correct and up to date.

**Ms F Sefara**

Company Secretary

31 July 2017

# REPORT OF THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee (ARC) is constituted as a Committee of the Board to fulfil statutory duties in terms of Section 51 (1) (a) (ii), Section 76 and Section 77 of the PFMA, read together with Treasury Regulation 27 and Section 94 (7) of the Companies Act, as well as all other duties assigned to it by the Board. As required by the PFMA, the ARC Report is prepared as prescribed by Treasury Regulation 27 and in line with the recommendations of the King III Report on Corporate Governance for South Africa and its Code of Governance Principles.

The ARC plays an essential role in ensuring the integrity and transparency of corporate reporting, pays attention to the key accounting issues and key audit matters, and ensures proactive risk management that appropriately caters for the environment that SENTECH operates in.

## Charter

The ARC has adopted a charter that has been approved by the Board, and the committee confirms that it has complied with its statutory obligations and charter during the financial year under review. The charter is continuously reviewed and updated for changes in legislation, business circumstances, and corporate governance principles. The charter has been reviewed during the period under review in accordance with King III principles and current best practice.

The ARC assists the Board in fulfilling its oversight responsibilities, in particular with regard to the evaluation of the adequacy and efficiency of accounting policies, internal controls and financial and corporate reporting processes, risk management and compliance. In addition, the ARC assesses the effectiveness of the internal auditors and the independence and effectiveness of the external auditors.

## Composition

The Shareholder appointed the following directors to constitute the ARC at the Annual General Meeting held on 18 August 2016, in line with Section 94 (2) of the Companies Act.

- Mr S Radebe*** (Chairperson and independent Non-executive Director);
- Ms N Mbele (independent Non-executive Director);
- Ms J Huntley (independent Non-executive Director); and
- Ms X Daku ** (independent Non-executive Director).

The internal and external auditors attend ARC meetings and have unrestricted access to all committees of the Board that deal with audit and/or risk issues pertaining to the Company. In addition, the executive directors, and Risk, Internal Audit and Strategy executives attend all meetings by permanent invitation. The external and internal auditors are afforded an opportunity to meet with the ARC, in the absence of Management, on a quarterly basis or as and when the need arise.

The ARC held five meetings during the year under review.

**Table 25: ARC Meetings for the Current Financial Year**

| Name of Member | 1 April 2016–31 March 2017<br>19 Apr 2016 | 17 May 2016 | 20 Jul 2016 | 17 Oct 2016 | 20 Jan 2017 |
|---|---|---|---|---|---|
| Mr S Radebe (Chairperson)* | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ms N Mbele # | ✓ | ✓ | ✓ | X | ✓ |
| Ms J Huntley | ✓ | ✓ | ✓ | X | ✓ |
| Ms X Daku** | ✓ | X | ✓ | ✓ | N/A |
| Ms L Ndlovu ## | N/A | N/A | N/A | N/A | N/A |

| | |
|---|---|
| * | Appointed Chairperson effective 19 August 2016 |
| ** | Retired on 12 December 2016 |
| *** | Resigned |
| X | Apology |
| N/A | Meeting held before appointment as committee member or following end of term of office |
| # | Retired by rotation as Chairperson effective 19 August 2016 |
| ## | Appointed as committee member on 30 January 2017 |
| ✓ | Present (in person or via teleconference) |

The following is a summary of the main activities undertaken by the ARC during the year:

## External Audit

The ARC is responsible for recommendation of appointment and oversight over the external auditors of the Company, namely Rakoma and Associates Inc.

During the 2016/17 financial year, the ARC:

- Approved the 2015/16 draft AFS;
- Concurred that the adoption of the going-concern premise in preparation of the financial statements was appropriate;
- Recommended the 2015/16 Integrated Report to the Board;
- Recommended Quarterly Business Performance Reports to the Board;
- Recommended re-appointment of the external auditor to the Board for approval by the Shareholder Representative at the Annual General Meeting;
- Considered the External Audit Strategy for the year ending 31 March 2017, with specific reference to the proposed audit scope, methodology and fee;
- Considered with Management the quality and effectiveness of the external audit process, areas of concern and the improvement plans being developed to mitigate identified risks;
- Reviewed significant accounting practices, judgments and estimates adopted by the Company in the application of the International Financial Reporting Standards and found those to be appropriate;
- Reviewed a report from the external auditor concerning the effectiveness of the Company's internal control environment and ICT governance; and
- Recommended the appointment of external auditors to the Shareholder.

## Internal Audit

The IAF performs an independent assurance function and forms part of the third defence, as set out in the Combined Assurance Model of the Company. The Executive Internal Audit reports functionally to the ARC and administratively to the CEO.

With respect to the ARC's evaluation of the adequacy and effectiveness of internal controls, the ARC receives reports from the EIA. The ARC assesses the effectiveness of the IAF and approves the Annual Audit Plan.

During the 2016/17 financial year, the ARC:

- Approved the 2016/17 Internal Audit Plan and Rolling Three-Year Plan;
- Reviewed and approved the Internal Audit Charter;
- Considered Internal Audit Quarterly Reports relating to the effectiveness of the Company's internal control environment, systems and processes together with the adequacy and appropriateness of the Management's related corrective action plans;
- Considered the effectiveness of the internal audit function;
- Reviewed the internal audit resources to ensure that internal audit can discharge its functions;
- Considered hotline reports and progress in addressing reported incidents; and
- Received no complaints relating to the accounting practices and internal audit of the Company, and the content or auditing of its financial statements, the internal financial controls of the Company or any other related matters.

Having considered, analysed, reviewed, and debated information provided by Management, internal audit and the external auditors, the ARC concluded that the internal controls have been effective in all material aspects throughout the year under review.

## Financial Reporting

The ARC received regular reports from Management regarding the performance of the Company, the tracking and monitoring of key performance indicators, details of budgets, forecast, capital expenditure, and reliability of management information used during the financial reporting process. The ARC monitored consistency in the application of the accounting and financial policies of the Company, and compliance with accounting standards.

## Risk Management

The ARC owns the risk management policy of the Company, and oversees that both risks and opportunities are appropriately identified, monitored, managed and appropriately provisioned within the Company's defined risk appetite. The ARC has a monitoring responsibility for the management of risk within the Company and ensures that certain risk types are delegated to the Board committees in line with the respective mandates of the committees, for specific focus and attention. The ARC Charter defines the minimum requirements for the committee to give effect to its risk oversight responsibilities. The ARC receives regular reports on issues in the Company's Risk Register and regular reports on compliance matters from the Compliance and Risk functions. The ARC has been involved in various key risk areas, and has satisfied itself that these have been appropriately addressed:

- Financial reporting risks;
- Internal financial controls;
- Fraud risks as related to financial reporting; and
- IT risks as related to financial reporting.

### Recommending the following for approval by the Board:

- Risk Management Reporting Framework;
- Risk Management Plan;
- Combined Assurance Plan; and
- Risk appetite and tolerance level.

The ARC provided an oversight function to the Board in discharging its duties relating to the Company's system of risk management and compliance. It also considered the material risks within the Company and changes to the risk profiles during the year. New and emerging risks, including stakeholder management risks, were addressed.

The ARC received internal audit reports regarding the adequacy and effectiveness of the Company's information system controls.

The strategic risks flowing from the 2016–2019 Corporate Plan influenced the pertinent matters addressed by the Board. The ARC is satisfied that the mitigation actions for the identified risks have been effective. The ARC will focus on risk management outcomes as articulated in King III.

## Internal Control

During the 2016/17 financial year, the ARC:

- Reviewed the effectiveness of the Company's system of financial control, including receiving assurance from Management, internal audit and external audit;
- Reviewed significant issues raised by the internal audit and audit processes;
- Approved internal control and compliance activities; and
- Reviewed policies and procedures for preventing and detecting fraud.

Based on the processes and assurances obtained, the ARC believes that the significant internal controls are effective.

## Other Matters

During the 2016/17 financial year the ARC:

- Recommended to the Board the reviewed Delegation of Authority;
- Reviewed proposed changes to the ARC Charter and Annual Work Plan for recommendation to the Board;
- Received reports on the fraud prevention; and
- Monitored progress on the implementation of the Asset Management Strategy.

## Regulatory Compliance

The ARC complied with all applicable legal and regulatory responsibilities. It is crucial to deliver a sustainable, effective and compliant regulatory operating model, which is underpinned by a direct link to the strategic benefits of establishing a winning regulatory environment.

## Finance Function

Based on the processes and assurances obtained, the ARC believes that the accounting policies adopted are effective and consistent with that of previous years.

## Financial Statements

Based on process and assurances obtained, the ARC recommended the Group and Company annual financial statements to the Board for approval.

On behalf of the Audit Committee.

**Ms N Mbele**
Chairperson

# BOARD'S REPORT

## Introduction

The directors have pleasure in presenting their report, which forms part of the audited consolidated and separate annual financial statements of SENTECH SOC Ltd for the year ended 31 March 2017. This report and the consolidated and separate annual financial statements comply with the requirements of the PFMA, the SENTECH Act and the Companies Act. The Board is the accounting authority in terms of Section 49(2) (a) of the PFMA.

## Nature of Business

The Company is responsible for the provision of broadcasting signal distribution services as a "common carrier" to licensed television and radio broadcasters.

## Registration Details

The Company's registration number is 1999/001791/30 and its business and postal addresses are set out below:

| | |
|---|---|
| Business Address: | Sender Technology Park<br>Octave Street<br>Radiokop |
| Postal Address: | Private Bag X 06<br>Honeydew<br>2040 |

## Ownership

The Company is wholly owned by the Government of the Republic of South Africa, as represented by the Minister of Telecommunications and Postal Services.

## Memorandum of Incorporation

The Company's MOI aligned with the provisions of the Companies Act, and was approved by the Shareholder Representative. The approved MOI was subsequently accepted and placed on file by the Companies and Intellectuals Property Commission (CIPC) on 14 May 2014.

## Shareholder's Compact

The Shareholder Compact includes key performance indicators (KPIs), which are revised annually by agreement between the Shareholder Representative and the Board of Directors, and which serves as the performance monitoring framework for the Company. Performance against the 2016/17 Shareholder Compact is outlined in Section 3.2 of this report, as required by Section 55 (2) (a) of the PFMA.

## External Auditors

Rakoma and Associates Inc. are the current appointed external auditors.

## Board of Directors

The Board provides leadership and strategic guidance to safeguard Shareholder value creation within a framework of prudent and effective controls. This enables risk to be assessed and managed to ensure long-term sustainable development and growth. The Board has ultimate accountability and responsibility for the performance and affairs of SENTECH and ensures that SENTECH adheres to high standards of ethical behaviour. Directors have a fiduciary duty to the Company, both under the common law and legislation, namely the PFMA and Companies Act, and are accountable to the Shareholder, represented by the Minister of Telecommunications and Postal Services.

Directors are also responsible, within the confines of corporate law and legislation, to other stakeholders of the Company. Directors are required to exercise due care, skill and the utmost good faith in the performance of their duties.

The Board is also governed by a Charter, which provides a concise overview of the role, powers, functions, duties and responsibilities of the directors, both collectively and individually. The Board Charter was reviewed and approved by the Board during the reporting period.

The Board determined that, based on the MOI, the Shareholder's Compact and applicable legislation, its main functions and responsibilities were as follows:

- Giving strategic direction to the Company, in line with government's objectives, and ensuring that SENTECH remains a sustainable and viable business. The strategic objectives are set out in the Annual Corporate Plan, submitted to DTPS and the National Treasury;
- Preparing and approving corporate plans, annual budgets, integrated reports and financial statements;
- Ensuring that SENTECH complies with the obligations imposed by various laws and regulations that are applicable to it;
- Effectively leading, controlling and managing the SENTECH business, subject to the provisions of the SENTECH Act; the SENTECH Amendment Act; the Shareholder's Compact; the Companies Act; the PFMA and other applicable legislation;
- Monitoring and evaluating implementation by Executive Management of the Board's strategies and performance objectives, as set out in the Corporate Plan and Shareholder's Compact;
- Ensuring that the Company is managed effectively and in accordance with corporate governance best practice and to the highest ethical standards;
- Taking responsibility for the risk management process, including the system of internal controls and ensuring that it is effective, efficient and transparent;
- Regularly assessing the performance and effectiveness of the Board as a whole, as well as the individual directors, including the Chairperson of the Board and the CEO, committees of the Board and the chairpersons of the various committees; and
- Accounting to the Shareholder on implementation of the Corporate Plan; and ensuring that technologies and systems used in the Company are adequate to run the business properly and for it to compete through the efficient use of its assets, processes and human resources.

## Composition and Number of Meetings

Biographical details of all directors are set out in Section 1.5.1. During the 2016/17 financial year, and subsequent to year-end, the following changes occurred:

- Mr S Mthethwa was appointed as CFO with effect from 1 December 2016;
- Ms X Daku retired on 12 December 2016, after the end of term of her appointment;
- Ms J Huntley and Ms N Mbele have been appointed for a second term commencing from 13 December 2016; and
- Ms L Ndlovu has been appointed for a first term commencing from 13 December 2016.

During the 2016/17 financial year, the Board held one strategy session, four scheduled and four special meetings as set out in Table 26.

**Table 26: Board Attendance**

| Name of Member | 18 May** 2016 | 26 May 2016 | 22 Jun 2016** | 29 Jul 2016 | 16 Aug 2016** | 26 Oct 2016 | 23 Nov 2016# | 24 Nov 2016# | 25 Nov 2016# | 30 Jan 2017 | 23 Feb 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Mr M Mello (Chairperson) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr M Booi | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ms X Daku | ✓ | ✓ | ✓ | X | ✓ | ✓ | X | X | X | N/A | N/A |
| Ms J Huntley | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | x |
| Mr K Matabane | N/A | ✓ | ✓ | ✓ | ✓ | X | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ms N Mbele | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | X | X | ✓ |
| Mr L Mtimde | ✓ | ✓ | ✓ | X | X | X | X | X | ✓ | X | ✓ |
| Mr S Radebe | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | X |
| Mr O Nekhavhambe | N/A | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | X | N/A | N/A |
| Mr S Mthethwa | N/A | N/A | N/A | N/A | N/A | N/A | N/A | | ✓ | ✓ | ✓ |
| Ms L Ndlovu | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | ✓ | ✓ |

X Apology ✓ Present (in person or via teleconference)

N/A Meeting held before appointment as committee member or following end of term of office

The comparison of meetings *versus* the previous financial years is as follows:

**Table 27: Board Attendance Year-on-year**

| Number of meetings | 2014/15 | | 2015/16 | | 2016/17 | |
|---|---|---|---|---|---|---|
| | No | % | No | % | No | % |
| Mr M Booi | N/A | N/A | 5 | 100 | 8 out of 8 | 100 |
| Ms X Daku | 10 | 100 | 7 | 78 | 5 out of 6 | 83 |
| Ms J Huntley | 10 | 90 | 9 | 100 | 7 out of 8 | 87 |
| Mr K Matabane | 10 | 90 | 8 | 100 | 6 out of 7 | 85 |
| Ms N Mbele | 10 | 100 | 9 | 100 | 7 out of 8 | 87 |
| Mr M Mello | N/A | N/A | 9 | 100 | 8 out of 8 | 100 |
| Mr L Mtimde | N/A | N/A | 7 | 78 | 4 out of 8 | 50 |
| Mr O Nekhavhambe | N/A | N/A | 6 | 100 | 4 out of 4 | 100 |
| Mr S Radebe | N/A | N/A | 9 | 100 | 7 out of 8 | 87 |
| Mr S Mthethwa | N/A | N/A | N/A | N/A | 2 out of 2 | 100 |

N/A Meeting held before appointment as committee member or following end of term of office

### Key Focus Areas of the Board

The Board has spent considerable time during the period considering matters pertaining to the sustainability of SENTECH, which necessitated a review of the Corporate Strategy. We are confident that the strategic direction chosen by the Company is appropriate for taking the Company into the future.

The sustainability of the Company is something that is on the radar of the Board and will receive special focus in the 2017/18 financial year. The Board has approved strategic initiatives aimed at growing SENTECH's business.

The Board has provided input on the SOC Rationalisation, as requested by the Shareholder Representative.

The Board recognises that the management of any business is fundamentally about managing risks. SENTECH's risk management is underpinned by its risk management framework and policy, which have been reviewed during the reporting period.

The appointment of Ms L Ndlovu has necessitated the review and strengthening of Board committees in line with the skills of the Board members. The Board and Board Committee Charters have been reviewed and aligned with the new strategies of the Company. The Board is confident that the Board committees are adequately capacitated to discharge their responsibilities.

The Board has approved various policies as part of overseeing the governance process.

The Board has presented the quarterly performance reports of the organisation. All the matters that have been raised by the committees have been responded to. The area that needs to be addressed is female representation.

## Board Committees

### Audit and Risk Committee

Refer to the Report of the Audit and Risk Committee.

### Technology, Policy and Regulatory Co-ordination (TPRC) Committee

The TPRC Committee was created to broaden the scope of the functions of the Technology Committee and ensure co-ordination between policy, regulation and technology in the development and implementation of the Company's strategy. The TPRC Committee Charter has been reviewed to incorporate the DTT mandate and in line with the King III Report principles.

The TPRC Committee's responsibilities include, but are not limited to:

- Advising and guiding the Board with regard to the Company Strategy, including, but not limited to the Technology and Information Strategy, in response to national policy, Shareholder priorities and programmes, as well as the technology and information regulatory environment;
- Ensuring that SENTECH's Information Technology Strategy, its development and implementation are aligned with the business objectives;

- Ensuring that the governance of technology and information supports the organisation in setting and achieving its strategic objectives;
- Monitoring and appropriately responding to global developmental trends in technology, policy and legal and regulatory environment and ensuring that SENTECH's strategy takes the trends into consideration in developing its corporate strategy;
- Considering business cases of key priorities and updates on those business cases and technology-related investments;
- Overseeing relationships with technology suppliers and partners to ensure good governance of such relationships;
- Advising and guiding the Board with respect to the DTT network roll out, the commercialisation thereof and any related matter that relates to the digitalisation of television; and
- Reviewing the implementation of risk management on matters of DTT, information and technology, policy and regulatory environments.

### *Composition and Number of Meetings*

During the period under review, the TPRC comprised the following members and held five meetings, as set out in Table 28.

**Table 28: TPRC Meetings**

| Name of Member | 1 April 2016 to 31 March 2017 | | | | |
|---|---|---|---|---|---|
| | 14 July 2016 | 06 Oct 2016 | 18 Jan 2017 | 14 Feb 2017** | 23 March 2017 |
| Mr L Mtimde (Chairperson) | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr S Radebe | ✓ | ✓ | ✓ | N/A | N/A |
| Ms RJ Huntley | ✓ | ✓ | ✓ | ✓ | X |
| Mr M Mello | X | ✓ | ✓ | ✓ | X |
| Ms L Ndlovu | N/A | N/A | N/A | ✓ | ✓ |

X Apology ✓ Present (in person via teleconference)

N/A Meeting held before appointment as committee member or following end of term of office

### *Focus Areas of the TPRC*

During the financial year, the TPRC Committee considered, among others, matters pertaining to the sustainability of SENTECH; implementation of the IT, regulatory and policy strategies; implementation of the Business Continuity Management System; IT security reports; trends within the regulatory environment and their impact on SENTECH; and various business cases and progress reports on these business cases.

The Committee has considered reports on the DTT Migration Project. The Board is concerned about the financial impact of dual illumination on SENTECH should funds not be available from the National Treasury to fund dual illumination. This matter has been brought to the attention of the Shareholder Representative, who has provided funds available in the current financial year.

The Company has commenced with the implementation of Phase Two of the SAP functional upgrade project. There have been challenges with the deployment of the SAP System and these are being addressed and closely monitored to ensure delivery of the project by the service providers.

SENTECH's strategic goal of ensuring financial sustainability and diversification into the international markets has necessitated the development of a Pan-African Business Case. Market research has been conducted and eight countries have been targeted for business opportunities. The Pan-African Business Case was approved by the Board on 23 February 2017. The Business Case will be implemented in the 2017/18 financial year.

SENTECH is in the process of constructing new office buildings and renovating existing facilities to create additional capacity required to accommodate its employees and to safeguard the organisation's assets. The renovations at the head office will be complemented in the 2017/18 financial year.

A viability study on the South Africa based Pan-African Satellite Services has been conducted. The study revealed that a Pan-African Satellite was a viable project, however, an in-depth market research and the development of a business plan was required to address a funding structure and technical implementation. The viability study has been submitted to the Shareholder Representative. A business plan will be developed in the 2017/18 financial year.

Skills availability within the ICT sector remains a challenge and the Company has some initiatives in place to attract skills. The TPRC Committee, together with the HR Committee, will continue to execute its mandate and will focus on the digital technology workforce and enhanced customer experience by showcasing the digital environment contributing to an enhanced customer experience.

The Committee continuously monitors risks pertaining to its mandate and ensures risk mitigation controls are in place and are adequate.

The TPRC Committee is satisfied that technology, policy and regulatory matters are being addressed and the risk mitigation measures in place are adequate.

## Human Resources, Remuneration and Nominations Committee (HRRNC)

The Committee ensures that the Company has appropriate nominations; processes and systems; successions plans for Executive Directors; and remuneration policies for employees in place and that there is compliance with all applicable legislation and governance frameworks.

The HRRNC's responsibilities include, but are not limited to:

- Ensuring development and annual review of the strategy and plan, for the Company's human resources;
- Ensuring development and review of policies for the Company's human resources;
- Ensuring organisational development of the Company; including the restructuring of existing organisational structures;
- Ensuring that competitive remuneration and reward strategies and policies are in place to facilitate the recruitment, motivation and retention of high performance staff at all levels;
- Regularly reviewing the size and composition of the Board with regard to the appropriate mix of knowledge, skills and experience, including the business, commercial and industry experience needed to govern the Company and making recommendations to the Board with regard to any appropriate changes;
- Assisting the Board with the recruitment of Executive Directors;
- Reviewing and recommending to the Board the relevant criteria necessary to measure the performance of Executive Directors in discharging their functions and responsibilities;
- Establishing procedures for the Committee to oversee the evaluation of the performance of the Board and each individual Director, including an assessment of whether each Director devoted sufficient time to the duties entrusted to such Director; and
- Ensuring that Directors receive ongoing development and training (education) on their duties, responsibilities and nature of SENTECH's business.

### *Composition and Number of Meetings*

During the 2016/17 financial year, the HRRNC comprised the following members and held four scheduled and seven special meetings, as set out in Table 29. The special meetings were necessitated by the CFO recruitment process and year-end matters.

**Table 29: HRRNC Meetings during the Year**

| Name of Member | 1 April 2016–31 March 2017 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 28 Jun 2016 | 4 Jul 2016 ** | 15 Jul 2016** | 16 Aug 2016** | 24 Aug 2016** | 26 Aug 2016** | 27 Sep 2016 | 25 Oct 2016 ** | 1 Dec 2016** | 6 Dec 2016 | 23 Mar 2017 |
| Ms X Daku | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | N/A |
| Ms N Mbele | ✓ | ✓ | ✓ | ✓ | X | A | ✓ | ✓ | ✓ | x | ✓ |
| Mr M Mello | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | X | ✓ | X |
| Mr L Mtimde | ✓ | X | ✓ | ✓ | ✓ | ✓ | X | X | ✓ | ✓ | ✓ |
| Ms L Ndlovu | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | ✓ |
| Ms J Huntley# | | ✓ | ✓ | | ✓ | ✓ | | | | | |
| Mr S Radebe# | | ✓ | ✓ | | ✓ | ✓ | | | | | |

X Apology ✓ Present (in person/via teleconference) ** Special Meeting # Board member

N/A Meeting held before appointment as committee member or following end of term of office

The Executive: Human Resources and Executive Directors attend meetings by permanent invitation.

### *Focus areas of the HRRNC*

During the 2016/17 financial year, the committee noted reports on human resources matters. One area of concern for the committee is female representation at management level. This will be addressed through the Employment Equity Plan of the organisation.

The committee has received reports on the organisational design (OD) project. The purpose of the OD was to create an optimised organisational structure to enable delivery of the organisation's strategic objectives in line with SENTECH operating model. The OD has been finalised in the year under review.

The Board has spent a considerable amount in the recruitment of a CFO, who was appointed to SENTECH with effect from 1 December 2016.

The committee has considered reviewed policies pertaining to human resources. The committee is satisfied that the policies will address performance management that will support achievement of the organisation's strategic objectives, retention of skills, and instil behaviour that is expected from SENTECH's employees.

The committee also considered the implementation of a short-term incentive scheme which has resolved the historic issue of the 13th cheque that has remained outstanding with the union.

The committee continuously monitors the risk pertaining to its mandate to ensure risk mitigation measures that have been put in place are adequate.

In the next financial year, the committee will focus on succession management to increase bench strength and implementation of the approved HR Strategy.

The committee will prioritise the development of a talent pool for Executive Directors' succession management in the 2017/18 financial year to ensure there is an appropriate balance of skills, experience and expertise at executive level. The implementation of the Human Resources Strategy, which is aimed at inculcating a high-performance culture within SENTECH, and the recruitment of the COO will be prioritised in the 2017/18 financial year.

## Social and Ethics Committee (SEC)

The SEC has been mandated to advise, oversee and monitor the Company's activities with regard to social and economic development, ethics, transformation, B-BBEE, sustainability, corporate citizenship, environmental, health, safety, compliance, stakeholder relationships, risk management, labour and employment matters. Over the years, the committee has strived to ensure that SENTECH's activities and outputs have had positive societal impacts, whilst protecting the environment on which societal success depends. Focused decision-making and related business judgment calls in this regard have served to enhance SENTECH's value-creation ability.

The SEC composition complies with the requirements of the Companies Act, 71 of 2008 (as amended). The SEC comprises three non-executive directors. The Executive Directors, Executives for Human Resources, Operations, Strategy and Internal Audit attend committee meetings by invitation.

### *Composition and Number of Meetings*

During the 2016/17 financial year, the SEC comprised the following members and held the following meetings, as set out in Table 30.

**Table 30: Social and Ethics Committee Meetings during the Year**

| Name of Member | 1 April 2016 to 31 March 2017 | | | | | |
|---|---|---|---|---|---|---|
| | 6 Apr 2016 | 22 Jul 2016 | 27 Sep 2016 | 1 Dec 2016** | 6 Dec 2016 | 29 Mar 2017 |
| Ms J Huntley (Chairperson) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr L Mtimde | ✓ | ✓ | X | ✓ | ✓ | X |
| Mr S Radebe | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

X Apology ✓ Present (in person/via teleconference) ** Special Meeting

### *Focus areas of the SEC*

During the 2016/17 financial year, the SEC among other matters:

- Monitored progress on the implementation of the People Transformation Strategy. The committee is satisfied with the level of people transformation within the Company;

- Monitored activities related to socio-economic development (including internal skills development), enterprise and supplier development, SCM, and socio-economic development programmes to be implemented by the Company;
- Received reports on the implementation of the fraud prevention plan and from Tip-offs Anonymous;
- Reviewed reports on the implementation of the Environmental Policy;
- Considered the Employee Engagement Survey Report and Stakeholder Engagement Report;
- Recommended the 2017 Integrated Risk and Compliance Plan to the Board and received Compliance Reports and Compliance Strategy;
- Considered and recommended to the Board policies pertaining to its mandate, including the SCM Policy which is aimed at setting out the framework and clarifying the governing principles in respect of procurement practises within SENTECH;
- Recommended the revised Stakeholder Engagement Strategy and 2017/18 Stakeholder Engagement Plan to the Board for approval;
- Considered the King III Implementation Report; and
- Received reports on a Health and Safety Framework.

## Board and Committee's Evaluation

The Board has embarked on an annual appraisal process. The average overall rating is 3.7, which is 23.3% above that of the benchmark of 3.0 for public sector entities and 2.8% above the previous appraisal of 3.6 in 2016. The key issues for the Board to discuss are the following:

**Table 31: Board Evaluation**

| Issue | Action plan |
|---|---|
| The Board's role in the Shareholder's nomination process must be clarified and formalised. | The Board acknowledges that it is the Shareholder Representative's prerogative to appoint non-executive directors. The Shareholder Representative will be engaged in obtaining clarity on the Board's role in the nomination process. |
| The risk of loss of continuity and institutional memory at Board level with the terms of half the Board members expiring in 2018 must be mitigated. | The Shareholder Representative will be requested to consider staggering and rotation of Board members. |
| The Board must clarify the information and technology governance structures and processes in place to decide if any additional structures and processes are required. | The Board is satisfied that the structures in place are adequate, however, a gap has been identified on information and technology skills at Board level. The Board will appoint an expert to serve in the Audit and Risk and Technology, Policy and Regulatory Coordination Committee. |
| The succession planning framework and policy must be implemented. | The framework has been implemented and progress has been made. |
| The Board needs to clarify its information needs to ensure that board packs are concise. | The Board members are satisfied with the information they are provided with. |

The evaluation report will be submitted to the Shareholder in line with the requirements of the Memorandum of Incorporation.

## Directors' Interests

The directors had no interest in any third party or company responsible for managing any of the business activities of the Company.

## Public-private Partnerships

The Company did not enter into any public-private partnerships during the 2016/17 financial year.

## Annual Financial Statements

The Group financial statements comprise consolidated annual financial statements of three subsidiaries (Infohold, Vivid Multimedia and SENTECH International (Pty) Ltd) that are wholly owned by SENTECH SOC Limited. These subsidiaries are dormant and the Board is currently in the final stages of winding up Infohold (Pty) Ltd and its wholly-owned subsidiary, Infosat (Pty) Ltd.

### Basis of Presentation

The Group and Company's financial statements were prepared in accordance with IFRS, the Companies Act and PFMA.

### IFRS

The application of IFRS is contrary to Treasury Regulation 28, which requires that GRAP be used. The National Treasury approved a departure from Treasury Regulation 28.1.6, pending a review of GRAP by the OAG and ASB. This approval is issued in terms of Section 79 of the PFMA and remains in effect until further notice. The financial statements for the current period were prepared on a basis consistent with the financial statements of the previous financial year.

### Financial Performance

The Group financial performance is summarised in the CFO's report.

### Borrowings

In terms of the Group's Memorandum of Incorporation, the Group may only borrow money provided such borrowing is in accordance with the requirements of Section 66 of the PFMA. No borrowings were incurred during the year under review (2016: Nil).

### Dividends

There were no dividends declared in respect of the year ended 31 March 2017 (2016: Nil).

### Solvency Ratios

The solvency ratio has improved since the previous financial year. This would indicate that SENTECH will easily be able to settle its short and long-term liabilities. These ratios also support the Board's going-concern assessments set out below.

## Events Subsequent to the Date of Financial Position

The Board announced the establishment of an ICT infrastructure company, which could lead to a merger of SENTECH SOC Limited and Broadband Infraco to accelerate the rationalisation of state-owned entities (SOEs) with the aim of eliminating unnecessary duplications of infrastructure and mandates. At year-end, Management was still uncertain about the specific implementation details and potential impact on the future operations of SENTECH.

## Going Concern

The directors confirm that they are satisfied that the Company has adequate resources to continue in business for the 12-month period from the date of this report. For this reason, they continue to adopt the going-concern basis for preparing the group financial statements, as confirmed in the Statement of Responsibility by the Board.

# INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT AND SHAREHOLDER ON SENTECH SOC LIMITED

## Report on the Audit of the Consolidated and Separate Financial Statements

### Opinion

1. We have audited the consolidated and separate financial statements of Sentech SOC Limited and its subsidiaries (the group) set out on pages 82 to 118, which comprise the consolidated and separate statements of financial position as at 31 March 2017, and the consolidated and separate statement of profit and loss and other comprehensive income, statement of changes in equity, cash flow statement for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Sentech SOC Limited as at 31 March 2017, and the group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa.

### Basis for Opinion

3. We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

4. We are independent of the group in accordance with the Independent Regulatory Board for Auditors' *Code of professional conduct for registered auditors* (IRBA code) and other independence requirements applicable to performing audits of the financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA code is consistent with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (parts A and B).

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

6. We draw attention to note 34 in the financial statements, which indicates that the public entity's major customer is experiencing financial challenges which could pose a risk to the going concern. As stated in note 34, these events or conditions, along with other matters as set forth, indicate that a material uncertainty exists that may cast significant doubt on the public entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Emphasis of Matter

7. We draw attention to the matters below. Our opinion is not modified in respect of these matters.

#### *Material Impairments – Trade Receivables*

8. As disclosed in note 9 to the financial statements, material losses to the amount of R30.5 million were incurred as a result of impairment of trade receivables.

#### *Irregular Fruitless and Wasteful Expenditure*

9. As disclosed in note 32 to the financial statements, irregular expenditure to the amount of R3.8 million was incurred, due to not following proper procurement processes.

### Responsibilities of the Accounting Authority

10. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance IFRS and the requirements of the PFMA and the Companies Act and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

11. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

12. Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

13. A further description of our responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to the auditor's report.

## Report on the Audit of the Annual Performance Report

### Introduction and Scope

14. 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 we have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. We performed procedures to identify findings but not to gather evidence to express assurance.

15. Our procedures address the reported performance information which must be based on the approved performance planning documents of the company. We have not evaluated the completeness and appropriateness of the performance indicators/ measures established and included in the planning documents. Our procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance information. Accordingly our findings do not extend to these matters.

16. We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the company for the year ended 31 March 2017:

| Objectives | Pages in the annual performance report |
|---|---|
| Objective SG 1: – Ensure that ICT infrastructure is accessible, robust, reliable, affordable and secure to meet the needs of the country and its people | 35 |
| Objective SG 2: – Ensure high levels of customer and stakeholder satisfaction by meeting their needs at all times | 35 |
| Objective SG 4: – Ensure that the Company is financially sustainable | 36 |

17. We performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. We performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

18. We did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Objective SG 1: – Ensure that ICT infrastructure is accessible, robust, reliable, affordable and secure to meet the needs of the country and its people.
- Objective SG 2: – Ensure high levels of customer and stakeholder satisfaction by meeting their needs at all times.
- Objective SG 4: – Ensure that the Company is financially sustainable.

### Other matters

19. We draw attention to the matter below. Our opinion is not modified in respect of this matter.

#### *Achievement of planned targets*

20. Refer to the annual performance report on pages 35 and 36 for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a number of targets.

## Report on the Audit of Compliance with Legislation

### Introduction and Scope

21. In accordance with the PAA and the general notice issued in terms thereof we have a responsibility to report material findings on the compliance of the company with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.

22. There were no material findings identified.

## Other Information

23. Sentech SOC Limited and its subsidiaries accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

24. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

25. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

26. We have nothing to report in this regard.

## Internal Control Deficiencies

27. We considered internal control relevant to our audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however the objective is not to express any form of assurance thereon. We did not identify any significant deficiencies in internal control.

## Other Reports

28. We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the matters reported on the public entity's financial-, performance- and compliance related matters. The reports noted do not form part of our opinion on the financial statements or our findings on the reported performance information or compliance with legislation.

### Investigations

29. There were investigations that were being conducted on some employees regarding allegations of fraud and misconduct in the previous year. These investigations have subsequently been concluded, however the related employees had resigned from the company prior to finalisation of disciplinary processes.

30. An investigation was conducted with regards to a contract concluded by Sentech SOC Limited to determine whether the correct procurement processes had been followed. The conclusion was that no proper approval process was followed thus the amount was concluded to be irregular expenditure.

### Audit-related Services

31. Agreed upon procedures engagements were performed to review the conversion adjustments from International Financial Reporting Standards (IFRS) to Generally Recognised Accounting Practice (GRAP) on the Treasury pack to ensure conversion adjustments are captured correctly for consolidation purposes. No material misstatements were identified. The report covered the period ending 31 March 2017.

## Auditor Tenure

32. In terms of the IRBA rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Rakoma and Associates Inc. has been the auditor of Sentech SOC Limited for four years.

Rakoma and Associates Inc

Edger Rakoma
Partner
Registered Auditor
31 July 2017

Ground Floor Building B

Monte Circle Office Park

178 Montecasino Boulevard

Fourways

Johannesburg

2191

# ANNEXURE – AUDITOR'S RESPONSIBILITY FOR THE AUDIT

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout our audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected objectives and on a company's compliance with respect to the selected subject matters.

## Financial Statements

In addition to our responsibility for the audit of the consolidated and separate financial statements, as described in the auditor's report, we also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority's use of the going-concern basis of accounting in the preparation of the financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the public entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. Our conclusions are based on the information available to us at the date of the auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for my audit opinion.

## Communication with Those Charged with Governance

We communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also confirm to the accounting authority that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence, and where applicable, related safeguards.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## as at 31 March 2017

| Group and Company | Notes | 2017 R'000 | 2016 R'000 |
|---|---|---|---|
| **Assets** | | | |
| Non-current assets | | | |
| Property, plant and equipment | 6 | 946,509 | 846,351 |
| | | **946,509** | **846,351** |
| Current assets | | | |
| Inventories | 8 | 80,301 | 73,345 |
| Tax | 14 | 18,138 | 13,283 |
| Trade and other receivables | 9 | 43,131 | 63,811 |
| Cash and cash equivalents | 10 | 907,357 | 957,242 |
| | | 1,048,927 | 1,107,681 |
| Total assets | | **1,995,436** | **1,954,032** |
| **Equity** | | | |
| Share capital | 11 | (75,892) | (75,892) |
| Non-distributable reserves | | (667,868) | (667,868) |
| Accumulated profit | | (1,023,712) | (918,843) |
| | | **(1,767,472)** | **(1,662,603)** |
| **Liabilities** | | | |
| Non-current liabilities | | | |
| Employee benefits | 12 | (14,060) | (10,170) |
| Deferred tax | 13 | (40,577) | (68,602) |
| | | **(54,637)** | **(78,772)** |
| Current liabilities | | | |
| Trade and other payables | 15 | (133,111) | (120,234) |
| Deferred income | 16 | (10,216) | (76,423) |
| Provisions | 17 | (30,000) | (16,000) |
| | | **(173,327)** | **(212,657)** |
| Total liabilities | | **(227,964)** | **(291,429)** |
| Total equity and liabilities | | **(1,995,436)** | **(1,954,032)** |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**for the year ended 31 March 2017**

| Group and Company | Notes | 2017 R'000 | 2016 R'000 |
|---|---|---|---|
| Revenue | 18 | 1,232,619 | 1,179,253 |
| Cost of sales | 19 | (998,450) | (852,368) |
| Gross profit | | **234,169** | **326,885** |
| Other income | | - | 31 |
| Operating expenses | 19 | (118,020) | (59,316) |
| Selling expenses | | (17,672) | (12,588) |
| Administrative expenses | | (64,522) | (58,868) |
| Operating profit | | **33,955** | **196,144** |
| Finance income | 21 | 64,415 | 53,889 |
| Finance costs | 22 | (4,207) | (10,122) |
| Profit before taxation | | **94,163** | **239,911** |
| Taxation | 23 | 9,990 | (40,108) |
| Profit or loss for the year | | **104,153** | **199,803** |
| Re-measurement of defined benefit | | 994 | 111 |
| Income tax | | (278) | (31) |
| Re-measurement of PPE | | - | 186,557 |
| Income tax | | - | (29,452) |
| Total comprehensive income | | **104,869** | **356,988** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**for the year ended 31 March 2017**

| | Notes | Share capital R'000 | Share premium R'000 | Total share capital R'000 | Non-distributable reserves R'000 | Retained income R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|---|
| **Group and Company** | | | | | | | |
| Balance at 01 April 2015 | | **2** | **75,890** | **75,892** | **510,762** | **718,962** | **1,305,616** |
| Previously stated | | 2 | 75,890 | 75,892 | 510,762 | 718,962 | 1,305,616 |
| Profit for the year (previously stated) | | - | - | - | - | 199,803 | 199,803 |
| Other comprehensive income | | - | - | - | 157,105 | 80 | 157,185 |
| Total comprehensive income for the year | | - | - | - | - | 199,883 | 199,883 |
| Balance at 31 March 2016 | | **2** | **75,890** | **75,892** | **667,867** | **918,845** | **1,662,604** |
| Previously stated | | 2 | 75,890 | 75,892 | 667,867 | 918,845 | 1,662,604 |
| Profit for the year | | - | - | - | - | 104,153 | 104,153 |
| Other comprehensive income | | - | - | - | - | 716 | 716 |
| Total comprehensive income for the year | | - | - | - | - | 104,869 | 104,869 |
| Balance at 31 March 2017 | | **2** | **75,890** | **75,892** | **667,867** | **1,023,714** | **1,767,473** |
| Notes | | | | 11 | | | |

# CONSOLIDATED CASH FLOW STATEMENT

**for the year ended 31 March 2017**

| Group and Company | Notes | 2017 R'000 | 2016 R'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash generated from operations | 24 | 92,486 | 95,517 |
| Interest received | | 45,310 | 33,228 |
| Dividends received | | 19,104 | 20,661 |
| Interest paid | 25 | (250) | (131) |
| Tax paid | 26 | (23,168) | 12,265 |
| Net cash from operating activities | | **133,482** | **161,540** |
| **Cash flow from investing activities** | | | |
| Property, plant and equipment | | (274,615) | (194,171) |
| Net cash from investing activities | | **(274,615)** | **(194,171)** |
| **Cash flow from financing activities** | | | |
| Grant received | 16 | 87,719 | 95,614 |
| Interest on government grant | | 3,529 | 4,555 |
| Net cash from financing activities | | **91,248** | **100,169** |
| Total cash movement for the year | | **(49,885)** | **67,538** |
| Cash at the beginning of the year | | 957,242 | 889,704 |
| Cash at the end of the year | | **907,357** | **957,242** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
**for the year ended 31 March 2017**

## 1. Presentation of Annual Financial Statements

SENTECH SOC Limited (the Company) is a company incorporated and domiciled in South Africa. The Company's registered office is Sender Technology Park, Octave Road, Honeydew. The consolidated annual financial statements of the Company, as at and for the year ended 31 March 2017, comprise the Company and its subsidiaries (together referred to as the Group and individually as the Group entities). The Group is primarily involved in signal distribution and has transmission stations across the country and provides broadcasting services.

## 2. Basis of Preparation

### 2.1 Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB), the Companies Act (No. 71 of 2008) as amended, and the Public Finance Management Act (No. 1 of 1999, as amended by No. Act 29 of 1999).

### 2.2 Approval of Financial Statements

The financial statements were approved by the Board of Directors and authorised for issue on the 31 July 2017.

### 2.3 Basis of Measurement

The financial statements have been prepared on the historical cost basis, except for the following material items in the Statement of Financial Position:

- The defined benefit asset/liability is recognised as the net total of the plan assets, plus unrecognised past service costs and unrecognised actuarial losses, less unrecognised actuarial gains and the present value of the defined benefit obligation; and
- Land and buildings are measured at the fair value, being the market value at the date of revaluation.

### 2.4 Functional Currency

These financial statements are presented in South African Rand, which is the Group's functional currency. All financial information presented in Rand has been rounded to the nearest thousand.

### 2.5 Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in note 5 and the following notes:

- Notes 3.4 and 6 – valuation of property, plant and equipment;
- Notes 3.8 and 12 – measurement of employee benefits;
- Notes 3.14 and 13 – utilisation of tax losses; and
- Notes 3.9, 17 and 31 – provisions and contingencies.

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Group.

### 3.1 Basis of Consolidation

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. During the period under review, the Group and Company figures are the same due to the fact that all current subsidiaries are dormant.

#### *Loss of Control*

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising from the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset, depending on the level of influence retained.

#### *Transactions Eliminated on Consolidation*

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 3.2 Translation of Foreign Currencies

#### *Foreign Currency Transactions*

A foreign currency transaction is recorded, on initial recognition in Rand, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate; and
- Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

Cash flows arising from transactions in a foreign currency are recorded in Rand by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

### 3.3 Financial Instruments

#### *Classification*

The Company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

#### *Recognition*

Financial assets and financial liabilities are recognised on the Group's Statement of Financial Position when the Group becomes party to the contractual provisions of the instrument.

#### *Presentation*

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position when the Group has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### De-recognition

The Group 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 Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

### Non-derivative Financial Instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

### Loans to/(from) Group Companies and Related Parties

These include loans to fellow subsidiaries, joint ventures and related parties and are recognised initially at fair value plus direct transaction costs.

Subsequently, these loans are measured at amortised cost using the effective interest method, less any impairment loss on loans receivable recognised to reflect irrecoverable amounts.

On loans receivable, an impairment loss is recognised in profit or loss when there is objective evidence that it is impaired. The impairment is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the loan's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the loan at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Loans to Group companies are classified as loans and receivables. Loans from Group companies are classified as other financial liabilities.

### Trade and Other Payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

### Cash and Cash Equivalents

Cash and cash equivalents comprise bank balances and are subject to an insignificant risk of changes in value. These are initially recognised at fair value and subsequently measured at amortised cost. For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise cash on hand, deposits held on call with banks, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the Group, unless otherwise stated. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

### Interest-bearing Borrowings

Interest-bearing borrowings are initially measured at fair value less attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method. Any difference between the initially recognised amount and the redemption amount of interest-bearing borrowings is recognised in profit or loss over the term of the interest-bearing borrowings on an effective interest basis.

### Trade and Other Receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

### *Share Capital*

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

## 3.4 Property, Plant and Equipment

### *Recognition and Measurement*

Land and buildings comprise mainly transmitter stations and offices. Buildings are revalued to fair value on a three-year cycle by external independent valuators. Land and buildings are carried at revalued amounts less subsequent accumulated depreciation (see below) and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount and the net amount is restated to the revalued amount.

Increases in the carrying value arising on the revaluation of land and buildings (revaluation surpluses) are credited in other comprehensive income and presented in the revaluation reserve in equity net of taxation. Any loss is recognised in other comprehensive income and presented in the revaluation reserve in equity to the extent that an amount had previously been included in the revaluation reserve relating to the specific land and buildings, with any remaining loss recognised immediately in profit or loss.

Other items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are 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 a working condition for its intended use, directly attributable to borrowing costs and the costs of dismantling and removing the items and restoring the site on which they are located. For assets funded through government grants, the grant income is netted against these costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal to the carrying amount of property, plant and equipment and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

### *Subsequent Costs*

The cost of replacing part of an item of property, plant and 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 Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised and the replacement part is capitalised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

### *Depreciation*

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Average useful life |
|---|---|
| **Land and buildings** | |
| • Land | Indefinite |
| • Buildings | 40 to 100 years |
| • Improvements to leasehold premises | 20 years |
| | |
| **Motor vehicles** | |
| • Motor vehicles | 5 years |
| | |
| **Technical equipment:** | |
| • Technical equipment | 10 to 20 years |
| • Computer and office equipment | 2 to 5 years |
| • Monitoring equipment | 5 to 10 years |

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

## 3.5 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.

### *The Group as Lessor*

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

### *The Group as Lessee*

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### *Facility Rental*

Facility rental income is not recognised on a straight-line basis, as the substance of the agreement with customers does not state the agreed fixed periods as defined or required for classification as an operating lease. The contracts with the customers have no escalation clauses for the rentals, only the annual tariff increase is applied at the agreed CPI rate.

## 3.6 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Where necessary, a provision is made for obsolete, slow-moving and defective inventories.

## 3.7 Impairment of Assets

### *Impairment of Non-financial Assets*

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. 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.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss.

The Group assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in profit or loss to the extent that it cannot be recouped from the revaluation reserve for revalued assets.

### *Impairment of Financial Assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

## 3.8 Employee Benefits

### *Short-term Employee Benefits*

Short-term employee benefits are recognised in profit or loss during the period in which services are rendered. Employee entitlements to annual leave and long service leave are recognised in profit or loss when they accrue to employees in respect of past services rendered up to the reporting date. This obligation is measured on an undiscounted basis.

An accrual is recognised for the amount expected to be paid under short-term cash bonus plans 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.

### *Defined Contribution Plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which the services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

### *Defined Benefit Plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. The Group recognises past service cost in profit or loss at the earlier of the date when the plan amendment or curtailment occurs and when the entity recognises related restructuring costs or termination benefits.

The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, changes in the present value of defined benefit obligation and any related actuarial gains and losses and past service cost that had not previously been recognised.

## 3.9 Provisions and Contingencies Provisions

Provisions are recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of discount is recognised as finance cost.

### *Onerous Contracts*

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

### *Contingent Liabilities*

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are only disclosed and not recognised as liabilities in the Statement of Financial Position.

If the likelihood of an outflow of resources is remote, the possible obligation is neither a provision nor a contingent liability and no disclosure is made.

## 3.10 Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

### *Sale of Goods*

The Group sells a range of broadcasting and telecommunication products. Sales of goods are recognised when the Group has delivered products to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Customers have a right to return faulty products. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Experience is used to estimate and provide for the discounts and returns.

### *Rendering of Services*

The Group renders broadcasting and transmission services. These services are provided on a time basis or as a fixed price contract for a specific period.

Revenue from time contracts is recognised at the contractual rates as labour hours are delivered and direct expenses incurred. If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by Management.

### *Rental Income*

Rental income from the rental of premises is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as revenue.

## 3.11 Government Grants

Grants that compensate the Group for the cost of an asset are recognised initially as deferred income which is classified under current liabilities. Grants relating to completed and incomplete asset projects are deducted from the cost of the relevant asset (net presentation method). The depreciation expense recognised in profit or loss over the useful life of the asset is calculated from the net cost of the asset which is after deduction of the corresponding deferred government grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Government grants are only recognised when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Deferred income is classified as a current liability as uncertainty exists as to the timing of the release of the government grants.

## 3.12 Finance Income and Finance Costs

Finance income comprises dividend income, interest income on the Group's own cash and interest income on government grants invested, except where specified in the government grant terms and conditions relating to the funds invested that are recognised as deferred income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, interest costs on defined benefit plans, unwinding of the discount on provisions and impairment losses recognised on financial assets that are recognised in profit or loss.

Borrowing costs that are not directly attributed to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis in operating costs.

### 3.13 Taxation Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss, except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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 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 not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and goodwill on initial recognition.

Deferred tax is measured at the tax rates that are expected to be applied to 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 for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### 3.14 Related Parties

Related parties include the Shareholder, formerly the Department of Communications, now the Department of Telecommunications and Postal Services (100% Shareholder) and its fellow subsidiaries. Directors, their close family members and any employee who is able to exert a significant influence on the operating policies of the Group are also considered to be related parties. Key management personnel are also regarded as related parties. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity.

## 4. Application of New and Revised Standards and Interpretations

### 4.1 Standards and Interpretations Adopted in the Current Year

The Group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

#### *Amendments to IAS 1 Disclosure Initiative*

The amendments clarify that a company need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. It further states that a company's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs:

(i) Will not be reclassified subsequently to profit or loss; and

(ii) Will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

*Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to IAS 16 prohibit companies from using a revenue-based depreciation method for items of property, plant and equipment, whilst the amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset.

SENTECH already uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively, the application of these amendments has had no impact on the Group's consolidated financial statements.

*Amendments to IAS 27 Equity Method in Separate Financial Statements*

The amendments introduces an additional method for accounting for investments in subsidiaries, joint ventures and associates in the parent company's separate financial statements in which an equity method is allowed in addition to cost and according to IAS 39.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

*Amendments to IAS 19 Discount Rate for Post-employment Benefits*

The amendments clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Group's consolidated financial statements.

## 4.2 Standards and Interpretations Issued/Revised but not yet Effective

The Group has not applied the following new and revised standards that have been issued but are not yet effective:

*IFRS 9 Financial Instruments 1 January 2018*

A final version of IFRS 9 has been issued which replaces IAS 39 Financial Instruments: Recognition and Measurement. The completed standard comprises guidance on Classification and Measurement, Impairment Hedge Accounting and De-recognition. IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics.

A new business model was introduced which does allow certain financial assets to be categorised as 'fair value through other comprehensive income' in certain circumstances. The new model introduces a single impairment model being applied to all financial instruments, as well as an 'expected credit loss' model for the measurement of financial assets. IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity. The Company does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

*IFRS 15 Revenue from Contracts from Customers 1 January 2018*

New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five-step methodology that must be applied to all contracts with customers.

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The new standard essentially requires recognition of revenue when a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The Company does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

*IFRS 16 Leases 1 January 2019*

New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the Statement of Cash Flows applying IAS 7: Statement of Cash Flows.

IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgment in deciding on the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. As at 31 March 2017, SENTECH has a substantial amount of operating lease arrangement to enable the delivery of its core business, which include long-term satellite lease and sites leases which meet the definition of a lease in terms of IFRS 16, therefore leading to a future recognition of the right-of-use asset and corresponding liability in the financial statements.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

The Company anticipates that these amendments will have a material impact on the Group's consolidated financial statements as discussed above, affecting the Statements of Financial Position, Profit and Loss as well as the Cash Flows Statement.

*Amendments to IAS 7 Disclosure Initiative*

The amendments that must be applied prospectively require a company to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The Company does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

## 5. Critical Accounting Estimates, Judgments and Key Assumptions

Estimates, judgments and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on Management's best knowledge of current events and actions, actual results may ultimately differ from these estimates.

The Group makes estimates, judgments and assumptions concerning the future. Those that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Property, Plant and Equipment*

The valuation methods used for the revaluations of land and building are the income capitalisation amount and the depreciated replacement cost method, which are deemed most appropriate. The income capitalisation method takes into account any market-based evidence regarding the value of the land or buildings as at the date of the valuation. Should market-based evidence not exist, the depreciated replacement cost method will be used. The depreciated replacement cost method uses the replacement cost of the asset at the date of valuation and a depreciation factor is applied to arrive at the depreciated revalued cost. The comparable sales method of valuation is used, where relevant, to determine the market value of the property. This method entails the identification, analysis and application of recent comparable sales involving physical and legally similar properties in the general proximity of the subject property, to enable the valuator to arrive at a norm which will serve as a guide in estimating the market value of the property.

All valuations are performed by an experienced, qualified and objective valuator.

The residual values of property, plant and equipment are considered to be insignificant as the estimation of useful lives is equal to their economic lives.

*Impairment of Assets*

The Group tests whether assets have suffered any impairment, in accordance with the accounting policy stated in note 3.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. Estimates are based on Management's interpretation of market forecasts and assessment.

### *Inventories*

Inventory is written down to net realisable value when it is considered that the amount realisable from such inventory's sale is considered to be less than its cost value. In determining whether a particular item of inventory could be considered to be overvalued, several factors are taken into consideration. These include, but are not limited to the following:

- Saleability;
- Excessive quantity;
- Age;
- Sub-standard quality and damage; and
- Historical and forecast sales demand.

### *Loans and Receivables*

Management identifies impairment of loans and receivables on an ongoing basis. Impairment adjustments are raised against loans and receivables when their collectability is considered to be doubtful. Management believes that the impairment write-off is conservative and there are no significant trade receivables that are doubtful and have not been impaired. In determining whether a particular debtor could be doubtful, several factors are taken into consideration. These include, but are not limited to:

- Age;
- Credit terms;
- Customer current and anticipated future financial status; and
- Disputes with the customer.

### *Non-derivative Financial Liabilities*

Judgment is required in determining the provision for income taxes due to the complexity of legislation. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group 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. Assessing the recoverability of deferred income tax assets requires the Group to make estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

### *Defined Benefit Funds*

Experienced and qualified actuaries determine the value of the defined benefit fund's assets and liabilities at the end of each reporting period.

## 6. Property, Plant and Equipment

| Group and Company | 2017 Cost or revaluation R'000 | 2017 Accumulated depreciation R'000 | 2017 Carrying value R'000 | 2016 Cost or revaluation R'000 | 2016 Accumulated depreciation R'000 | 2016 Carrying value R'000 |
|---|---|---|---|---|---|---|
| Land | 86,189 | - | 86,189 | 85,177 | - | 85,177 |
| Buildings | 647,621 | (200,082) | 447,539 | 616,279 | (142,952) | 473,328 |
| Motor vehicles | 24,019 | (15,865) | 8,155 | 19,933 | (10,655) | 9,278 |
| Computer, technical and office equipment | 846,498 | (670,240) | 176,258 | 808,479 | (655,037) | 153,442 |
| Capital work in progress | 228,368 | - | 228,368 | 125,126 | - | 125,126 |
| **Total** | **1,832,695** | **(886,187)** | **946,509** | **1,654,994** | **(808,643)** | **846,351** |

### Reconciliation of property, plant and equipment – 2017

| | Opening balance R'000 | Additions R'000 | Revaluation R'000 | Disposals R'000 | Transfers R'000 | Depreciation R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| Land | 85,177 | 1,012 | - | - | - | - | 86,189 |
| Buildings | 473,328 | 3,423 | - | (96) | 31,193 | (60,308) | 447,539 |
| Motor vehicles | 9,279 | - | - | (154) | 4,823 | (5,793) | 8,155 |
| Computer, technical and office equipment | 153,441 | 235 | - | (3,090) | 63,037 | (37,365) | 176,258 |
| Capital work in progress | 125,126 | 202,295 | - | - | (99,053) | - | 228,368 |
| | **846,351** | **206,965** | **-** | **(3,340)** | **-** | **(103,466)** | **946,509** |

### Reconciliation of property, plant and equipment – 2016

| | Opening balance R'000 | Additions R'000 | Revaluation R'000 | Disposals R'000 | Transfers R'000 | Depreciation R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| Land | 73,529 | - | 11,648 | - | - | - | 85,177 |
| Buildings | 296,310 | 3,917 | 174,909 | (72) | 34,136 | (35,873) | 473,328 |
| Motor vehicles | 16,936 | 435 | - | - | (2,442) | (5,650) | 9,279 |
| Computer, technical and office equipment | 152,472 | 1,475 | - | (4,140) | 42,703 | (39,068) | 153,441 |
| Capital work in progress | 94,214 | 105,309 | - | - | (74,397) | - | 125,126 |
| | **633,461** | **111,136** | **186,557** | **(4,212)** | **-** | **(80,591)** | **846,351** |

Valuations done by JHI properties in the 2016 financial year were made on the basis of comparative land sales in each area and buildings based on net replacement valuations or the capitalisation of income methods depending on the type and location of the property.

The revaluation surplus/deficit, net of applicable deferred tax, was credited or debited to the revaluation reserve in the shareholders' equity.

If land and buildings were stated at the historical basis, the amounts would be as follows;

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Cost | 350,912 | 315,284 | 295,471 |
| Accumulated depreciation and impairment losses | (199,581) | (151,334) | (122,636) |
| | 151,332 | 163,950 | 172,835 |

## 7. Investments in Subsidiaries

| | % holding 2017 | % holding 2016 | Carrying amount 2017 | Carrying amount 2016 |
|---|---|---|---|---|
| Infohold (Pty) Ltd | 100,00 % | 100,00 % | - | - |
| Vivid Multimedia Pty Ltd | 100,00 % | 100,00 % | - | - |
| SENTECH International (Pty) Ltd | 100,00 % | 100,00 % | - | - |
| Infosat Pty Ltd | 100,00 % | 100,00 % | - | - |
| | | | | |

The subsidiaries above are unlisted and registered in South Africa.

SENTECH SOC Ltd holds 100% of Infohold (Pty) Ltd, Vivid Multimedia (Pty) Ltd and SENTECH International (Pty) Ltd. Infohold (Pty) Ltd holds 100% of the shares of its subsidiary Infosat (Pty) Ltd. InfoSat (Pty) Ltd's business operations were discontinued in 2010.

All the subsidiaries in question are dormant and thus there are no transactions. There are no significant restrictions in the ability of SENTECH SOC Ltd to access assets and settle liabilities in the Group.

## 8. Inventories

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Consumables | 441 | 802 |
| Inventories | 88,078 | 78,293 |
| | 88,519 | 79,095 |
| Inventories (write-downs) | (8,218) | (5,750) |
| | 80,301 | 73,345 |

The inventory held is not encumbered.

## 9. Trade and Other Receivables

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Trade receivables | 44,016 | 35,434 |
| Less: Impairment | (30,578) | (3,512) |
| Net trade receivables | **13,438** | **31,922** |
| Other receivables | 5,658 | 8,778 |
| Deposits | 10,566 | 7,836 |
| Loans and receivables | **29,663** | **48,536** |
| Pre-payments | 13,469 | 15,275 |
| Total trade and other receivables | **43,131** | **63,811** |

Receivables from related parties for both Group and Company included in trade and other receivables amounts to R885 (2016: R867).

### Impairment losses

The reconciliation of the movements in the impairment in respect of trade receivables during the year was as follows:

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Balance at the beginning of the year | (3,512) | (3,853) |
| Impairment loss (recognised)/reversed | (28,403) | 341 |
| | **(31,915)** | **(3,512)** |
| Bad debt written off | 1,337 | - |
| | **(30,578)** | **(3,512)** |

The ageing of trade receivables at the reporting date was:

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Not past due date | 6,263 | 14,830 |
| Past due 30 days | 3,708 | 3,376 |
| Past due 60 days | 1,273 | 2,106 |
| Past due 90 days and more | 2,194 | 11,610 |
| Net loans and receivables | **13,438** | **31,922** |

The breakdown of the aging and impairment of trade receivables:

| 2017 | Total | > 90 Days | 60 Days | 30 Days | Current |
|---|---|---|---|---|---|
| Trade receivables | 44,016 | 28,296 | 2,827 | 5,221 | 7,673 |
| Less: Impairment | (30,578) | (26,101) | (1,554) | (1,513) | (1,411) |
| Net trade receivables | 13,438 | 2,194 | 1,273 | 3,708 | 6,263 |

The breakdown of the aging and impairment of trade receivables:

| 2016 | Total | > 90 Days | 60 Days | 30 Days | Current |
|---|---|---|---|---|---|
| Trade receivables | 35,434 | 15,113 | 2,106 | 3,385 | 14,830 |
| Less: Impairment | (3,512) | (3,503) | - | (9) | - |
| Net trade receivables | 31,922 | 11,610 | 2,106 | 3,776 | 14,830 |

The collectability of trade receivables is assessed at reporting date and specific allowances are made for any doubtful receivables based on a review of all outstanding amounts at year-end. Doubtful debts are written-off during the year in which they are identified. The impairment loss at year-end relates to trade receivables which have been outstanding for a long time and have not been settled subsequent to year-end.

The maximum exposure to credit risk at the reporting date is the fair value of each class of debtor mentioned above. The Group does not hold any collateral as security.

## 10. Cash and Cash Equivalents

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Unrestricted cash | | |
| - Own cash | 897,142 | 922,140 |
| Restricted cash | 10,216 | 35,102 |
| - Government grants cash | 10,216 | 30,630 |
| - Interest earned on government grant cash | - | 4,472 |
| | **907,357** | **957,242** |

### Restricted Cash – Government Grants Cash

Restricted cash relates to government grant funds and the corresponding interest earned. This cash should be used only for the purposes specified by the DTPS when the grants were received. Project and capital cash balances, net of VAT excluding the interest earned, which is currently managed on behalf of the DTPS is as follows:

### Projects

| Group and Company | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|
| Disaster recovery (2010 World Cup Soccer) | 10,216 | 30,630 |
| | 10,216 | 30,630 |
| Interest earned on government grants cash | - | 4,472 |
| | **10,216** | **35,102** |

### Bank Guarantees

| Group and Company | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|
| At year-end, the Group and Company had issued the following active guarantees: | | |
| Eskom Holdings SOC Limited | 994 | 994 |
| Properties and related rates and taxes | 151 | 151 |
| | **1,145** | **1,145** |

## 11. Share Capital and Premium

| Group and Company | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|
| **Authorised** | | |
| 100 000 ordinary shares of R1 each | 100 | 100 |
| **Issued** | | |
| 2 000 ordinary shares of R1 each | 2 | 2 |
| Share premium | 75,890 | 75,890 |
| | **75,892** | **75,892** |

## 12. Employee Benefits

The employee benefits relate to post-employment medical benefit plan and are made up as follows:

### Carrying Value

| Group and Company | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|
| Present value of the defined benefit | | |
| Obligation – partially or wholly funded | (37,231) | (39,188) |
| Fair value of plan assets | 23,171 | 29,018 |
| | **(14,060)** | **(10,170)** |

This is a stable growth fund that consists of equities, bonds, cash and international investments with normal market risk exposure. The fund is managed by reputable asset managers.

## Plan Assets Comprise:

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Cash and cash equivalents | 799 | 1,000 |
| Equity securities | 3,280 | 4,108 |
| Bonds | 799 | 1,000 |
| Foreign investments | 1,597 | 2,000 |
| Annuity | 16,697 | 20,910 |
| | **23,171** | **29,018** |

| Reconciliation | Accrued Liability | | Plan Assets | |
|---|---|---|---|---|
| | 2017 R'000 | 2016 R'000 | 2017 R'000 | 2016 R'000 |
| Opening balance as at 31 March | 39,188 | 118,919 | (29,018) | (118,919) |
| Interest cost on defined benefit obligation | 3,957 | 9,991 | - | - |
| Current service cost (includes interest to year-end) | 927 | 1,537 | - | - |
| Expected return on plan assets | - | - | (2,995) | (10,007) |
| Expected employer benefit payments | (31) | (5,235) | - | - |
| Expected benefit payments from plan assets | - | - | 31 | 5,235 |
| Actuarial loss due to changes in withdrawal assumptions | 1,519 | - | - | - |
| Expected closing balance as at 31 March | 45,560 | 125,212 | (31,982) | (123,691) |
| Risk transfer arrangement (annuity purchase) | - | (87,130) | - | 87,130 |
| Adjusted expected closing balance as at 31 March | 45,560 | 38,082 | (31,982) | (36,561) |
| Past service cost | - | (1,247) | - | - |
| Actuarial (gain)/loss | (8,329) | 2,353 | 8,811 | 7,543 |
| Actual closing balance as at 31 March | **37,231** | **39,188** | **(23,171)** | **(29,018)** |

## Principal Actuarial Assumptions Used

| | 2017 | 2016 |
|---|---|---|
| Discount rate | 10.9% | 10.1% |
| Annual increase in healthcare costs | 10.0% | 9.7% |
| Expected retirement age | 63 years | 63 years |

## Sensitivity Analysis

### *Change in Liability*

| 2017 | Base | -1% (1 year younger) | 1% (1 year older) |
|---|---|---|---|
| CPI and medical health inflation | 8% and 10% | 30,440 | 46,040 |
| Discount rate | 10.90% | 46,315 | 30,355 |
| Expected retirement age | 63 years | 39,047 | 35,593 |
| Change in current service and interest cost | 8% and 10% | 4,187 | 6,480 |

| 2016 | Base | -1% (1 year younger) | 1% (1 year older) |
|---|---|---|---|
| CPI and medical health inflation | 7.7% and 9.7% | 32,717 | 47,410 |
| Discount rate | 10.10% | 49,954 | 32,578 |
| Expected retirement age | 63 years | 40,849 | 37,623 |
| Change in current service and interest cost | 7.7% and 9.7% | 1,124 | 3,021 |

### Historical Information

| | 2017<br>R'000 | 2016<br>R'000 | 2015<br>R'000 | 2014<br>R'000 |
|---|---|---|---|---|
| Retirement medical aid benefits | | | | |
| Present value of the obligation | 14,060 | 10,170 | - | 100,333 |
| Actuarial losses/(gains) recognised | **14,060** | **10,170** | **-** | **100,333** |

### Analysis of Unexpected Gains and Losses

The accrued liability calculated in this valuation is R37.231 million, reflecting an unexpected gain of R8.329 million.

## 13. Deferred Tax

| Group and Company | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|
| Deferred tax liability | (40,577) | (68,602) |
| Movement in temporary differences | | |
| At beginning of year | (68,602) | (46,380) |
| Recognised in profit and loss | 28,025 | 7,230 |
| Recognised in other comprehensive income | - | (29,452) |
| | **(40,577)** | **(68,602)** |

### Deferred tax liabilities are attributed to the following:

| | PPE<br>R'000 | Pre-payments<br>R'000 | Total<br>R'000 |
|---|---|---|---|
| Balance at 31 March 2015 | (78,524) | (9,677) | (88,201) |
| Recognised in profit and loss | 9,267 | (2,786) | 6,481 |
| Recognised in other comprehensive income | (29,452) | | (29,452) |
| Balance at 31 March 2016 | (98,709) | (12,463) | (111,172) |
| | | | |
| Recognised in profit and loss | 14,134 | 506 | 14,640 |
| Balance at 31 March 2017 | **(84,575)** | **(11,957)** | **(96,532)** |

### Deferred tax assets are attributed to the following:

| | Provisions<br>R'000 | Unearned income and deposits<br>R'000 | Total<br>R'000 |
|---|---|---|---|
| Balance at 31 March 2015 | 35,072 | 6,749 | 41,821 |
| Recognised in profit and loss | 1,299 | (519) | 780 |
| Recognised in other comprehensive income | (31) | - | (31) |
| Balance at 31 March 2016 | **36,340** | **6,230** | **42,570** |
| | | | |
| Recognised in profit and loss | 14,461 | (799) | 13,662 |
| Recognised in other comprehensive income | (278) | - | (278) |
| Balance at 31 March 2017 | **50,523** | **5,431** | **55,954** |

## 14. Current Tax Receivable

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| South African Revenue Services | 18,138 | 13,283 |

## 15. Trade and Other Payables

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Trade payables | 20,315 | 15,077 |
| Accrued expenses | 55,447 | 58,910 |
| Financial liabilities | 75,762 | 73,987 |
| Customer deposits | 3,375 | 2,708 |
| Lease accrual | 19,243 | 11,827 |
| Unearned income | 381 | 297 |
| VAT | 5,568 | 6,387 |
| Overtime | 1,523 | 1,402 |
| Other accruals | 1,100 | 492 |
| Leave pay accrual | 26,159 | 23,134 |
| | **133,111** | **120,234** |

The Board considers the carrying amount of trade and other payables to approximate their fair value.

## 16. Deferred Income

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Analysis of movements in deferred income | | |
| Opening balance | 76,423 | 176,154 |
| Net funding received (see below) | 87,719 | 95,614 |
| Acquisition of property, plant and equipment | (67,650) | (86,119) |
| Net interest capitalised | **3,530** | **4,555** |
| Interest received from government grant funds | 4,901 | 5,265 |
| Taxation paid on interest | (1,371) | (710) |
| Utilisation | **(89,806)** | **(113,781)** |
| - Community broadcasters (receivables) | - | (13,053) |
| - Dual illumination cost/revenue | (89,806) | (100,728) |
| Closing balance | **10,216** | **76,423** |
| Net funding received | | |
| Government grants received | 100,000 | 109,000 |
| Deemed VAT (14%) | (12,281) | (13,386) |
| | **87,719** | **95,614** |

Government grants are received for the purchase and construction of property, plant and equipment and to compensate for the Group's operational expenditure related to government projects. The deferred income relating to completed assets has been netted-off against the cost of the respective assets under property, plant and equipment. Deferred income relating to capital work-in-progress is set-off against costs incurred to date, on the net presentation basis. The asset will then be depreciated over its useful life, based on the net carrying amount after taking government grant funding into account as per the accounting policy.

## 17. Provisions

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Reconciliation of provisions | | |
| Opening balance | 16,000 | 50,798 |
| Additions | 30,000 | 14,653 |
| Utilised during the year | (16,000) | (49,451) |
| Total provisions | **30,000** | **16,000** |

The Board has raised provision for performance incentive that is likely to be incurred. The analysis of the provisions is as above.

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Analysis of provisions | | |
| Performance bonus | 30,000 | 16,000 |
| | **30,000** | **16,000** |

## 18. Revenue

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Terrestrial television services | 576,145 | 555,198 |
| Terrestrial FM radio services | 291,178 | 265,385 |
| Terrestrial MW radio services | 9,062 | 8,717 |
| Terrestrial short wave radio services | 24,952 | 28,085 |
| Terrestrial and satellite linking | - | 631 |
| Satellite direct-to-home | 160,174 | 150,322 |
| Business television | 5,648 | 3,988 |
| VSAT | 7,114 | 6,338 |
| Dual illumination grant income | 89,806 | 100,728 |
| Other | 221 | 208 |
| | **1,164,299** | **1,119,600** |
| Revenue from rental income comprises the following: | | |
| Facility rentals | 65,334 | 59,017 |
| Revenue from sale of goods comprises the following: | | |
| Vivid | 2,985 | 636 |
| | **1,232,619** | **1,179,253** |
| Other income comprises the following: | | |
| Credit balances written off | - | **31** |

## 19. Expenses by Nature

The following is disclosed for profit and loss from continuing operations:

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Cost of sales | 998,450 | 852,368 |
| Operating expenses | 118,020 | 59,316 |
| Administration expenses | 64,522 | 58,868 |
| Selling expenses | 17,672 | 12,588 |
| | **1,198,664** | **983,140** |
| Cost of sales | | |
| Employee costs (note 20) | 409,986 | 368,276 |
| Depreciation, amortisation and impairments | 103,466 | 80,591 |
| Operating lease expense – satellite rental | 283,177 | 259,369 |
| Transmitter tubes | 3,624 | 4,425 |
| Support equipment | 3,008 | 2,486 |
| Other cost of sales | 195,189 | 137,221 |
| | **998,450** | **852,368** |
| Operating expenses includes the following: | | |
| Operating lease expenses | | |
| Premises | 12,573 | 11,584 |
| Lease rentals on operating lease – other | 5,070 | 5,251 |
| Auditors remuneration | | |
| - Current year audit fees | 2,463 | 3,020 |
| Legal and consulting fees | 13,647 | 8,724 |
| Transport costs | 19,281 | 16,471 |
| Loss on impairment or disposal of property, plant and equipment | 1,351 | 1,128 |
| Other operating expenses | 63,635 | 13,137 |
| Total operating expenses | **118,020** | **59,316** |

Administration expenses includes the following:

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Licences | 6,441 | 5,918 |
| - Spectrum | 1,032 | 813 |
| - ECNS/ECS | 3,245 | 3,063 |
| - Other | 2,164 | 2,042 |
| Other administration expenses | 58,081 | 52,949 |
| Total administration expenses | **64,522** | **58,868** |
| Selling expenses includes the following: | | |
| CSI, advertising and other selling expenses | 17,672 | 12,588 |

## 20. Employee Cost

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Salaries and wages | 338,416 | 301,920 |
| Medical aid contributions – current employees | 35,738 | 32,515 |
| Medical aid contributions – pensioners | 402 | 494 |
| Medical aid contributions – post-retirement obligations, excluding interest | 4,098 | 3,307 |
| Statutory charges | 1,030 | 1,030 |
| Pension costs – defined contribution plan | 30,302 | 29,010 |
| | **409,986** | **368,276** |
| Number of persons employed | | |
| Total number of employees at year-end (excluding temporary staff) | 557 | 541 |

## 21. Finance Income

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Dividend revenue | | |
| Sanlam collective investments dividends | 19,104 | 20,661 |
| Interest revenue | | |
| Bank | 45,310 | 33,228 |
| | **64,415** | **53,889** |

## 22. Finance Costs

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Other financial interest | | |
| Other | 250 | 131 |
| Post-retirement medical interest | 3,957 | 9,991 |
| | **4,207** | **10,122** |

## 23. Taxation

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Major components of the tax expense | | |
| Current | | |
| Local income tax – current period | 19,407 | 49,122 |
| Tax recovered from grant funds | (1,372) | (1,784) |
| | **18,035** | **47,338** |
| Deferred | | |
| Deferred tax debit/(credit) | (28,025) | (7,230) |
| | **(28,025)** | **(7,230)** |
| | **(9,990)** | **40,108** |
| Deferred tax – profit and loss | | |
| Restatement – actuarial gains/(losses) | (278) | (31) |

### Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

| Group and Company | 2017 | 2016 |
|---|---|---|
| Applicable tax rate | 28.00% | 28.00% |
| Expenses not deductible | 4.37% | (0.54%) |
| Previous year over provision | (12.55%) | 0.00% |
| Dividend income exempt | (5.68%) | (2.41%) |
| Capitalised interest income | 1.46% | (0.74%) |
| Amortisation of government grant | (29.11%) | (9.19%) |
| Depreciation of buildings | 3.19% | 1.61% |
| | **(10.31%)** | **16.73%** |

## 24. Cash Generated from Operations

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Operating profit | 33,955 | 196,144 |
| Adjustments for: | | |
| Depreciation and amortisation | 103,466 | 80,591 |
| Loss on disposals of property, plant and equipment | 3,340 | 1,128 |
| DTT dual illumination | (89,806) | (100,728) |
| Post-retirement medical aid benefit obligation | 927 | 290 |
| (Decrease)/increase in provisions | 13,206 | (32,905) |
| Cash generated from operations before working capital changes | **65,088** | **144,520** |
| | **27,398** | **(49,003)** |
| Inventories | (6,956) | (11,279) |
| Trade and other receivables | 20,681 | (16,427) |
| Trade and other payables | 13,673 | (21,297) |
| Cash generated from operations | **92,486** | **95,517** |

## 25. Interest Paid

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Amount recognised in profit or loss | (4,207) | (10,122) |
| Interest on post-retirement medical aid | 3,957 | 9,991 |
| | **(250)** | **(131)** |

## 26. Tax Paid

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Balance at beginning of the year | 13,283 | 72,918.00 |
| Current tax for the year recognised in profit or loss | (19,685) | (49,153) |
| Tax recovered from grant funds | 1,372 | 1,784 |
| Less balance at end of the year | (18,138) | (13,283) |
| | **(23,168)** | **12,266** |

## 27. Financial Instruments

### Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. All financial assets fall under category loans and receivables. The maximum exposure to credit risk at the reporting date was:

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Cash and cash equivalents | 907,357 | 957,242 |
| Other loans and receivables | 29,663 | 48,536 |
| | **937,020** | **1,005,778** |
| The maximum exposure for loans and receivables at the reporting date by geographic region was: | | |
| Domestic | 39,542 | 30,367 |
| Foreign | 4,448 | 5,067 |
| | **43,990** | **35,434** |

The collectability of loans and receivables is assessed at reporting date and specific allowances are made for any doubtful loans and receivables based on a review of all outstanding amounts at year-end. Doubtful debts are written-off during the year in which they are identified. The impairment loss at year-end relates to loans and receivables which have been outstanding for a long time and have not been settled subsequent to year-end. Financial assets that are neither past due nor impaired are considered good credit quality.

### Exposure to Liquidity Risk

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Financial liabilities at year-end were as follows: | | |
| Trade and other payables (At amortised cost) | 77,286 | 73,987 |
| Carrying amount | **77,286** | **73,987** |

The maturity of contractual financial liabilities, including interest payments and excluding the impact of netting agreements are as follows:

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| 1 year or less | | |
| Trade and other payables | 77,286 | 73,987 |
| Total contractual cash flows | **77,286** | **73,987** |

The Group and Company will be able to meet their contractual obligations as they become due.

### Unutilised borrowing capacity

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Approved and unutilised overdraft facilities | 3,000 | 3,000 |

### Exposure to currency risk

Loans from Group companies and loans and borrowings are denominated in South African Rand. Foreign currency receivables are from the customer accounts denominated in foreign currency. The exposure to currency risk was as follows, based on carrying amounts for other financial instruments:

| | Loans and receivables R'000 | Trade and other payables R'000 | Cash and cash equivalents R'000 | Net exposure at year-end R'000 |
|---|---|---|---|---|
| **2017** | | | | |
| GBP | 104 | (8) | 1,186 | 1,282 |
| EUR | - | (6,450) | 1,450 | (5,000) |
| USD | 212 | - | 7,556 | 7,768 |
| | **316** | **(6,458)** | **10,192** | **4,050** |
| **2016** | | | | |
| GBP | 30 | - | 7,349 | 7,379 |
| EUR | 64 | (7,839) | 3 | (7,772) |
| USD | 138 | - | 18,266 | 18,404 |
| | **232** | **(7,839)** | **25,618** | **18,011** |

The following significant exchange rates were applied during the year:

| | Average rate | | Reporting date spot rate | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| GBP / ZAR | 18.49 | 20.98 | 16.88 | 21.30 |
| EUR / ZAR | 15.55 | 15.50 | 14.48 | 16.96 |
| USD / ZAR | 14.14 | 13.93 | 13.51 | 14.83 |
| CHF / ZAR | 14.86 | 14.90 | 13.99 | 16.13 |
| SEK / ZAR | 1.69 | 1.72 | 1.56 | 1.91 |
| JPY / ZAR | 0.14 | 0.12 | 0.12 | 0.14 |

## Sensitivity Analysis

A 10% weakening of the Rand against the following currencies at 31 March would have (decreased)/increased profit or loss for the Group by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | Average rate | |
|---|---|---|
| | 2017 R'000 | 2016 R'000 |
| GBP / ZAR | 128 | 1,910 |
| EUR / ZAR | (500) | (21) |
| USD / ZAR | 777 | 21,190 |

## Exposure to Interest Rate Risk

The Group generally adopts a policy of ensuring that its exposure to change in interest rates is on a floating rate basis.

## Profile

The interest rate risk profile of the interest-bearing financial instruments was:

| **Group and Company** | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Variable rate instruments | | |
| Government grants cash and cash equivalents | 6,427 | 35,102 |
| Own cash and cash equivalents | 900,930 | 922,140 |
| | **907,357** | **957,242** |

### Sensitivity Analysis

A change of 100 basis points in interest rate would have increased or decreased profit or loss by R0 (2016: R0) with all other variables held constant on the balances of financial instruments, whilst the actuarial valuations of the post retirement obligation impact has been incorporated in the note on employee benefits.

### Fair Values Versus Carrying Amounts

The Group and Company carrying amounts for financial assets and liabilities approximate the fair values of the respective financial instruments at year-end.

### Estimation of Fair Values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

#### *Interest Bearing Loans*

Fair value is calculated based on discounted expected future principal and interest cash flows.

#### *Loans and Receivables/Payables Including Group Balances*

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

#### *Non-derivative Financial Assets and Liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

### Interest Rates Used for Determining Fair Value

The interest rates used to discount estimated cash flows, when applicable, are based on prime rates at the reporting date plus an adequate credit spread.

### Fair Value Hierarchy

At 31 March 2017 and 2016, the Group did not have financial instruments carried at fair value, by valuation method, requiring the following fair value hierarchy classification:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or 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); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 28. Financial Risk Management

### Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash equivalents held on behalf of the Group by financial institutions.

### Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. There is concentration of credit risk in a single customer, the South African Broadcasting Corporation (SABC) as more than 50% of the Group's revenue comes from this customer. The SABC is the national broadcaster and is supported by government to ensure that it meets its obligations when they fall due. Therefore, the SABC does not pose a significant credit risk and has been settling its account on a timely basis. This situation will continue to be monitored to ensure that mitigating factors are in place to deal with any eventuality.

The Board has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepaid basis.

## Cash and Cash Equivalents

Reputable financial institutions are used for investing and cash handling purposes.

## Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains an overdraft facility with Absa for R3 million. The facility is unutilised.

## Market Risk

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

## Currency Risk

The Group is exposed to currency risk on purchases that are denominated in a currency other than the presentation currency of the Group. The currencies in which these transactions are primarily denominated are, Japanese Yen (JPY), Swedish Krona (SEK), British Pound (GBP), Swiss Franc (CHF), United States Dollar (USD) and Euro (EUR).

The Group does not hedge foreign purchases and sales, but, where possible, matches foreign currency denominated cash inflows and outflows through the underlying operations of the Group. This provides an economic hedge and no derivatives are entered into. The Group's net exposure is kept at an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

## Interest Rate Risk

The Group addresses its interest rate risk by ensuring that all borrowings and investments are at market-related rates. Within Group entities, inter-Group financing is also used as it is cheaper and subject to minimal interest rate risk. Certain long-term borrowings are entered into at fixed interest rates if the rates offered are favourable to the Group.

## Capital Management

One of the key focus areas of the Board is the optimal and most efficient use of the Group's capital. The primary objective of the Group's capital management strategy is to ensure that it maintains healthy capital ratios to support its core business and social mandate, whilst maximising Stakeholder value.

The Group's aim is to ensure that it funds the maintenance and growth of its core business using internally generated funds, whilst using government grant funding for expansion capital expenditure requirements and government-initiated programmes. The Group is restricted in the use of debt funding and accordingly the optimising of the weighted average cost of capital is limited. The philosophy is therefore to actively apply excess capital to growing and maintaining the core business and using government funding for significant mandated projects.

The core debt components of the Group are as follows:

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Post-retirement medical benefit obligation | 14,060 | 10,170 |
| | **14,060** | **10,170** |

The post-retirement medical benefit obligation relates to employees that joined the Group before 2005. This liability relates to the past and certain current employees who are entitled to post-retirement medical aid contribution when they remain in employment with SENTECH until retirement. This is a commitment that applies for medical aid contributions which are adjusted by a factor that is above CPI.

### Key Capital Structure Data:

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Shareholder funds – equity | 1,767,472 | 1,662,603 |
| Earnings before interest, tax and depreciation (EBITDA) | 137,421 | 276,735 |
| Interest expense | 4,207 | 10,122 |
| - Long-term borrowings | 250 | 131 |
| - Post-retirement medical | 3,957 | 9,991 |

### The Group Benchmarks the Following Capital Ratios:

| | 2017 | 2016 |
|---|---|---|
| **Debt to equity ratio** | | |
| Target | Less than 40% | Less than 40% |
| Actual | 3.09% | 4.30% |
| **EBITDA to debt** | | |
| Target | Greater than 3 | Greater than 3 |
| Actual | 2.52 | 3.51 |
| **EBITDA to interest cover** | | |
| Target | Greater than 10 | Greater than 10 |
| Actual | 32.67 | 27.34 |

## 29. Related Parties

### Relationships

Related party transactions occurred between SENTECH, the Department of Telecommunications and Postal Services (DTPS), the Independent Communications Authority of South Africa (ICASA) and the State Information Technology Agency (SITA).

All transactions with government departments were at arm's length and therefore these are considered to be normal dealings.

Key management personnel have also been identified as related parties and their remuneration has been disclosed below. There were no commitments to related parties for the year ended 31 March 2017 and 31 March 2016.

### Transactions with Key Management Personnel

*Loans to Directors*

There were no loans issued to Directors during the year or balances outstanding at the end of the year.

## Key Management Compensation

| Directors' Emoluments 2017 | Period of Service (Months) | Basic Salary R'000 | Retainer Fees R'000 | Performance Bonus and Allowances R'000 | Provident Fund R'000 | Meeting Fees R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| **Executive** | | | | | | | |
| M Booi | 12 | 2,517 | - | - | 329 | - | 2,846 |
| KS Matabane | 12 | 1,975 | - | - | 259 | - | 2,234 |
| SK Mthethwa | 4 | 594 | - | - | 78 | - | 672 |
| **Non-executive** | | | | | | | |
| AM Mello | 12 | - | 327 | - | - | 284 | 611 |
| SM Radebe | 12 | - | 131 | - | - | 285 | 416 |
| L Mtimde | 12 | - | 131 | - | - | 149 | 280 |
| N Mbele | 12 | - | 131 | | - | 158 | 289 |
| RJ Huntley | 12 | - | 131 | - | - | 217 | 348 |
| X Daku | 9 | - | 91 | - | - | 133 | 224 |
| LM Ndlovu | 4 | - | 41 | - | - | 38 | 79 |
| | | **5,086** | **983** | **-** | **666** | **1,264** | **7,999** |

| Directors' Emoluments 2016 | Period of Service (Months) | Basic Salary R'000 | Retainer Fees R'000 | Performance Bonus and Allowances R'000 | Provident Fund R'000 | Fees R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| **Executive** | | | | | | | |
| M Booi | 6 | 1,065 | - | 467 | 117 | - | 1,649 |
| KS Matabane | 12 | 1,857 | - | 447 | 238 | - | 2,542 |
| R Rasikhinya | 8 | 996 | - | - | 139 | - | 1,135 |
| **Non-executive** | | | | | | | |
| AM Mello | 12 | - | 308 | - | - | 369 | 677 |
| SM Radebe | 12 | - | 123 | - | - | 306 | 429 |
| L Mtimde | 12 | - | 123 | - | - | 297 | 420 |
| N Mbele | 12 | - | 123 | - | - | 275 | 398 |
| RJ Huntley | 12 | - | 123 | - | - | 231 | 354 |
| X Daku | 12 | - | 123 | - | - | 265 | 388 |
| | | **3,918** | **923** | **914** | **494** | **1,743** | **7,992** |

See Board's Report for movements (resignations and appointment) in Directors during the year.

## Other Key Management Personnel

Key personnel are defined as per their positions below. Remuneration to key management personnel, excluding Directors' emoluments above is:

| 2017 | Position | Period of Service (Months) | Basic Salary R'000 | Performance Bonus and Other Allowances R'000 | Provident Fund R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| Z Adams | Executive Head: Legal | 12 | 1,481 | - | 194 | 1,675 |
| TJ Leshope | Executive: Operations | 12 | 1,587 | - | 208 | 1,795 |
| NB Motswasele | Executive: Sales and Marketing | 10 | 1,209 | - | 159 | 1,368 |
| MM Matobako | Executive: Risk Management | 7 | 911 | - | 120 | 1,031 |
| KK Motlhabi | Executive: Human Resource | 8 | 992 | 69 | 130 | 1,191 |
| PM Phukubje | Executive: Internal Audit | 12 | 1,584 | - | 208 | 1,792 |
| P Maine | Executive Head: Information Technology | 3 | 372 | - | 49 | 421 |
| NO Nekhavhambe | Executive: Finance | 12 | 1,544 | 229 | 208 | 1,981 |
| IG Segaloe | Executive: Strategy | 11 | 1,375 | - | 180 | 1,555 |
| DW Ngwenya | Chief Technology Officer | 10 | 1,333 | - | 174 | 1,507 |
| | | | **12,388** | **298** | **1,630** | **14,316** |

| 2016 | Position | Period of Service (Months) | Basic Salary R'000 | Performance Bonus and Other Allowances R'000 | Provident Fund R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| T Masooa | Executive: Human Resource | 10 | 1,218 | - | 171 | 1,389 |
| MM Matobako | Executive: Risk Management | 12 | 1,481 | 231 | 190 | 1,902 |
| PN Phukubje | Executive: Internal Audit | 12 | 1,486 | 223 | 190 | 1,899 |
| NB Motswasele | Executive: Business Services | 12 | 1,444 | 279 | 185 | 1,908 |
| LS Takalani | Executive: Technology | 7 | 825 | - | 116 | 941 |
| Z Adams | Executive Head: Legal | 12 | 1,389 | 211 | 178 | 1,778 |
| S. Senti | Acting Executive: Strategy Co-ordination | 10 | 875 | - | 122 | 997 |
| P Maine | Executive Head: Information Technology | 12 | 1,467 | 282 | 188 | 1,937 |
| NO Nekhavhambe | Executive: Finance | 12 | 1,447 | 458 | 185 | 2,090 |
| TJ Leshope | Executive: Operations | 12 | 1,490 | 291 | 191 | 1,972 |
| | | | **13,122** | **1,975** | **1,716** | **16,813** |

## Transactions and Balances with Related Entities Government Grants

Various transactions were entered into with the DTPS and National Treasury with respect to government grants. Government grants are accounted for in terms of IAS 20 – Accounting for Government Grants and Disclosure of Government  Assistance.

Government grants received and other related movements have been disclosed in note 16.

### *Entities controlled by the DTPS*

The Group is controlled by the Government of South Africa which owns 100% of the Company's shares through the DTPS. The following transactions occurred with entities controlled by the DTPS during the year:

## Sale of Goods and Services

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| SITA | 439 | - |
| USAASA | 2,939 | 40 |
| | **3,378** | **40** |

Services are rendered at market-related rates.

## Purchases of Goods and Services

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| South African Post Office | 2 | - |
| SITA | 607 | - |
| ICASA | 6,441 | 5,918 |
| | **7,050** | **5,918** |

Transactions with related parties are on an arm's length basis.

## Related Party Receivables

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| South African Post Office | (260) | (260) |
| SITA | 500 | - |
| USAASA | 1,418 | 1,464 |
| Impairment of related parties | (1,244) | (622) |
| DTPS | - | - |
| | **414** | **582** |
| Other receivables | | |
| ICASA | 5,925 | 5,606 |

## Transactions with Subsidiaries

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Loans owing to subsidiary | - | - |

## 30. Commitments

### Capital Commitments

Capital expenditure will be financed in line with the Company's optimal capital structure, taking into account internal cash resources available, borrowings and government grants.

| Group and Company | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|
| Requested per corporate plan | | |
| - Sentech funded assets | 277,000 | 502,016 |
| - Government grant funded assets | 53,000 | 30,346 |
| Approved but not contracted | 262,813 | 450,049 |
| Contracted | 67,187 | 82,313 |

The authorised capital expenditure for property, plant and equipment is planned to occur in the next financial year. It will be financed in line with the Company's optimal capital structure, taking into account available internal cash resources, borrowings and from government grants received.

### Operating Lease Commitments

The Group leases various facilities, offices, equipment and satellite capacity under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure recognised in profit or loss during the year is disclosed in note 19.

### Minimum Lease Cash Payments Due

| Group and Company | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|
| - within one year | 292,928 | 291,194 |
| - in second to fifth year inclusive | 981,382 | 1,029,846 |
| - later than five years | 1,836,860 | 1,998,722 |
| | **3,111,171** | **3,319,762** |

## 31. Contingent Liabilities and Contingent Assets

### Contingent Liabilities

SENTECH is party to a civil action lawsuit, brought by a former employee due to the Company's alleged failure to implement its policies. The amount claimed is approximately R3 million, but since a trial date in the High Court has not been set, the outcome is still unknown.

## 32. Losses Through Criminal Conduct, Irregular, Fruitless and Wasteful Expenditures

All losses through criminal conduct and any irregular expenditure.

Section 1 of the PFMA, 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 determined as being losses through irregular expenditure, in terms of Section 55(2)(b)(i) of the PFMA:

| Group and Company | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|
| Opening balance | 16,707 | 15,113 |
| Add: expenditure where supply chain management process not followed | 3,805 | 1,594 |
| Closing balance | **20,512** | **16,707** |

## Material Losses through Fruitless and Wasteful Expenditure

Section 1 of the PFMA, defines fruitless and wasteful expenditure as expenditure which was made in vain and would have been avoided had reasonable care been exercised.

The following material losses, through fruitless and wasteful expenditure have been identified as being reportable in terms of the materiality framework approved by the Minister of Telecommunications and Postal Services for the year under review:

| Group and Company | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Balance at 1 April | 5,412 | 5,151 |
| Losses identified during the year | 144 | 261 |
| Balance at 31 March | **5,556** | **5,412** |

The nature of these losses are primarily a result of contract terms that are not favourable to SENTECH, including interest charges on services rendered without reference to the payment due date. The Company is in the process of phasing out such contracts and will renegotiate some of these contracts that are still valid for the foreseeable future. SENTECH is currently considering the possible condonement of these losses within the context of each individual transaction.

# 33. Borrowing Limits

In terms of the Group's MOI, the Board shall not have the power to borrow without the prior approval of the Executive Authority and the Minister of Finance. The Minister of Telecommunications and Postal Services has approved a banking facility with Absa for R74 million, which includes an overdraft facility of R3 million. The facility has not yet been utilised and will only be used when required by the Group.

# 34. Going Concern

The Board has reviewed the Corporate Plan and prepared a cash flow forecast for the 18 months to 30 September 2018. The Corporate Plan concludes that the Company has, through a number of austerity measures, improved the profitability and cash generating ability to a satisfactory level. The Corporate Plan is premised on the Company's ability to generate cash and the additional funds that have been requested to complete the DTT rollout will be made available.

In the period post financial year-end, the Company became aware that one of its major customers was experiencing financial challenges which could pose a risk to the going-concern assumption. In order to evaluate the impact on the Company's financial position, Management performed a detailed cash flow analysis taking into account the existing plans to diversify revenues, manage the CAPEX plan and implementing cost-containment initiatives. The analysis was also done over a period of 18 months after the reporting date.

On the basis of this review, and in light of the current financial position, approved grant funding, the Board is satisfied that the Group has access to adequate cash resources to continue in its operational existence for the foreseeable future and is a going concern, and has continued to adopt the going-concern basis in preparing the financial statements.

# 35. Events After the Reporting Period

The Board announced the establishment of an ICT infrastructure company which could lead to a merger of SENTECH SOC Limited and Broadband Infraco to accelerate the rationalisation of state-owned entities (SOEs) with the aim of eliminating unnecessary duplications of infrastructure and mandates. At year-end, Management was still uncertain about the specific implementation details and potential impact to the future operations of SENTECH.

# NOTES

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