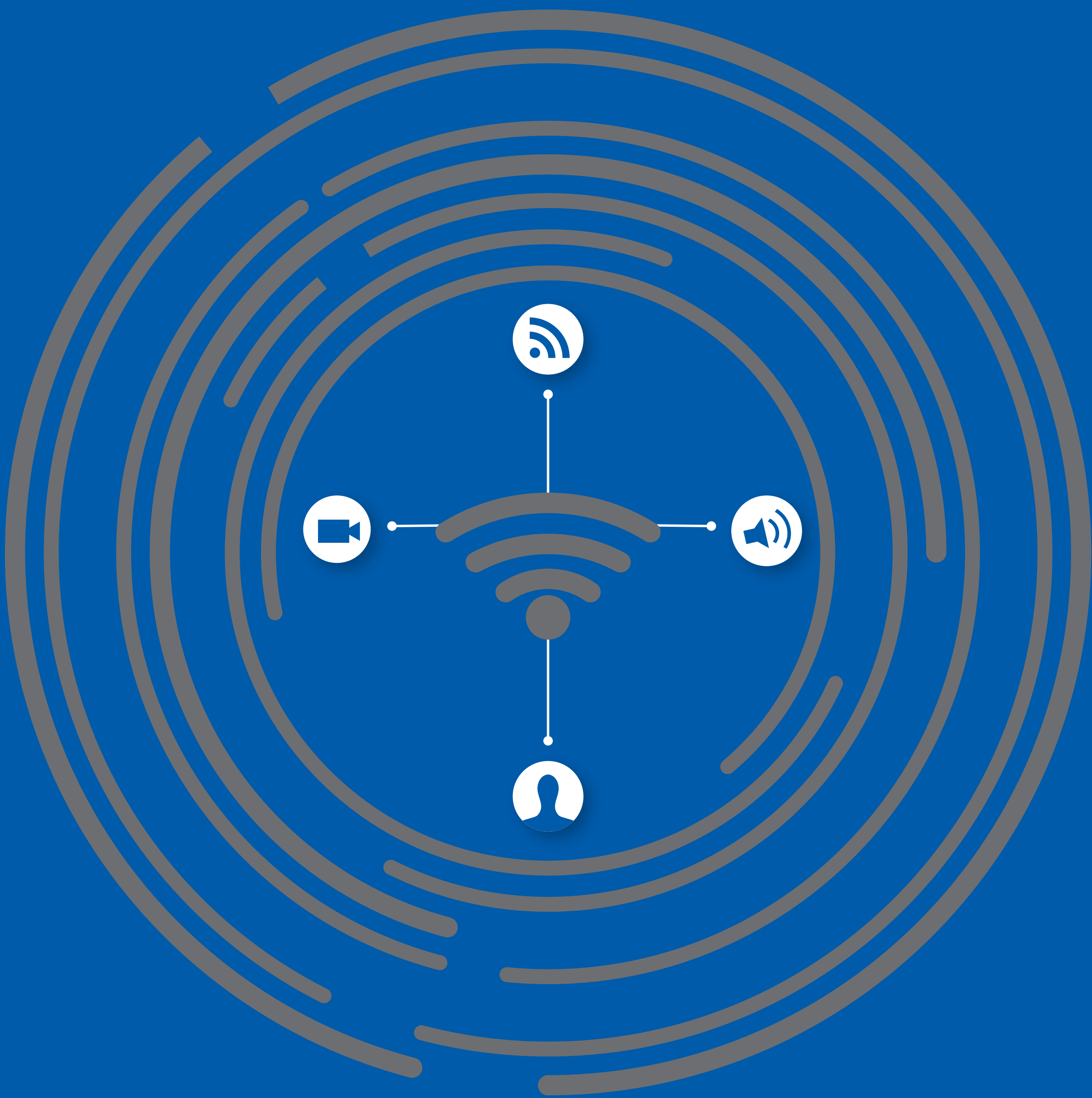
ANNUAL REPORT

FOR THE YEAR ENDED

31 MARCH 2013



50 years

SENTECH

connecting You

TABLE OF CONTENTS

1

Business Review

Government's arm in the communications sector, intervening through network based infrastructure.

Back to table of contents

1.1 CORPORATE STATUS

SENTECH is a Schedule 3B State Owned Company (SOC) operating in the broadcasting signal distribution and telecommunications sector. The sole shareholder of the Company is Government as represented by the Minister of Communications. In accordance with its mandate as a SOC, SENTECH's strategy is informed by and aligned to Government's Medium-term Strategy Focus (MTSF) goals and the corporate objectives as set by the Accounting Authority.

SENTECH began as a technical division of the South African Broadcasting Corporation (SABC) responsible for signal distribution services of the Corporation. In 1992, the SABC corporatised the division as SENTECH, a wholly owned subsidiary of the Corporation. In 1996, the SENTECH Act 63 of 1996 was amended, converting SENTECH into a separate public company responsible for providing broadcasting signal distribution services as a 'common carrier' to licensed television and radio broadcasters.

In 2002, following the deregulation of the Telecommunications sector, SENTECH was awarded two additional licences 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) licenced in terms of the Electronic Communications Act (ECA) No. 36 of 2005.

1.2 CORPORATE STATEMENTS

1.2.1 Mandate

In terms of the Electronic Communications Act No. 36 of 2005 the main object of SENTECH is *"...to provide electronic communications services and electronic communications network services in accordance with the Electronic Communications Act."*

1.2.2 Vision

"To be a world-class provider of a sustainable communications network infrastructure and services in South Africa."

1.2.3 Mission

"To enable affordable universal access to communication services in the context of South Africa's socio-political imperatives as a developmental state."

1.2.4 Values

Integrity
Accountability
Quality Customer Service
Innovation
Social Responsibility

1.3 BOARD OF DIRECTORS

MR THABO MONGAKE

(Chairperson)

Mr Thabo Mongake was appointed non-executive Director with effect from 1 March 2012 for a three-year period and subsequently as the Chairperson with effect from 1 August 2012. He has held several key positions at executive level which include the following: Executive Director of BIDZ Auctioneers and Valuers, Business Development Manager at Auction Alliance and Chief Executive of Prime Time Group (Pty) Ltd. He is Chairperson of the Free State Land Use Advisory Board, a board member of Free State Gambling and Liquor Authority and a non-executive director for Free State Social Housing Company, amongst others. Mr Mongake served his articles with Madjiedt Cooper Attorneys and Cooper Bezuidenhout Attorneys. Mr Mongake holds a Diploma in Auctioneering from the South African College of Auctioneering and is currently busy completing an LL.B with the Free State University.

DR SETUMO MOHAPI

(Chief Executive Officer)

Dr Setumo Mohapi was appointed as the Chief Executive Officer with effect from 1 November 2010. A veteran in the Information and Communications Technology (ICT) sector, Dr Mohapi has worked at various companies in the sector, including his preceding position as the Chief Operating Officer of IWAYAFRICA, a subsidiary of the Telkom Group in Mauritius. He also served as the Chief Technical Officer of ICT-Works. Dr Mohapi's academic standing includes a Bachelor of Science degree in electrical engineering and computer science from the Massachusetts Institute of Technology (MIT), a Masters degree in electrical engineering, also obtained at MIT and a Ph.D in electrical engineering (telecommunications) from Wits.

MR KGANKI MATABANE

(Chief Operations Officer)

Mr Kganki Matabane was appointed as Chief Operations Officer for a five-year period commencing 1 July 2012. A highly experienced public and private sector professional, Mr Matabane served as an Executive Director of Transformation Policy and Operations at Business Unity South Africa (BUSA). He has held various strategic positions at the Black Management Forum (BMF), Gauteng Provincial Legislature, City Power Johannesburg, Spoornet and Anglo Platinum. Mr Matabane serves on various boards and is a practicing member of the South African Institute of Professional Accountants. His academic standing includes, amongst others, a Leadership Development Programme, Post Graduate Diploma in Business Administration and a B-Tech in Cost and Management Accounting.

Back to table of contents

MR PARIS MASHILE

(Non-Executive Director)

Mr Paris Mashile was appointed as a non-executive Director from 1 March 2011 for a three-year period. Mr Mashile is the Programme Director: Digital Multimedia Management at the Gordon Institute of Business Science (GIBS) and an independent consultant on broadcasting and telecommunications. He is a former CEO of Vunani Electronic Communications and Chairman of ICASA respectively. Mr Mashile is also the Chairman of Community, a company that provides platforms for mobile applications. He is a former councillor and chairperson of ICASA. His other previous experiences include: Director of Infrastructure Development and Management at Rustenburg Local Municipality, Chief Electronics Engineer at Rand Water, Project Manager at Siemens Ltd, Marketing Engineer at Reutech, Research Engineer at AMOCO Technology Company in the USA, and Physics Lecturer at the University of Botswana. Mr Mashile holds a B.Sc (Hons) in Physics and Electronic Engineering (combined) from the University of Leeds in the UK and an M.Sc in Physics from Lancaster University. He also holds an M.Sc degree in Electronic Engineering (light current) from Washington University in St. Louis, Missouri, USA. He is a member of the Institute of Electrical and Electronics Engineers (IEEE).

MR SIPHO JOHANNES MJWARA

(Non-Executive Director)

Mr Sipho Johannes Mjwara was appointed non-executive Director with effect from 1 March 2012 for a three-year period. Mr Mjwara currently holds the position of Executive: Business Development at Business Connexion. He has 27 years' experience in the broadcasting and media development sector and 18 of those years were served in senior and executive leadership positions in both the public and private sectors. He has served as Special Advisor to the Minister of Posts and Telecommunications and has contributed to the review of SENTECH's role as a signal distributor, the establishment of NEMISA and the first National Broadcasting Plan for South Africa. Some of the positions previously held by Mr Mjwara include the following: Deputy Director-General: Policy; Deputy Director-General: Broadcasting and Multimedia Policy in the Department of Communications; and Manager: Strategic Planning Unit at the SABC.

MR STEPHEN MOLALA

(Non-Executive Director)

Mr Stephen Molala was appointed non-executive Director with effect from 1 March 2012 for a three-year period. Mr Molala has 15 years' working experience in the field of institutional development and management and that of teaching and capacity building. He has vast experience in grassroots work, general management and transformation and has also contributed to several research publications. He was appointed Municipal Manager for Greater Tubatse, Maluti-a-phofung and Fezile Dabi Municipalities. Some of the posts that Mr Molala has previously held are as follows: Managing Director at Afriscope; and Head of Department at Free State Department of Police, Roads and Transport. Mr Molala holds an M.A. (Geography) and B.A. (Honours) from the University of Pretoria, FDE (Education Management) from the College of Education of South Africa and a B.A. and H.E.D. from the University of Fort Hare.

MS LEAH KHUMALO

(Non-Executive Director: 1 June 2010 to 31 May 2013)

Ms Leah Khumalo was appointed as a non-executive Director from 1 June 2010 for a three-year period. Ms Khumalo is the founder and Managing Director of Mngoma–Mlaba & Khumalo Inc. (MMK Inc.). Ms Khumalo has extensive experience and advanced knowledge in drafting and interpreting legislation as well as execution of litigation. Ms Khumalo holds a B.Juris degree, LL.B, Project Management and Professional Legal Training. Ms Leah Khumalo's term expired on 30 May 2013.

MR MESULI DHLAMINI

(Non-Executive Director: 1 April 2010 to 31 March 2013)

Mr Mesuli Dhlamini was appointed as a non-executive Director from 1 April 2010 for a three-year period. Mr Dhlamini is a Chartered Accountant whose key academic qualifications include B.Com Finance and a postgraduate Diploma in Management. Mr Dhlamini also holds an M.Sc Economic Policy (Finance) from the University of London. Mr Dhlamini is experienced in public finance, turnaround strategy and business transformation. He is currently the owner of Linkages Consulting and has worked with leading accounting and auditing firms such as Ernst & Young and Deloitte. He also worked for Eskom (Rotek Industries).

MS ZANELE HLATSHWAYO

(Non-Executive Director: 1 April 2010 to 31 March 2013)

Ms Zanele Hlatshwayo was appointed as a non-executive Director with effect from 1 April 2010 for a three-year period. Ms Hlatshwayo is the Executive Director of the Progressive Women's Movement of South Africa (PWMSA). Her work experience is in policy research to improve access to services. She holds an M.Sc in Policy and Planning in Developing Countries from the London School of Economics in the UK; Management Advancement Programme from Wits Business School; a Postgraduate Diploma in Education; and a B.A. Humanities degree, the last two both from the University of Botswana.

MR PROTAS PHILI

(Chief Financial Officer – resigned 20 July 2012)

Mr Protas Phili was appointed as the Chief Financial Officer with effect from 15 August 2011. Mr Phili is a Chartered Accountant with a Master's Degree in Commerce. His vast public and private sector experience in financial management, risk management, auditing, corporate finance, accounting and corporate governance was gained from companies such as Deloitte, the Auditor-General, the Department of Public Enterprises and Corporate Finance (Pty) Ltd. He previously held the position of Chief Financial Officer and Deputy Director-General at the Department of Rural Development and Land Reform. Mr Phili has experience on various boards and listed companies.

Back to table of contents

1.4 CHAIRPERSON'S REPORT

It is with great pleasure and humility that I present this annual report for 2012/13 in accordance with the provisions of section 55 (d) of the Public Finance Management Act (PFMA), National Treasury Regulation 29 and the Money Bills Amendment Procedure and Related Matters Act of 2009, to the Executive Authority, National Treasury, Auditor-General and the Portfolio Committee on Communications, our customers and the general public.

Let me first extend a special word of thanks to the employees of SENTECH and the rest of my colleagues on the Board of Directors for producing some outstanding results in the midst of a dynamically changing operating environment. The clean audit that has been given by our external auditors is a true testament that we are not only just an organisation that manages technology platforms, but we are also a responsible corporate citizen and public entity that is committed to clean administration and good corporate governance. Team SENTECH, you have made me proud and keep up the good work.

Corporate Overview

At the beginning of the financial year, we presented a corporate plan that sought to accelerate our interventions in the communications sector in general, and the broadcasting and media space in particular. These interventions are founded on the strategic framework that we formulated in our 2011-2014 corporate plan which focused us on our public service mandate to enable universal affordable and universal access to communications services, paying particular attention to underserved and underserviced areas of our country. Within this context and despite the challenging operating environment, we re-affirmed our position that we would remain resolute in our attempts to accelerate the rollout of integrated communications infrastructure networks that would enable seamless delivery of digital content and services, irrespective of the technology platform, operator strategy and end-user device. I believe that we achieved the objectives we set for ourselves and I will now briefly touch on some of the key deliverables.

Digital Terrestrial Television Migration

In terms of the DTT migration process, SENTECH is mandated to build a digital network which will enable broadcasters to migrate from analogue to digital terrestrial television within the Government-set timelines. As at 28 March 2013, SENTECH had recorded an 80,43% DTT population coverage, thus exceeding the targeted 80% coverage – four days before the deadline. Full provincial rollout, comprising 88% terrestrial and 12% via satellite transmission, will be attained by 31 March 2014.

Low Power Transmission

The low power transmission project is a partnership between the Department of Communications, (DoC), the South African Broadcasting Corporation (SABC) and SENTECH. The project aims to provide universal access to public broadcasting services to communities that cannot receive such services due to their geographical location. The project is on track and at the end of the financial year, we not only exceeded our target number of new sites, but we also met our target for conversion of self-help sites.

National Wireless Broadband Network

The VSAT product remains as the Company's only telecommunications product. In this respect, this solution will continue to be reviewed in the context of the National Broadband Network Policy and Implementation Strategy that is being developed by the Department of Communications. Whilst keeping the above in mind, it is worth noting that as a consequence of the short-term burden of the cost of holding the broadband spectrum that the Regulator had assigned to us, and in particular, in further consideration of the National Treasury's directive on the return of broadband funds, the Board resolved to return to the Regulator, the Radio Frequency Spectrum currently held by the Company for the NWBN programme. Notwithstanding this development, SENTECH will continue to participate in the DoC's National Broadband Strategy development and provide strategic input into the development of the Broadband Implementation Plan with the SIP 15 Strategic Programme.

Clean Audit

For the first time in over ten years, the independent auditors gave the company a clean audit report. In this respect, the opinion on our financials was unmodified and no reference was made to liquidity or going concern problems from the Directors of the company. Furthermore, there were no material findings on pre-determined objectives, compliance with laws and regulations and internal controls.

Going Forward

Our 2013 to 2016 Corporate Plan continues on the same path, with particular focus on further accelerating the implementation of Government ICT infrastructure interventions within the NDP and SIP15 frameworks. Accordingly, SENTECH's interventions remain focused on the following priority areas:

- Enabling Universal Access to communications infrastructure network services, prioritising underserved and underserviced areas;
- Ensuring that SENTECH's communications infrastructure network and platforms are operated on Open Access and Interoperable principles; and
- Enabling affordable and diverse content and information distribution platforms.

Conclusion

In ending, I would like to express our sincere gratitude to the Shareholder for the stewardship, policy oversight and persistence in ensuring that SENTECH achieves its core mandate of universal access to communication services. I would further like to thank the Parliamentary Portfolio Committee on Communications for their sector oversight and robust engagement on strategic issues. To my colleagues, the Directors of SENTECH, let me offer my sincerest gratitude for your hard work in the development and monitoring of our strategy and exemplary oversight on corporate governance. To the Executive, Senior Management and SENTECH staff, in its entirety, under the leadership of Dr Setumo Mohapi, you are the engine that keeps this machine going. Your relentless efforts, hard work and dedication towards ensuring attainment of the mandate and corporate goals have not gone unnoticed. It is my fervent belief that as we move towards implementing the MTEF 2013 to 2016 Corporate Plan, you will exhibit the same passion and commitment.

Thabo Mongake
Chairperson

1.5 CHIEF EXECUTIVE OFFICER'S REPORT

Overview

In the third quarter of the 2012/2013 financial year, we celebrated the 50th anniversary of the completion of the construction of the SENTECH Tower. Over the years, this Tower has become the symbol of our being, bestowed on us by our past, holding our present and, as we continue with its rehabilitation, carrying our future. The symbolism of the anniversary is quite appealing. The year provided us with time to reflect on the past, the lessons learned. It also gave us moments to reflect on the present, in particular, the work we are doing for the broadcasting industry and society in general. Finally, the year represented a significant point of change, as we mapped our future. Please allow me to use this symbolism to set the theme of the events of the financial year and the outlook for the future.

We are significantly out of the woods as we have cleared a number of legacy issues, including some from as far back as 1997. We have exceeded our expectations in executing our responsibilities in the national digital terrestrial television (DTT) migration project. We have extended universal access to basic public broadcasting services and we have energised our staff members, focused them on our common purpose and laid the foundations to equip them with the tools to execute. As a going concern, we remain financially sound and we have, as a reflection of the administration of our work, achieved a clean audit. In summary, we believe that during the financial year, we laid a solid foundation on which we can build and go from strength to strength, putting the difficulties of the past in the past.

The beginning of the year saw a reduction in the tariffs for community broadcasters in line with the Electronic Communications Act. This, in turn, saw many self-providing broadcasters turn to us for services.

Historically, unless otherwise specified, we accounted for interest earned on Government Grant funds as belonging to the Group. In November this matter was clarified that interest earned remains the Governments until we have permission to use it. By settling the amount of R173 million, which is the total accumulated interest on Government grants from the years up to March 2013, we have cleared a significant legacy issue and established clarity on the use of this element of Government funds. The effect of this can be seen in our statements of comprehensive income, but this is a once off entry and has no bearing on our financial outlook.

About two years ago, we established that we were operating on a reputational deficit, as reflected by a number of legal legacy issues. During the financial year we cleared these. We settled a matter with ICASA regarding unpaid license fees for our main operating license. We settled the legal matter with one of our legacy decoder supplier and we accepted the outcomes of the judgment on cross-border satellite signal distribution and have since upgraded our technology platform in line with the

Back to table of contents

judgment. Finally, with the lessons learned from the case on DTT set-top-box control, we established a set of ethos for how we deal with such matters in the future.

A positive shift was made on customer services and care. A noticeable effort was also made to engage more with the customers in order to understand them better to enable us to cater and provide for their individual needs.

Internally, more emphasis was placed on employee satisfaction and development. Due to the difficulties SENTECH had faced in the past, the organisation's focus was not targeted on the employees' job satisfaction and development. However, with the significant progress made within the past years, a leadership competency framework has been put in place and leadership assessments have been completed. The results of the assessments have provided the opportunity for leadership programs to be implemented in order to bridge the gap and invest further in our employees.

Programs

- As part of the execution of our mandate in terms of the country's guarantees to CAF on AFCON 2013, we delivered the global signal contribution services from each of the tournament venues. We did this with 100% availability throughout the event and according to the Local Organising Committee (LOC), almost a billion people watched the games globally.

- We reached 80,43% population coverage of the DTT network, exceeding the 80% target we had set for ourselves at the beginning of the financial year.

- We also exceeded or met targets with regards to the Low Power (LP)/ Low Cost (LC) and Self-Help (SH) sites, which were installed and activated. A target of 16 LP/LC sites was in fact bettered with the installation and activation of 18 sites. The SH sites target was met at 28 site installations.

- We exceeded the network qualities of service targets through network performance at customer SLA across the set of services we provide. These include FM Radio, MW, SW, ATV, DTH-S and VSAT.

- The BEE target of 50% was also exceeded by 6% attaining 56% of total infrastructure spent on BEE level 4 and better. We now have a BBBEE rating of Level 4, with 65 points. Both of which were targets set and met.

- A target of 1% was met with regards to the percentage of total infrastructure spent on Qualifying SMMEs and Exempted Micro Enterprises as defined in the Department of Trade and Industry (DTI) Codes of Good Practice.

- We achieved an important milestone by receiving a clean audit as determined by external auditors; this comprises of unmodified financial statements, no findings on predetermined objectives, no findings on compliance with laws and regulations and no findings on internal controls. This came about as a result of a planned and concerted effort from all our staff members

Financial Review

- We increased our Group revenues from operations (excluding dual illumination) by 7%, from R776 million in 2012 to R831 million in 2013. The prior year increase was 4,6%.

- We increased our Group operating profit by 20%, from R148 million in 2012 to R177 million in 2013. Included in this is a once-off consideration for R35 million for the remaining portion of the outstanding operating license fees, part of the settlement with ICASA on the matter.

- Cash generated from operations increased from R277 million in 2012 to R299 million in 2013.

- We spent R457 million on additions to property plant and equipment in 2013.

- An amount of R173 million had to be passed into the income statement to refund the National Treasury, due to interest on government grant funds as recognised in income in previous years of net taxation. However, we still earned R27 million of interest from our own funds.

- In spite of the once-off items, we successfully generated R11 million in profit before tax; we however had to pay tax amounting to R58 million on the full operating profit due to the fact that the once-off item related to interest on government grants was non-tax deductable.

- We are in a fairly good cash position. There is R800 million in unrestricted cash, of which R200 million is dedicated to cater for unfunded liability for post-retirement medical aid support. We have since formally started the process to address this issue which means so much to our past, and some present staff members. We intend to complete this effort by the end of the new financial year.

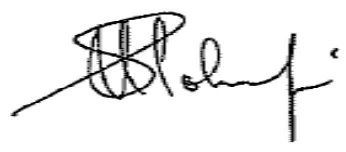
Looking Ahead

We believe that we are fairly on par with global thinking and developments and we have the courage to move forward in the global context, while not losing sight of the unique socio-economic context in which we operate. We are moving ahead with efforts to digitise the broadcasting sector across the board, working on the foundation of our core principle of providing open-access interoperable technology, service and application platforms that will deliver on our mission statement. In this regard, we will increase our efforts to place an even greater emphasis on our customers, the broadcasters and general content providers as well as on the needs of society at large.

Corporate organisational health is defined by employee satisfaction, clean administration, competent operations, strong finances and healthy customer and service provider relationships. We fully embody all of these aspirations and we will continue to build and reinforce our nascent healthy state.

Concluding Remarks

I would like to express a profound thank you to the Board of Directors for their continual support. I would also like to pay a special tribute to our customers, our Shareholder, the Department of Communications, stakeholders such as the ICASA, MDDA and NCRF. Lastly I would like to sincerely thank the staff of SENTECH. Your efforts have not gone unnoticed and I look forward to a wonderful and prosperous future. Your dedication has been an inspiration.



Dr Setumo Mohapi
Chief Executive Officer

Back to table of contents

2

Operational Review

Government's arm in the communications sector, intervening through network based infrastructure.

Back to table of contents

2.1 PERFORMANCE OVERVIEW

Key Outcome	Key Output	Performance Indicator /Measure	Performance Targets FY 12/13	Achieved	Variance Analysis
Ensure universal access to Communications Infrastructure Network services	Low power/low cost and self-help transmitter roll-out to under-served areas	Number of new low power /low cost sites installed and activated	Low power/low cost – 16	Achieved	
		Number of self-help sites installed and activated	Self-help – 28	Achieved	
		Number of new sites rolled out to enable DTT coverage	0	N/A	
	Accelerate roll-out of VSAT connectivity to Dinaledi Schools	Number of new schools connected through VSAT broadband	25	Achieved	The schools connectivity was not achieved due to long lead times and the project contending with other priorities from the Department of Education. This target will form part of 2013/14 financial year. In total SENTECH connected 72 sites during the year, as well as increasing connectivity at a further 23 sites using alternative methodology.
		Number of non-schools connected through VSAT broadband	25	Achieved	
	Digital Terrestrial Broadcasting infrastructure roll-out	Percentage of population covered by DTT Network	80%	Achieved	
Ensure network quality of service	Network performance at customer SLA	Average percentage service uptime and availability at SLA	Radio (FM): 99,8% (2h30)	Achieved	
			Radio (MW): 99,5% (2h00)	Achieved	
			Radio (SW): 99,5%	Achieved	
			ATV: 99,8% (2h30)	Achieved	
			DTH-S: 99,8% (0h30)	Achieved	
			VSAT: 99,8% (4h00)	Achieved	
Ensure that infrastructure-build projects contribute economic development	Preferential procurement	Percentage of total infrastructure spend spent on BEE (Level 4 and above)	50%	Achieved	
		Percentage of total infrastructure spend spent on qualifying SMMEs and Exempted Micro Enterprises as defined in the DTI Codes of Good Practice	1%	Achieved	
			Development of Audit Committee approved Enterprise Development Plan	Achieved	
		BBBEE Rating (SENTECH Own)	65 points	Achieved	
			Level 4 Rating	Achieved	

Key Outcome	Key Output	Performance Indicator /Measure	Performance Targets FY 12/13	Achieved	Variance Analysis
Ensure that communications infrastructure services are affordable	Implement a broadcasting signal distribution tariff in line with current Policy and Regulatory regime	Timeframe for signed-off differentiated tariff model cognisant of the different classes of broadcasting service licenses	Q4	Not achieved	The final DTT migration regulation was only published in December 2012, which stipulates the allocation of each broadcaster per MUX. In the absence of this regulation the final tariff could not be completed.
Provide a multimedia content delivery platform that will enable distribution and accessibility of content on all known and future digital platforms	Establish open access and inter-operable Multimedia Content distribution platform	Timeframe for commercial availability of open access content distribution platforms	Establish DTH-S 'gap-filler' platform for DTT services	Not achieved	Partially achieved – modulators for DVB-S2 and DTH Head-end established for the platform. There was a delay in releasing satellite capacity required for the platform due to delay in migration of VSAT to a different satellite orbital. Hence migration to DVB-S2 was delayed.
			Pilot a Mobile TV platform in Q3	Not achieved	DVB-T2 Lite capability was still under development by vendors. SENTECH waited for maturity and understanding of the technology. Procurement took place in Q4.
			Pilot converged content distribution platform (CDP) in Q4	Achieved	
		Percentage profitability achieved by each product/solutions portfolio	All products to achieve greater than 5% profitability	Achieved	Only the Shortwave profitability was below target. The actual performance is -33%. A turnaround strategy is in place and is tracked monthly.
	Support ICT related CSI programmes	Number of CSI Schools connected	14 new	Achieved	
		Number of ICT CSI programmes supported	5	Achieved	
Implement a comprehensive management and leadership development programme to ensure personal growth, succession planning and skills retention	Leadership Assessments	Number of senior managers assessed	100% by Q3	Achieved	
	Intervention and development plans	Develop leadership programme including leadership plans	100% of senior managers assessed with development plans by Q4	Achieved	
	Succession plans	Number of critical positions with proper succession plans	Succession planning policy developed – Q4	Not achieved	This was not achieved, the policy has now been developed

Back to table of contents

Key Outcome	Key Output	Performance Indicator /Measure	Performance Targets FY 12/13	Achieved	Variance Analysis
Develop employee skills to manage, participate and support the SENTECH business model	Job profiling and evaluation	Number of jobs profiled and graded	100% of all jobs by Q4	Not achieved	The variance in the job profiling and evaluation was due to the Job profiling exercise being much more detailed than initially anticipated, as well as changes in the organisational structure and subsequent new roles. The exercise included consolidating and streamlining some of the jobs to eliminate duplication and inefficiencies in the system. The job evaluation was dependent on the completion of profiles. Both the job profiling and job evaluation have been completed and SENTECH is finalising the validation of the job evaluation for operations division.
	Skills audit	Skills matrix	100% of staff by Q4	Not achieved	As mentioned, most of the deliverables depended on others being completed first, before they could start. The skills audit depended on the job profiling, which took more time than anticipated. The audit itself has also been an extensive exercise, which involved a session with each member of SENTECH staff. These processes have, however, proven to have been valuable in the end. The skills audit is planned to be completed at the end of July 2013.
	Individual development plans	Number of employees with plans	70% of employees with PDPs by Q4	Not achieved	Individual development plans were largely dependent on the skills audit, which is now planned for completion at the end of July 2013. Another reason that contributed not only to the non achievement of this deliverable, but others as well, was the fact that the company has been running with a number of initiatives over the last year. As a result SENTECH was faced with the juggling of priorities on a continuous basis.
	Entrench performance culture	Number of completed divisional balanced scorecards	All divisions completed by Q4	Achieved	The only scorecard that was not completed was for the finance division. This was as a result of unavailability of the CFO at the time.
Maintenance of a going concern status of the company	Effective and efficient financial management and budgetary controls	Percentage of minimum EBITDA-to-revenue to be achieved	16%	Achieved	
PFMA compliant SCM for the acquisition of goods and services	Effective and efficient SCM policies and procedures	Irregular expenditure as a percentage of Opex	≤1%	Achieved	
Achievement of approved revenue targets	Effective and efficient revenue management	Minimum actual revenue to be achieved as a percentage of approved revenue budget	97%	Achieved	

Key Outcome	Key Output	Performance Indicator /Measure	Performance Targets FY 12/13	Achieved	Variance Analysis
Fair presentation of financial performance, financial position and cash-flow	Effective system of internal controls, record keeping and reporting systems	Nature of audit opinion issued by external auditors	Unmodified audit opinion	Achieved	
Maintenance of positive free cash-flow from operations	Effective management of working capital	Number of times available unrestricted cash (cash from operations) covers the monthly payroll costs	3.0X	Achieved	
Define and enable SENTECH medium term strategy and performance measurement	Define strategic objectives and initiatives of the organisation	Timeframe for the EXCO Strategic Planning Session	October	Achieved	
	Define strategic plans for key initiatives and programmes	Timeframe for finalised strategic plans for key initiative, including business cases, where relevant	December	Achieved	
Develop risk management capability and ensure that risk management is embedded in all of the Company's activities – Enterprise Risk Management (ERM)	Develop policies, procedures and guidelines for ERM	Existence of policies, procedures and guidelines for risk management developed and approved by Board	Company capable of performing risk assessment as a matter of course and normal management process	Achieved	
	Training and performance of best practice risk assessment and mitigation response and plans	Evidence and demonstration of company's ability to make risk informed decisions		Achieved	
	Review and monitor key company risks	Improvement in the level of risk maturity		Achieved	
Ensure that the company's internal control and assurance procedures are in line with the statutory and good governance provisions	Review and redesign key processes and procedures	Approved list of processes and procedures that do not comply with statutory and good governance provisions	Q1	Achieved	
		Approved redesigned processes and procedures	N/A	N/A	

Back to table of contents

2.2 PRODUCT PERFORMANCE

2.2.1 Broadcasting Signal Distribution

SENTECH's Broadcast Signal Distribution (BSD) services, made up of television and radio broadcasting, currently account for 93% of SENTECH's revenue base. Revenues for the portfolio were up 7% from the previous year, primarily driven by a strong growth of its Direct-To-Home Satellite platform which achieved double digit growth over the period and the contribution of the Low Power Project for the SABC.

2.2.2 Analogue Television

Analogue Television generates 47% of SENTECH's revenues. These revenues are currently generated from eight customers, namely the SABC (1, 2 and 3), e.tv, Multichoice (M-Net and CSN), Soweto TV, Cape TV, Tshwane TV, Nelson Mandela Bay TV and Trinity Broadcasting Network (TBN). The eight customers together cover approximately 92% of the population.

Analogue TV achieved revenues of R419 million for the period. Revenues were up by R30 million (8%) from the previous year. Key to the performance of the product was the drive to increase universal access to broadcasting services through the rollout of the SABC Low Power Transmitter project. During the 2012/13 financial year 46 new Low Power/Self-Help sites were rolled out in rural and underserviced areas that previously had no access to terrestrial TV services.

With the country in transition from analogue to digital television, the focus within television has been to assist broadcasters in preparation for the migration. A key focus area within this context has been engaging with the broadcasters and other stakeholders on a new tariff model for DTT. Discussions are currently on-going and it is hoped that a final tariff model can be concluded within the first half of the 2013/14 financial year.

Furthermore, SENTECH has been conducting technical tests of the DTT network. Existing broadcasters such as the SABC, e.tv and Tshwane TV have participated in these technical tests. In addition, SENTECH has included new aspirant broadcasters such as Alex Community TV and Siyaya TV that have been granted test licenses for DTT.

2.2.3 Frequency Modulation (FM)

SENTECH provides FM signal distribution services for 18 SABC radio stations, 16 commercial radio stations and 69 community radio stations. FM revenue currently accounts for 21% of SENTECH's revenues. The FM portfolio achieved a 5% year-on-year growth and achieved revenues of R187 million which was an increase of R9 million from the previous year. Similar to TV, revenue growth in FM was driven by the Low Power Project for the expansion of SABC services to areas that previously had no access to terrestrial broadcasting services. In addition, FM saw a strong uptake of services from the community broadcasting sector.

At the beginning of the 2012/13 financial year, SENTECH implemented a new tariff regime for community broadcasters in line with its mandate to have differentiated tariffs for different categories of broadcasting licences. This saw a significant reduction, an average of 33%, in the tariffs for community FM radio broadcasters. As a result of the new tariff regime, there was a renewed interest in SENTECH's services from many self-providing community broadcasters. During 2012/13, SENTECH provided services to six new FM community broadcasters which included Modiri FM and Kopanong FM in the North West Province, Wild Coast FM in the Eastern Cape, Ugu Youth Radio and Radio Al Ansaar in KwaZulu-Natal and The Rock FM in the Free State. Various existing community radio stations were also provided with expanded geographic coverage and value-added services.

At the end of 2011, three FM commercial licenses were awarded to new broadcasters, one each in Gauteng, KwaZulu-Natal and the Western Cape. Of the licensees, two were put on air by SENTECH during the financial year under review. These are Smile FM in the Western Cape and Vuma103FM in KwaZulu-Natal. The last remaining licensee is expected to go on air in the second quarter of the 2013/14 financial year.

SENTECH continued with its upgrade and refresh of the FM broadcast network which included the upgrade of audio processors and the replacement of audio codecs for the SABC. These network upgrades will improve the quality of public service radio broadcasting across the country.

2.2.4 Medium Wave (MW)

SENTECH provides MW signal distribution services to two SABC radio stations, one commercial and five community radio stations. During 2012/13, MW achieved R6 million in revenues which was a 37% increase from the previous year. Revenue growth for the service was due to the activation of two new MW radio stations, namely Radio Veritas in Gauteng and Radio Cape Pulpit in the Western Cape. The awarding of the ITA for potentially six new MW commercial licenses by ICASA is pending and is expected to be concluded in the 2013/14 financial year.

2.2.5 Short Wave (SW)

The SW product continued to face challenges during the financial year under review. SW was the only product to have experienced a revenue decrease compared to the previous year. The product achieved revenue of R24 million, which was 3% lower than the previous year. The SW service is experiencing a downturn globally as it becomes replaced by alternative technology platforms such as satellite radio and the internet.

SENTECH operates a world-class SW facility at Meyerton that enables South African broadcasting services to reach into the continent and beyond. The focus within the financial year under review was to develop a financial and operations plan that will optimise the SW transmitter network and reduce operating costs in order to ensure that the service is operated in a sustainable manner.

2.2.6 Direct-To-Home Satellite and Business Television

The Direct-To-Home Satellite (DTH-S) platform services three main customer categories, namely existing terrestrial broadcasters as part of a Gap Filler Service, non-licensed Free-To-Air broadcasters and business TV / radio customers. DTH and Business Television are key growth areas for SENTECH and revenues now account for 6% of total SENTECH revenue, up from 5% in 2011/12. DTH-S and Business Television revenues for the period were R52 million which was 22% up from the previous year, an increase of R9 million.

Of the estimated 12 million households in South Africa, up to a third use satellite to access television broadcasting services and it is projected that by 2017 this figure could reach 50% of households. In line with the increasing importance of this platform, SENTECH has started the process of modernising its DTH services. During the 2012/13 financial year, SENTECH developed and launched a Playout Service for smaller broadcasters to provide them with an affordable playout system to enable them to start broadcasting services at a fraction of the cost of having a full final control broadcast studio. The introduction of this Playout Service assisted in the launch of five new DTH channels during the period. SENTECH also conducted a successful technical pilot of a Video-on-Demand (VoD) service with SouthTel, a licensed VOD service provider that plans to launch full commercial services within the next financial year.

2.2.7 Facilities Rental

SENTECH rents out its over 220 sites to more than 90 service providers (public and private sector) who use the infrastructure for various communications services. The transmission facilities are classified into three categories, namely rural sites, metropolitan sites and the SENTECH tower. Facilities Rental achieved revenues of R40 million for the period which is an 27% increase in comparison to the previous year.

The growth in revenue from SENTECH's facilities has been supported by a concerted effort to improve internal processes to provide services to external users of these sites. Whilst there has always been a strong demand for use of SENTECH's high sites due to their ideal location and coverage reach, there has generally been a lengthy timeframe for processing site sharing requests. During 2012/13, processes were streamlined and additional capacity added to improve the efficiency of the facility rentals process. The direct result has been a marked increase in revenue from the Facility Rentals business. SENTECH will continue to build upon this in the new financial year and will aim to position SENTECH as a provider and operator of world-class network infrastructure.

2.2.8 Very Small Aperture Terminal (VSAT)

Revenues for SENTECH's VSAT service offering have been on the decline over the past five years with an average 12% year-on-year reduction. A turnaround plan was developed in the 2011/12 financial year to reverse the product's decline. The plan focused on repositioning the product within SENTECH's mandate of enabling universal access to affordable communication services, particularly in rural and underserviced areas. Within this context SENTECH has prioritised the supporting of Government-led initiatives for Schools ICT Connectivity and the rollout of IT Telecentres to rural Communities.

VSAT achieved revenue of R24 million in 2012/13, which was a slight increase in comparison to the previous year. Revenue growth was primarily due to SENTECH's involvement in providing ICT connectivity for schools in KwaZulu-Natal and the Free State. In addition, SENTECH has partnered with the Universal Services Agency of South Africa (USAASA) to provide end-to-end ICT services for a three-year period to Community Telecentres across the country. The project which was rolled out in the last quarter of 2013/14 saw over 90 Telecentres upgraded with PCs and installed with internet connectivity.

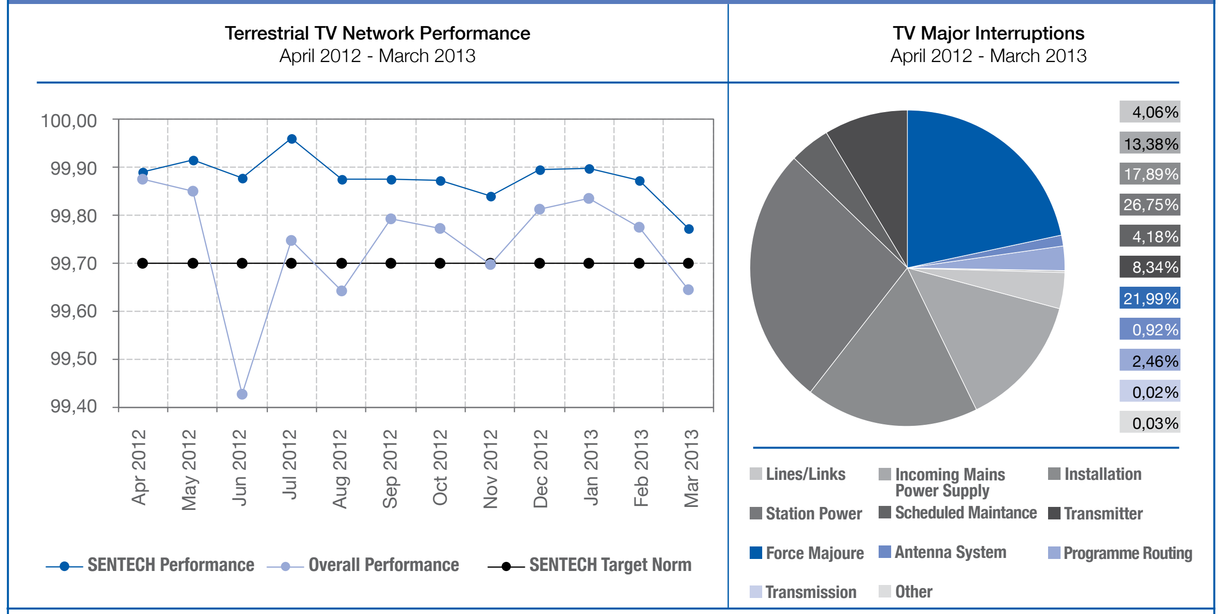
The VSAT product, however, also suffered some setbacks with the cancellation of two key public sector accounts, namely the Department of Home Affairs and the South African Post Office. The VSAT technology platform is being upgraded to offer more value to customers and create cost efficiencies within the platform's operating costs. This will allow for further investment to be directed towards product enhancement and improvement.

2.3 NETWORK PERFORMANCE

2.3.1 Terrestrial Transmission

As depicted in figure one below, SENTECH once again exceeded the agreed target of 99,70% by achieving overall availability of 99,74% and SENTECH availability of 99,88% for analogue terrestrial TV broadcast networks for the year. This was notwithstanding interruptions due to mains power interruptions through the year, STG failures during mains power outages, heavy snow-falls in the country in July and August 2012 and theft of equipment and cables.

Figure 1 - Terrestrial TV Network Performance



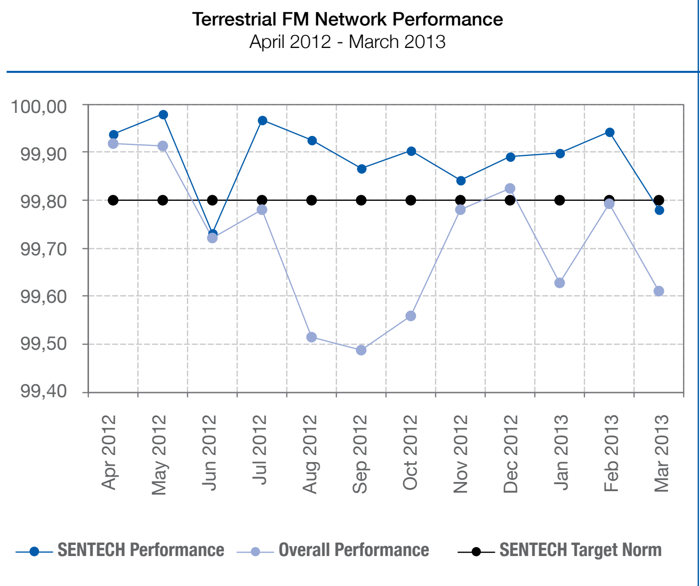
TV Network Performance April 2012 to March 2013

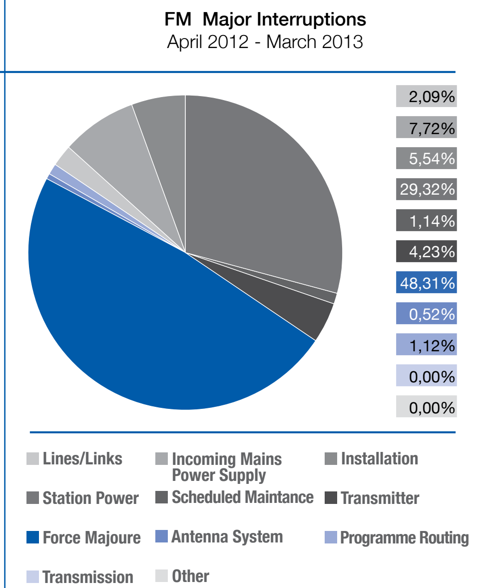
Total Transmit Hours	SENTECH Target Norm	Overall Interruptions	Overall Performance	SENTECH Interruptions	SENTECH Performance
5 427 504	99,700	14 191,86	99,739	6 634,30	99,878

The overall availability of the FM terrestrial radio networks was adversely affected by extensive mains power outages, the *force majeure* situation at Blouberg Transmitting Station from August to October 2012 and January to March 2013, heavy snowfalls in the country in July and August 2012 and STG failures during mains power outages mainly at Nelspruit, Mbuzini and Hoedspruit transmitting stations. As depicted in Figure 2, the overall availability achieved for the year under review, was 99,71%. SENTECH availability of 99,89% exceeded SENTECH's target norm of 99,80%.

Back to table of contents

Figure 2 - Terrestrial FM Network Performance



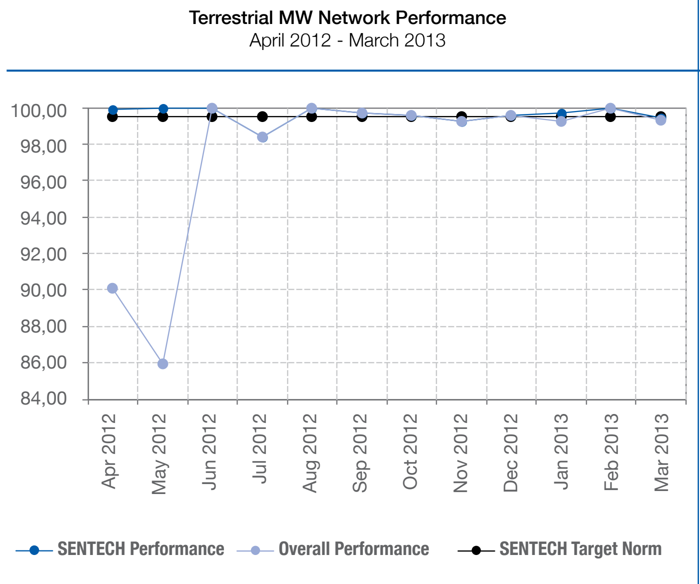


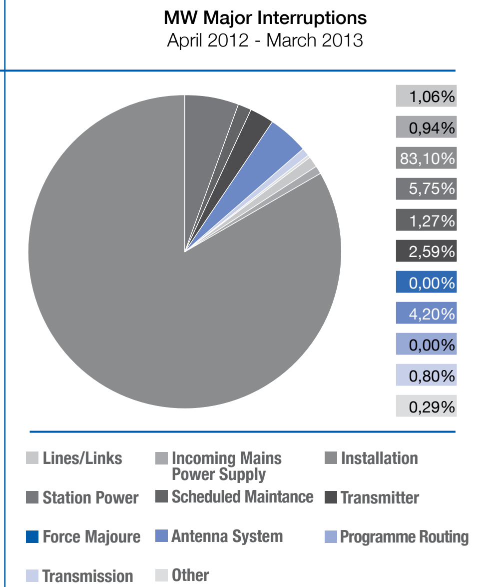
FM Network Performance April 2012 to March 2013

Total Transmit Hours	SENTECH Target Norm	Overall Interruptions	Overall Performance	SENTECH Interruptions	SENTECH Performance
7 105 175	99,800	20 627,82	99,710	7 927,53	99,888

The overall MW broadcast network availability achieved for the year under review, was 97,63%. SENTECH availability of 99,62% exceeded the agreed target norm of 99,50%, as illustrated in Figure 3 below.

Figure 3 - Terrestrial MW Network Performance





MW Network Performance April 2012 to March 2013

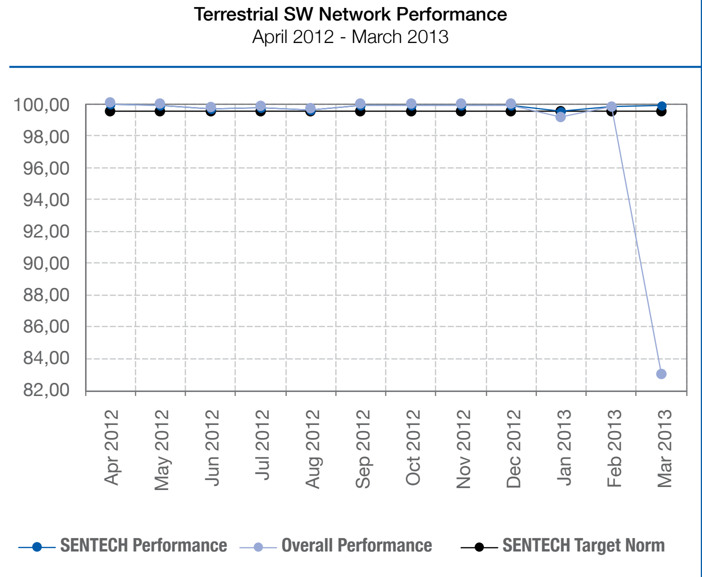
Total Transmit Hours	SENTECH Target Norm	Overall Interruptions	Overall Performance	SENTECH Interruptions	SENTECH Performance
63 480	99,500	1 502,25	97,634	239,80	99,622

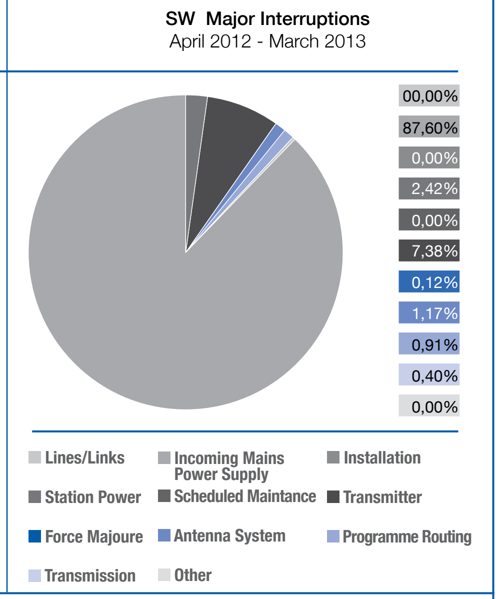
Medium Wave transmissions were adversely affected by:

- Severe damage to the antenna of Radio Today at Marks Park Transmitting Station in July 2012. Penalty was payable in respect of underperforming availability of Radio Today service.
- Cable theft and resultant damage to critical equipment at Welgedacht Transmitting Station in April and May 2012, affecting Ligwalagwala MW service.
- Telkom link failures and STG failures during mains power outages at Welgedacht Transmitting Station in November 2012, affecting Ligwalagwala MW service.
- STG failure during mains power outage at Nelspruit Transmitting Station in March 2013, affecting Ligwalagwala MW service. Penalty was payable in respect of underperforming availability of Ligwalagwala MW service.

As depicted in Figure 4, Short Wave recorded a 99,80% SENTECH availability versus a target norm of 99,50%, despite the advanced age of the transmitters. This continued satisfactory performance was achieved through the dedication and innovation of SENTECH's technical staff at the Meyerton Transmitting Station. The overall availability of 98,34% was adversely affected by extended incoming mains power outage at Meyerton Transmitting Station in March 2013.

Figure 4 - Terrestrial SW Network Performance





SW Network Performance April 2012 to March 2013

Total Transmit Hours	SENTECH Target Norm	Overall Interruptions	Overall Performance	SENTECH Interruptions	SENTECH Performance
38 855	99,500	645,07	98,34	79,22	99,796

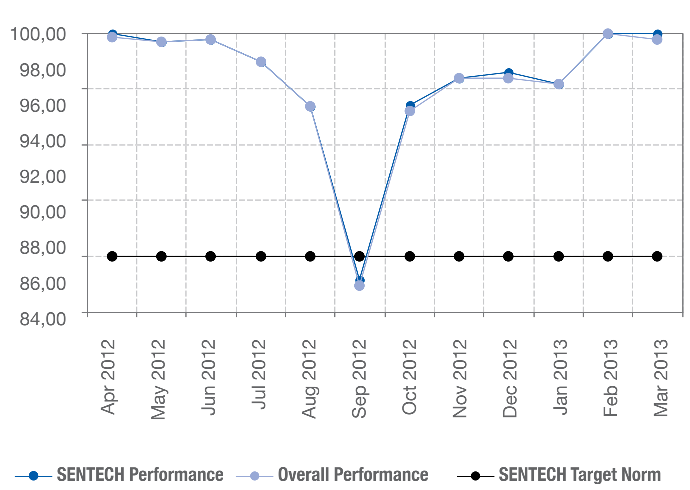
2.3.2 Satellite Transmission

SENTECH's average availability of Ku-band satellite TV and radio services was well above the target norm of 99,80% with DTH TV networks at 99,96% (Figure 5a), DTH Radio networks at 99,98% (Figure 5b), Business TV networks at 99,99% (Figure 5e) and Business Radio networks at 99,98% (Figure 5f). The penalty payable in respect of underperforming availability was applicable to DTH TV service Kruiskyk TV, due to extended Telkom link failure in September 2012. The dip in overall network performance of business radio networks in August 2012 was due to extended Telkom link failure on Clicks, resulting in penalties payable in respect of underperforming availability and degradation.

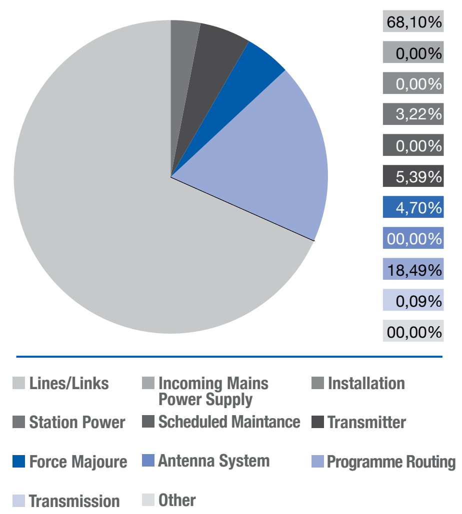
Back to table of contents

Figure 5a - DTH TV Network Performance

DTH TV Network Performance - KU Band
April 2012 - March 2013



DTH TV Interruptions - KU Band
April 2012 - March 2013

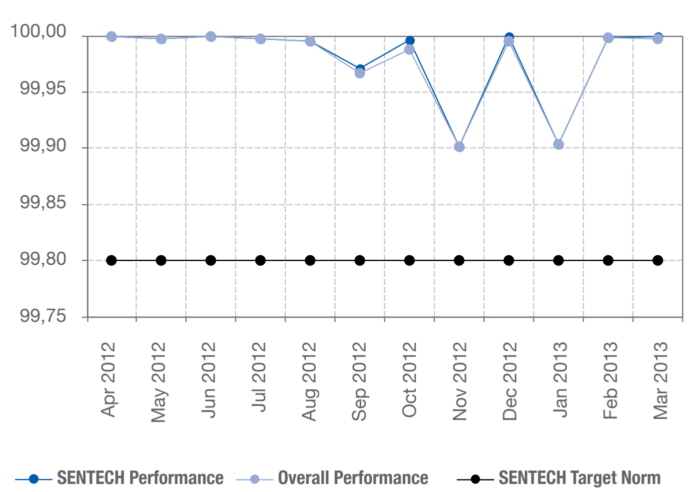


DTH TV Network Performance - KU Band April 2012 to March 2013

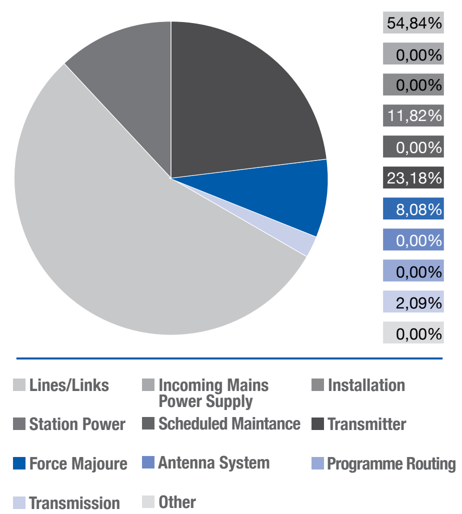
Total Transmit Hours	SENTECH Target Norm	Overall Interruptions	Overall Performance	SENTECH Interruptions	SENTECH Performance
173 702	99,800	79,13	99,954	75,41	99,657

Figure 5b - DTH Radio Network Performance

DTH Radio Network Performance - KU Band
April 2012 - March 2013



DTH Radio Interruptions - KU Band
April 2012 - March 2013

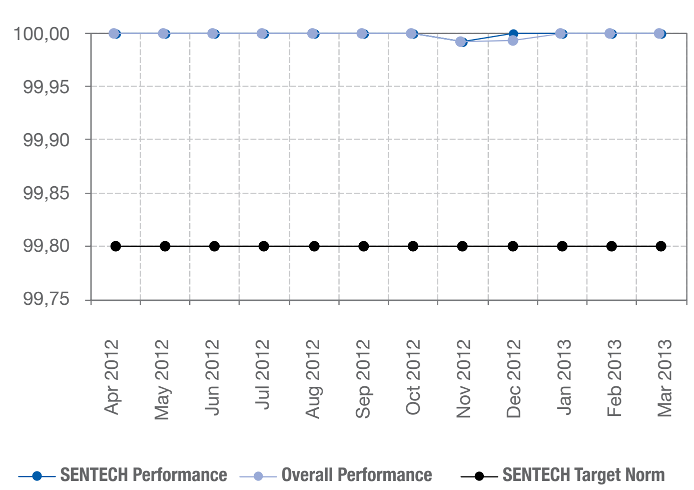


DTH Radio Performance - KU Band April 2012 to March 2013

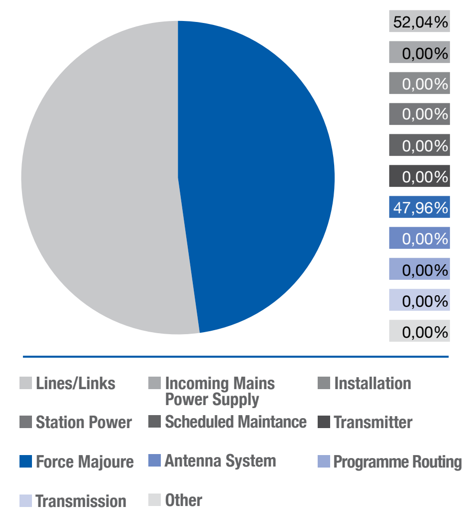
Total Transmit Hours	SENTECH Target Norm	Overall Interruptions	Overall Performance	SENTECH Interruptions	SENTECH Performance
219 000	99,800	47,96	99,978	44,08	99,980

Figure 5e - Business TV Network Performance

Business TV Network Performance
April 2012 - March 2013



Business TV Interruptions
April 2012 - March 2013

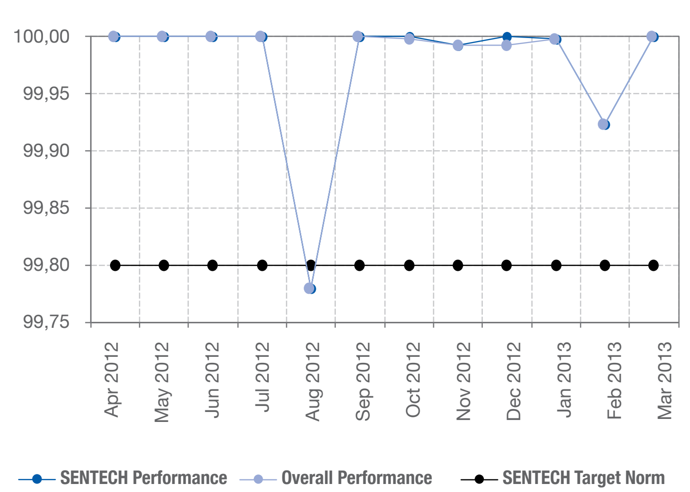


Business TV Network Performance April 2012 to March 2013

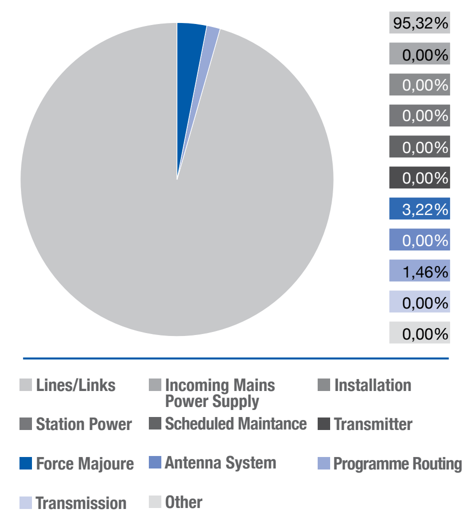
Total Transmit Hours	SENTECH Target Norm	Overall Interruptions	Overall Performance	SENTECH Interruptions	SENTECH Performance
39 192	99,800	0,42	99,999	0,22	99,999

Figure 5f - Business Radio Network Performance

Business Radio Network Performance
April 2012 - March 2013



Business Radio Interruptions
April 2012 - March 2013



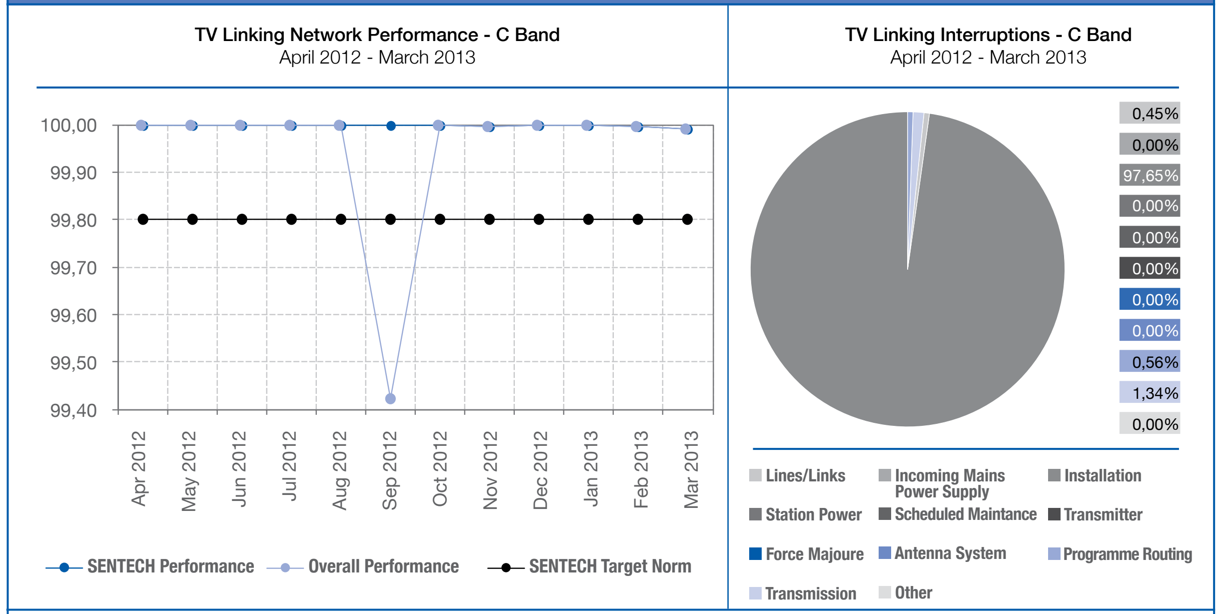
Business Radio Performance April 2012 to March 2013

Total Transmit Hours	SENTECH Target Norm	Overall Interruptions	Overall Performance	SENTECH Interruptions	SENTECH Performance
194 856	99,800	50,23	99,974	48,62	99,975

The SENTECH availability performances for both TV and Radio C-band satellite linking were above the target norm all year round, resulting in an average network performance close to 100%, against a target norm of 99,80%, as illustrated in Figures 5c and 5d.

Back to table of contents

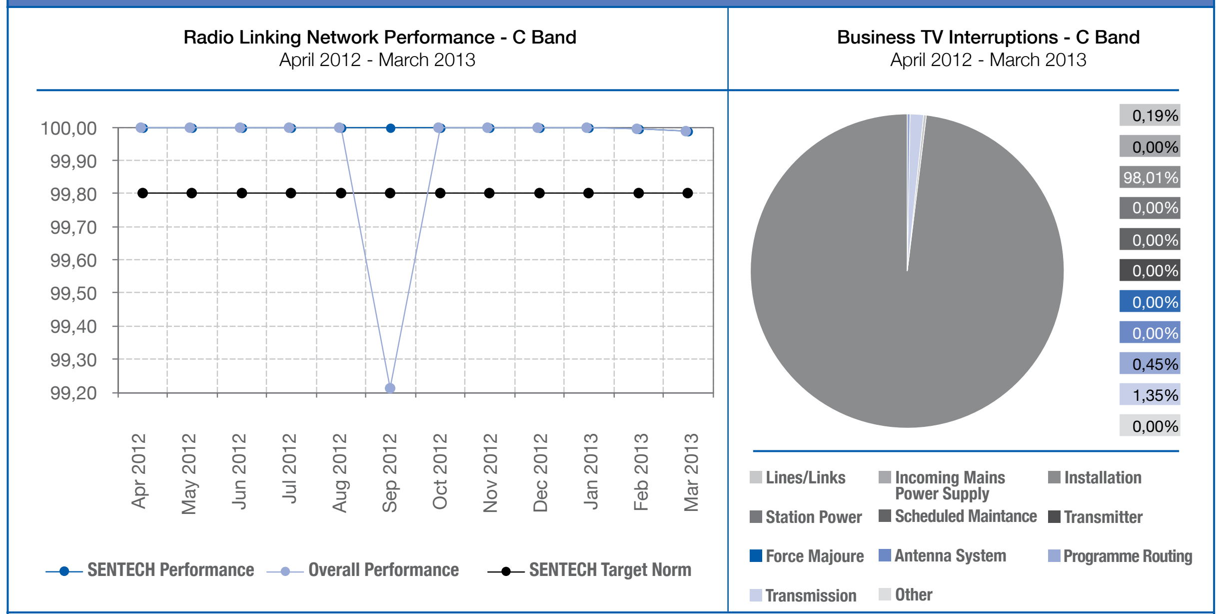
Figure 5c - TV Linking Network Performance



TV Linking Network Performance - C Band April 2012 to March 2013

Total Transmit Hours	SENTECH Target Norm	Overall Interruptions	Overall Performance	SENTECH Interruptions	SENTECH Performance
53 280	99,800	29,83	99,944	0,70	99,999

Figure 5d - Radio Linking Network Performance



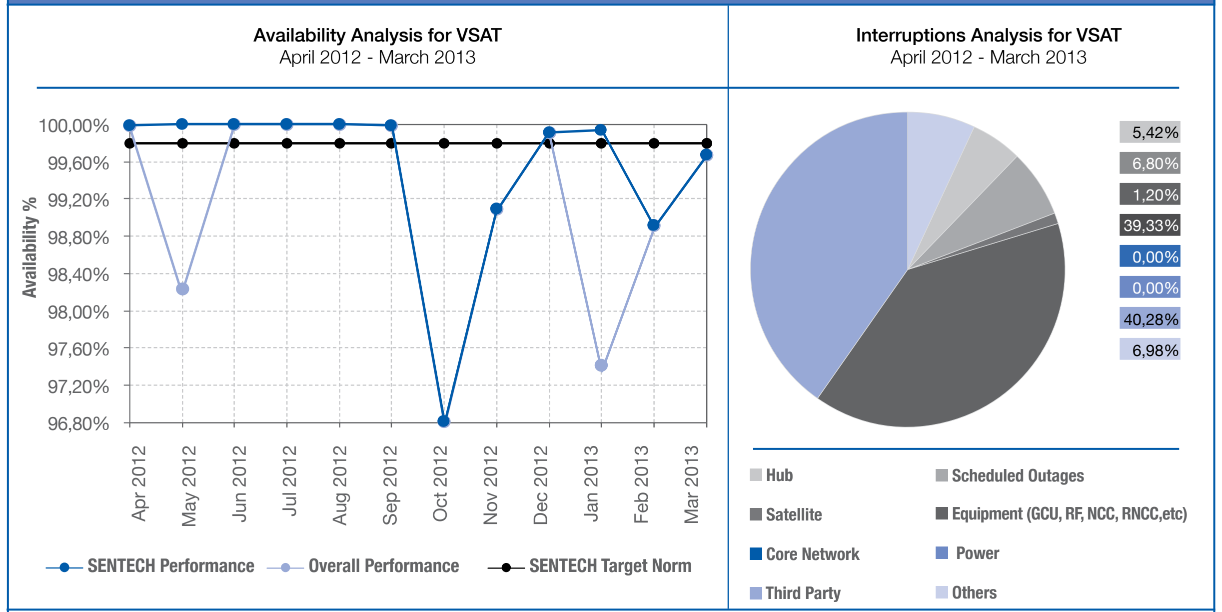
Radio Linking Network Performance - C Band April 2012 to March 2013

Total Transmit Hours	SENTECH Target Norm	Overall Interruptions	Overall Performance	SENTECH Interruptions	SENTECH Performance
78 840	99,800	52,02	99,934	1,03	99,999

2.3.3 Telecommunications

As depicted in Figure 6, the overall performance of the VSAT network for the 2012/13 financial year was 98,55% and SENTECH performance 98,84%; therefore significantly below the target norm of 99,80%. This was mainly due to the VSAT HUB being unable to update and accept site modifications on NMS for 69 hours, 49 seconds, with RNCC failure and waiting for third-party assistance (Viasat); and VSAT Apache server for the spectrum analyser being unreachable for 21 hours, 28 seconds, in the third quarter. All 476 Ethniks – Nedbank VSAT terminals experienced loss of traffic for 31 hours, 48 seconds, on 8 January 2013 due to a faulty third-party backhaul link.

Figure 6 - VSAT Network Performance

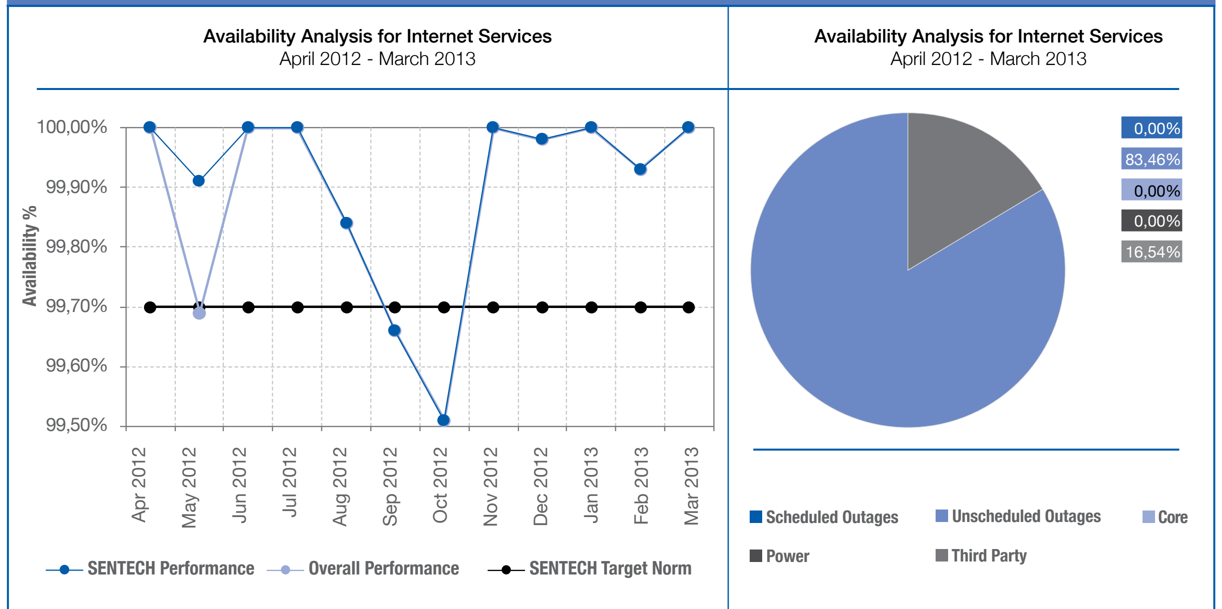


VSAT Performance April 2012 to March 2013

Total Transmit Hours	SENTECH Target Norm	Overall Interruptions	Overall Performance	SENTECH Interruptions	SENTECH Performance
7 078 080	99,800	102 822,36	98,547	82 230,40	98,838

Figure 7 illustrates that SENTECH's internet services performed above the target norm of 99,70%. The overall availability of internet services was 99,88% and SENTECH availability was 99,90%.

Figure 7 - Internet Network Performance



Internet Network Performance April 2012 to March 2013

Total Transmit Hours	SENTECH Target Norm	Overall Interruptions	Overall Performance	SENTECH Interruptions	SENTECH Performance
70 080	99,700	81,14	99,884	67,48	99,904

Back to table of contents

2.4 KEY NATIONAL PROJECTS

2.4.1 Low Power Transmission

The Low Power (LP) project was initiated in 2008 by SENTECH and the SABC to extend TV and radio coverage to underserved and underserviced areas. The original scope identified 300 sites.

During the planning for 2012/13 a target of 132 sites was set comprising 84 green fields and 48 upgrades for the financial year. However, the challenges experienced in respect of frequency licensing approval and site acquisition, resulted in the targets being reviewed to 18 green field sites and 26 upgrades. The target was overachieved by two sites, as detailed below:

	Annual Target	Quarterly Performance				Annual Performance
		Q1	Q2	Q3	Q4	
Total number of Self-Help sites	28	0	11	7	10	28
Number of new LP sites	16	5	3	3	7	18

As at 31 March 2013 the Low Power Project had deployed 104 sites in total.

2.4.2 Digital Terrestrial Television (DTT)

The DTT project is a critical project which not only seeks to ensure that South Africa migrates to digital television broadcasting within the International Telecommunications Union (ITU) and Government timelines, but most importantly, to ensure the future viability of SENTECH as a public service enabler in the provision of broadcasting signal distribution services.

As at 31 March 2013, SENTECH had achieved an 80,43% DTT population coverage, thus exceeding the targeted 80% coverage. This was achieved through the installation of 62 additional sites, mostly located in rural areas. The DTT target was achieved through the determination, dedication and cooperation of a team that worked in collaboration across divisions and functional areas.

When SENTECH achieved the targeted 60% population coverage on the DVB-T2 standard, it was acknowledged that the network rollout was based on the design for launch that was conceptualised in 2006. SENTECH then committed that going forward, the Company would implement a provincial rollout geared at providing coverage at equal measures to both rural and urban areas. Cognisant of this, the 80% network rollout then focused more on the country's rural areas. The 62 sites that were deployed for the 80% target, were deployed across the provinces as follows:

Province	Completed Sites
Free State	11
Limpopo	7
Mpumalanga	7
KwaZulu-Natal	19
Western Cape	6
North West	5
Eastern Cape	7
Total	62

It must be noted that a project of this nature comprises many complexities such as site location, weather conditions, road conditions, mast heights and the availability of skilled resources. Therefore, whilst 47 sites were upgraded to achieve 60%, an upgrade of 62 more sites was required to attain the 80% target. Some of the challenges experienced included:

- Requirement to rehabilitate an access road after heavy rains in Limpopo;
- Securing of resources that were in high demand as many African countries are presently, implementing DTT networks; and
- Ensuring that the rollout does not impact on the existing analogue network and other SENTECH business commitments.

The rollout also involved implementation and adaptation of DVB-T2 modulation interface (MI) at the head-end and integration of service information (SI) platform. Data acquisition for the network management system has also been enabled for all deployed transmitter sites. SENTECH is further deploying a geographic information system (GIS) to provide coverage information primarily for DTT. The deployment of this system is near completion.

SENTECH continues to find new ways of extending the number of services and coverage to underserviced and underserved areas. New solution designs for FM coverage are currently being devised, including an attempt to obtain frequencies for national youth radio stations. In addition, alternatives are being considered for future DTT gap-filling and means to improve penetration where there is already coverage. SENTECH is currently auditing all masts to improve reliability in the transmitter sites and improve the environment for facilities leasing. To improve reliability in the DTT environment, SENTECH is further establishing a state-of-the-art disaster recovery site as part of the 2010 World Cup legacy project.

SENTECH is working towards adopting standards and technologies that will enhance its business and bring value to customers. Currently SENTECH is investigating the next evolution path for DVB-T2, DVB-T2 Lite. DVB-T2 Lite allows flexibility in providing mobile services such as mobile TV and radio and community broadcasting content. The Policy and Regulatory Coordination Committee of the Board has approved for SENTECH to evaluate DVB-T2 Lite and other technologies to enhance community broadcasting and other value-added options. SENTECH is currently deploying a pilot network for this purpose. Furthermore, SENTECH has engaged research institutions and the Regulator, for collaboration in the initiatives. SENTECH is further looking at future operating models of DTT environments and looking at implementing a proactive and business-friendly network management approach to improve reliability. Currently, the existing system are being converted to modern, best practice protocols and incorporated in the DTT environment.

3

Sustainability Report

Government's arm in the communications sector, intervening through network based infrastructure.

3.1 CORPORATE GOVERNANCE

3.1.1 Introduction

The Board recognises the need to conduct the enterprise with integrity and in accordance with generally acceptable corporate practices. As a State Owned Company (SOC), SENTECH is required to comply with a number of legislations and regulations, including, but not limited to, the SENTECH Act 63 of 1996 (as amended), the Public Finance Management Act 1 of 1999 (as amended), Treasury Regulations, Companies Act 71 of 2008 (as amended) and the Government Protocol on Corporate Governance and the Shareholder Compact.

The Company further supports and endorses the guiding principles of the Code of Corporate Practices and Conduct as articulated in the King III Report, to the extent that it is not in conflict with the Company's primary legislative documents, as stated above. The Company is continuing to design and implement the necessary governance systems to ensure compliance.

3.1.2 Ownership

In accordance with the SENTECH Act 63 of 1996 (as amended), ownership of the Company is vested in the State as the sole Shareholder, as represented by the Minister of Communications (the Minister) who is defined as the Executive Authority in terms of the PFMA.

3.1.3 Structure of the Board

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. The three executive directors shall be the persons performing the functions of a Chief Executive Officer, Chief Operations Officer and Chief Financial Officer and shall constitute the company's Executive Committee (EXCO).

3.1.4 Role of the Shareholder

In terms of the PFMA, the Minister of Communications is the Executive Authority of the Company.

3.1.5 Role of the Board of Directors

In terms of the SENTECH Act, read in conjunction with the Company's Articles of Association, the Board is vested with the management and control of the business of the company. The powers and functions of the Board include, but are not limited to, (i) the approval of the strategic planning of the Executive Committee, including budgets, pricing policy, financing arrangements and policy; (ii) the institution of the necessary control measures to ensure that the company is managed and operated in accordance with sound business principles; (iii) the organisation of the affairs of the company as far as possible in business units; (iv) the setting of criteria for management performance; and (v) the approval of any material amendments in the manner of calculating tariffs and the determination of profit margins for the different services and operations of the Company. In terms of the PFMA, the Board is the Accounting Authority of the Company.

3.1.6 Role of the Executive Committee (EXCO)

The Company's EXCO is tasked, through both the SENTECH Act and the Company's Articles of Association, with managing the day-to-day affairs of the Company. On 1 April 2011, the Board resolved that in order to strengthen the effectiveness of the EXCO, Executives in charge of Business Services, the CEO's Office, Corporate Services, Human Resources and Technology must be permanent invitees to EXCO meetings. During the year under review, the Company had no more than two Executive Committee members at any one point in time, except for the period between 1 and 27 July 2012. Between 15 August 2011 and 30 June 2012, the company had a Chief Executive Officer and a Chief Financial Officer. The Chief Operations Officer was appointed on 1 July 2012 and the Chief Financial officer resigned on 27 July 2012. During the 2012/2013 financial year, the EXCO was fully constituted between 1 July and 27 July 2012.

3.1.7 Role of the Company Secretary

The role of the Company Secretary is to advise the directors, both individually and collectively on their powers, duties and responsibilities in compliance with the SENTECH Act 63 of 1996 (as amended), the Public Finance Management Act (as amended), Treasury Regulations, Shareholders Compact, Companies Act 71 of 2008 (as amended), Government Protocol on Corporate Governance, King III Report and other applicable legislation. The directors have unrestricted access to the Company Secretary and other officials in the Company Secretariat.

3.1.8 Composition of the Board

For the period under review and as at the date of this report, the composition of the Company's Board was as follows:

Name	Position	Start date	Date term ended
Mr Thabo Mongake*	Chairperson	1 August 2012	-
	Non-executive Director	1 March 2012	
Mr Paris Mashile*	Acting Chairperson	1 March 2012	31 July 2012
	Non-executive Director	1 March 2011	-
Ms Zanele Hlatshwayo**	Non-executive Director	1 March 2010	28 February 2013
Mr Mesuli Dhlamini**	Non-executive Director	1 March 2010	28 February 2013
Ms Leah Khumalo**	Non-executive Director	1 June 2010	31 May 2013
Mr Sipho Mjwara*	Non-executive Director	1 March 2012	-
Mr Stephen Molala*	Non-executive Director	1 March 2012	-
Dr Setumo Mohapi*	Chief Executive Officer	1 November 2010	-
Mr Kganki Matabane*	Chief Operating Officer	1 July 2012	-
Mr Protas Phili***	Chief Finance Officer	15 August 2011	26 July 2012

* *Current Board Members*

** *Term ended*

*** *Resigned*

Back to table of contents

3.1.9 Board Charter

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 has determined that, based on the Articles of Association, Shareholder's Compact and applicable legislation, its main functions and responsibilities are as follows:

- Give strategic direction to the Group in line with Government's objectives and ensure that SENTECH remains a sustainable and viable business. The strategic objectives are set out in the annual Corporate Plan submitted to the Department of Communications and National Treasury;
- Prepare and approve corporate plans, annual budgets, annual reports and financial statements;
- Effectively lead, control and manage the SENTECH business, subject to the provisions of the SENTECH Act (as amended), Shareholder's Compact, Companies Act (as amended), PFMA (as amended) and other applicable legislation;
- Monitor and evaluate implementation by the Executive Management of the Board's strategies and performance objectives, as set out in the Corporate Plan and Shareholder's Compact;
- Ensure that the Company is managed effectively in accordance with corporate governance best practice and highest ethical standards;
- Takes responsibility for the risk management process, including the system of internal controls and ensuring that it is effective, efficient and transparent; and
- Regularly assess the performance and effectiveness of the Board as a whole and the individual directors, including the Chairperson of the Board and Chief Executive Officer, committees of the Board and the chairpersons of the various committees.

3.1.10 Board Membership and Meeting Attendance

In terms of the Articles of Association, the Board shall meet at least four times per year. Additional meetings are convened as and when necessary. During the period under review, the Board held three scheduled board meetings, two strategic sessions and eight special meetings.

Membership and attendance of meetings											
	2012								2013		
	17 Apr	13 Jun	9 Jul	27 Jul	02 Aug	20 Aug	10 Oct	31 Oct	06 Dec	30 Jan	22 Feb
Mr T Mongake	√	√	√	√	√	√	√	√	√	√	√
Mr P Mashile	√	√	√	√	√	√	√	√	√	√	√
Ms L Khumalo	√	√	x	√	√	√	√	√	x	√	√
Mr SJ Mjwara	√	√	√	√	x	√	√	√	√	x	√
Mr S Molala	√	√	√	√	√	√	√	√	√	√	√
Ms Z Hlatshwayo	√	√	√	√	√	√	√	√	√	√	√
Mr M Dhlamini	√	√	√	√	√	√	√	√	√	√	√
Dr S Mohapi	√	√	√	√	√	√	√	√	√	√	√
Mr K Matabane	n/a	n/a	√	√	√	√	√	√	√	√	√
Mr P Phili	√	√	√	√	x	x	n/a	n/a	n/a	n/a	n/a

√ Present.
* Special Board meeting.
X Absent or submitted apology.
n/a Director resigned or not yet appointed.

3.1.11 External Auditors

The Shareholder, in consultation with the Auditor-General, approved the re-appointment of KPMG Inc. as the external auditors of SENTECH Limited and its subsidiaries, with effect from the date of the Annual General Meeting, held on 21 September 2012.

3.1.12 Code of Ethics

The Company has a consolidated Code of Ethics which addresses, amongst others, the following matters:

- Behaviour and conduct;
- Fraud;
- Conflict of interest; and
- Declaration of gifts from suppliers and customers.

3.1.13 Directors Induction and Training

The Board has an induction and development practise. New directors are given an induction which covers the following: SENTECH's strategic objectives, financial and operational status and corporate governance practices. In addition, the Company Secretary provides new directors with a 'Board Manual' which is a collation of applicable legislation, policies and regulations, business plans and other information relating to the SENTECH business, and functions of the Board. During the year under review, the directors were provided director training by the Institute of Directors (IOD) on several programmes, such as chairmanship, director and social and ethics training.

3.1.14 Committees of the Board

In order to properly discharge its responsibilities and duties, the Board has delegated certain responsibilities to various board committees. The creation of these committees, however, does not reduce the directors' overall responsibilities. During the year under review, the Board organised itself under various committees. The Board has retained Committees that had been formed in the previous financial year, which are as follows: Audit and Risk, Nominations and Remuneration, Social and Ethics, Policy and Regulatory Coordination and the Internal Policy (Interim) Committee.

3.1.15 Audit and Risk Committee

The Audit and Risk Committee was created and constituted in terms of sections 76 and 77 of the PFMA and Regulation 27.1.1 of the Treasury Regulations. The purpose of the committee is to review the following:

- Oversight of integrated reporting;
- Effectiveness of internal audit;
- Recommending the appointment of the external auditor and overseeing the external audit process;
- Review and recommend the annual financial statements and accompanying reports to the Board for approval;
- Ensure compliance with PFMA, Treasury Regulations and other legislation;
- Review the arrangements of the Company by which staff may in confidence and with total anonymity raise concerns about possible improprieties in matters of financial reporting or any other matters;
- Oversight of the Company's risk management, including, but not limited to oversight on the development and implementation of the Company's risk framework and strategy; and
- Ensure compliance with PFMA, Treasury Regulations and other legislation with respect to matters related to the overall management of risk within the Company.

The Shareholder appointed the following directors as Committee members: Mr Mesuli Dhlamini, Mr Paris Mashile and Ms Leah Khumalo In addition, the Shareholder appointed Ms Joy Masemola as the Chairperson of the Committee. As at the date of this report the committee membership comprises Ms Joy Masemola (Chairperson), Mr Paris Mashile (member), Mr S Mjwara (member) and Mr S Molala (member).

Back to table of contents

The Committee held five meetings during the year under review.

Membership and attendance of meetings					
	2012				2013
	23 May	25/26 July	20 August	23 October	23 January
Ms J Masemola	n/a	n/a	n/a	√	√
Mr M Dhlamini	√	√	√	√	√
Ms L Khumalo	√	√	√	√	√
Mr P Mashile	n/a	n/a	n/a	√	√

√ Present.

n/a Director resigned or not yet appointed.

The external and internal auditors attend committee meetings and have had unrestricted access to all committees of the Board that deal with audit and/or risk issues of the company. In addition, the Executive Directors, the Executive: Risk and the Executive: Internal Audit attend committee meetings by permanent invitation.

3.1.16 Policy and Regulatory Coordination Committee

At the board meeting of 28 March 2012, the Technology Committee was changed to be called the Policy and Regulatory Coordination Committee. The Committee was created to broaden the scope of the functions of the Technology Committee and ensure coordination between policy, regulation and technology in the development and implementation of the Company's overall strategy. As at the date of this report the committee membership is comprised of Mr Sipho Johannes Mjwara (Chairperson), Mr Paris Mashile and Mr Thabo Mongake. The purpose of the Committee is as follows:

- Advising and guiding the Board with respect to the Company strategy, including, but not limited to technology strategy, in response to national policy, national priorities, national programmes and the national regulatory environment. In addition, the Committee is tasked with the following:
  - **Strategic Alignment:** Ensure that SENTECH's technology strategy, its development and implementation is aligned with the business objectives; ensure that IT strategy responds to good corporate governance.
  - **Trends:** Understand global developmental trends in the policy and regulatory environment and ensure that SENTECH's developmental strategy takes such into consideration; SENTECH's technology strategies must be aligned with trends in the communication industry.
  - **Strategic Planning and Scanning:** Strategic scanning of technology and service trends and developments within the communication industry is to be carried out on a regular basis; the policy and regulatory strategy, as well as the technology strategy of the company are to be revised and developed as a published document, for Board approval, on an annual basis; define research agenda.
  - **Strategic Implementation:** Review the implementation of the technology strategy and regulatory policy implementation from the quarterly reports.
  - **Technology Suppliers and Partners:** Oversee the technology/partner selection processes to ensure that good governance is embodied in such processes. It requires that the company reviews all relationships with technology suppliers and partners on an annual basis (minimum) to ensure good governance of such relationships.
  - **Risk Management:** Review the implementation of risk management on matters of technology and the policy regulatory environment.

The Committee held three meetings during the year under review.

Membership and attendance of meetings			
	2012		2013
	19 July	22 October	22 January
Mr J Mjwara	√	√	√
Mr T Mongake	√	√	√
Mr P Mashile	√	√	√

√ Present

3.1.17 Social and Ethics Committee

This committee was created to fulfil the obligations of the company with respect to Section 72 (4) of the Companies Act. In addition, the committee initially took over the functions of the Human Resources and Affirmative Action (HRA) Committee. Since the formation of the Social and Ethics Committee, the role of the committee is to assist the Board:

- To monitor and assess SENTECH's compliance with regard to the ten principles of the United Nations Global Compact Principles regarding corruption;
- To review and approve the framework, policies and procedures to manage ethics in SENTECH;
- To review and approve the framework, policies and procedures to manage human resources in SENTECH with due regard to employment and labour laws, employment equity and skills development;
- To review and monitor SENTECH's progress towards achievement of its broad-based black economic empowerment and transformation objectives, including all seven elements of the Department of Trade and Industry (dti) scorecard framework;
- To review and monitor SENTECH's policies and procedures to assess compliance with applicable health, safety and environmental laws and regulatory requirements;
- To review and monitor the impact of SENTECH's health, safety and environmental practices on its products, services, employees, customers and communities in which it operates;
- To review SENTECH's sustainability practices and processes relative to the business imperative and other best practices concerning sustainability; and
- To monitor the quality of stakeholder relations with particular emphasis on customers, employees, suppliers, communities and government relationships.

As at the date of this report, the committee membership comprises Mr Sipho Joe Mjwara and Mr Stephen Molala.

Membership and attendance of meetings					
	2012				2013
	26 June	23 July	15 August	24 October	29 January
Ms Z Hlatshwayo	√	√	X	√	√
Mr S Mjwara	√	√	√	√	√
Mr M Molala	√	√	√	√	x

√ Present

X absent

3.1.18 Nominations and Remuneration Committee

The Committee was created to take over some of the functions of the former HRA Committee, with the following additions:

- Assist with the recruitment of executive directors, having regard to such factors as the Committee considers appropriate, including judgment, skill, diversity, experience with business and other organisations of a comparable size, the interplay of the candidate's experience with the experience of other board members, the extent to which the candidate would be a desirable addition to the board and any board committees;
- Identify directors qualified to fill vacancies on board committees and making recommendations to the Board accordingly, having regard to such factors as the committee considers appropriate, including the Terms of Reference of the particular board committee, the director's experience, and the interplay of the director's experience with the experience of other committee members;
- Review and recommend to the Board the relevant criteria necessary to measure the performance of executive management in discharging their functions and responsibilities;
- Establish procedures for the Committee to oversee the evaluation of the performance of the Board and each director, including an assessment of whether each director has devoted sufficient time to their duties; and
- Ensure that the performance of members of the Board is reviewed annually;

Back to table of contents

- Ensure that fair competitive reward strategies and programmes are in place to facilitate the recruitment, motivation and retention of high performance staff at all levels in support of realising corporate objectives and to safeguard stakeholder interest.

As at the date of this report, the membership of the committee comprises Mr S Molala (Chairperson), Mr Mongake (Member) and Mr P Mashile (Member). The Executive: Human Resources, and EXCO members attend meetings by permanent invitation.

The Committee held nine meetings during the year under review.

Membership and attendance of meetings									
	2012								2013
	12 April	08 June	24 July	14 Sep	12 Oct	25 Oct	20 Nov	04 Dec	23 Jan
Mr S Molala	√	√	√	√	√	√	√	√	√
Mr T Mongake	√	√	√	√	√	√	√	√	√
Mr P Mashile	√	√	√	√	√	√	√	√	√

√ Present

3.1.19 Internal Policy (Interim) Committee

The committee was created on an interim basis to facilitate and oversee the review of the Company's internal policies, in line with the Company's strategic objectives for internal operations. As at the date of this report, the membership of the committee comprises Mr T Mongake (Chairperson), the Executive: Human Resources, and EXCO members attend the meetings by permanent invitation. The purpose of the Committee is as follows:

- Reviewing of existing policies and advising on the creation of new policies where the need arises. The issues for consideration in performing this task are as follows:
  - whether a rule, procedure and/or guideline is required;
  - how the proposed policy document impacts on existing policy;
  - the purpose and goal of the policy including scoping the areas the policy will cover;
  - what legislative or other external regulations impact the policy proposal;
  - consideration of how the policy accords with the Company's Strategic Plan;
  - scoping of the implementation needs, resources needed, impact on other areas and associated procedural issues;
  - identification of best practice guides and standards in industry, Government and/or higher education;
  - identification of implications for other policies, inter-relationships and boundaries; and
  - examination of any particular policy or implementation issues that may need addressing before the full policy can be developed.

- Making recommendations to the Board on proposed amendments to existing policies and newly formed policies.

The Committee held two meetings in the year under review.

Membership and attendance of meetings		
	2012	2013
	26 November	18 January
Mr T Mongake	√	√
Ms Z Hlatshwayo	√	x
Ms L Khumalo	√	√

√ Present

X absent

3.2 HUMAN RESOURCE MANAGEMENT

SENTECH recognises that its employees are its most valuable resource and that the expertise of SENTECH staff is vital to the achievement of the organisation's vision and strategic objectives. In 2012 Human Resources embarked on a Back to Basics programme (Project Sakhum'tu) to introduce and implement a set of integrated systems and processes aimed at enhancing and entrenching a high performance culture within SENTECH.

Improving efficiency and effectiveness are the two main thrusts of Project Sakhum'tu. The project has resulted in the following programmes and deliverables that are in various stages of completion:

3.2.1 Organisational Structure

The new organisational structure was designed to support the corporate strategy. Structural changes have been made to enable SENTECH to deliver on its strategic objectives, achieve operational excellence and become a high performance organisation.

3.2.2 Balanced Scorecard

The key performance indicators (KPIs) are the guiding targets which, if achieved, will enable SENTECH to meet its strategic objectives and mandate. SENTECH adopted a balance scorecard approach and divisional scorecards defining the performance targets and measures were developed and implemented.

3.2.3 Competency Framework

The SENTECH competency framework was developed and approved in 2012. The framework has captured the details of the organisational competencies that are essential for the successful implementation of its mandate and corporate strategic plan. All learning and development programmes at SENTECH will be designed based on this competency framework.

3.2.4 Competency Job Profiles

Competency-based job profiles have been developed for employees at all levels. The profiles outline the skills, knowledge and behaviours that are required in each role to ensure that it effectively contributes to organisational performance and growth.

3.2.5 Job Evaluation of All Positions

Job evaluation has been conducted across the organisation to assess job levels, complexity and associated reward structures. At the end of the period under review, jobs at senior levels had been graded and the process is being finalised for the rest of the employee levels. The job evaluation will result in new job grading scales to address structural anomalies in pay scales and will enable the organisation to provide a consistent rationale for pay structures of all job levels.

Back to table of contents

3.2.6 Leadership Development Programme

SENTECH believes that the greatest culture change lever is its leadership. In addition to intellectual and technical capability, effective organisational leadership requires a diverse set of skills in order to drive organisational performance, employee engagement and retention. A leadership programme will be developed to build leadership capacity to effectively execute the SENTECH strategy. In order to translate the leadership development areas into programmes, 9 executives and 61 managers were assessed at all levels against the identified leadership competencies and capabilities from the competency framework. As a result, the organisation now has individual leadership development profiles that are available to all employees in leadership positions.

3.2.7 Human Resource Policies

Our Human Resource (HR) policies have been consolidated and streamlined to ensure better understanding and implementation.

3.2.8 Current Focus Areas

Whilst building the basics is important for a solid foundation in HR, entrenching these into the system is equally important for sustainable talent management and that is what the main focus will be in the coming year. This will be done through an integrated talent management framework that the company is implementing. Developing and retaining a talented and diverse workforce is a key priority for SENTECH. The Talent Management Policy Framework is being developed to ensure a differentiated reward and recognition model is applied for attraction, development and retention of key talent:

- Learning and growth is a key pillar to achieving the corporate strategy. In order to ensure sustainable organisational performance, a skills audit has been initiated to identify the skills and knowledge resident in the organisation as well as those it requires. The primary objective of this exercise is to identify current competency gaps and develop an integrated plan to address these as part of the broader talent management strategy.

- SENTECH, with its relatively high complement of technical and engineering skills, faces an ongoing challenge to retain talent. An effective rewards and benefits programme is key in the remuneration strategy in order to retain key talent and critical skills. The rewards and recognition framework will be a critical enabler for encouraging superior performance within SENTECH. Once finalised, the framework will enable the organisation to effectively compete in the talent market by providing market-related salaries.

- SENTECH seeks to offer a total reward philosophy that sufficiently and appropriately rewards good performance. The Performance Management Policy Framework has been developed to entrench a high performance culture by effectively linking rewards and recognition to performance.

3.2.9 Human Resources Oversight Statistics

3.2.9.1 *Personnel Cost by Salary Band*

By the end of the period under review SENTECH had 522 permanent employees. Management accounts for 12,5% of the payroll, and professionals account for 31% and 46% skilled employees, as indicated in the table below:

Level	Personnel expenditure	% of personnel exp. total personnel cost	Number of employees	Average personnel cost per employee
Top management	13 528 659	5,19	9	1 503 184
Senior management	19 254 980	7,39	19	1 013 420
Professional qualified	81 669 184	31,33	102	800 678
Skilled	120 453 429	46,21	282	427 140
Semi-skilled	17 880 228	6,86	70	255 432
Unskilled	7 863 647	3,02	40	196 591
Total	**260 650 127**	**100**	**522**	**499 330**

3.2.9.2 *Employment and Vacancies*

Acquiring a talented and diverse workforce is a key priority, as SENTECH always strives to ensure that the company has enough human capital capacity and capability to execute current and future business strategies.

The table below depicts the employment profile and vacancies as at 31 March 2013:

Programme	2011/2012 Number of employees	2012/2013 Approved posts	2012/2013 Number of employees	2012/2013 Vacancies	% of vacancies
Top management	6	12	9	3	25%
Senior management	30	25	19	6	24%
Professional qualified	90	125	102	23	18%
Skilled	264	327	282	45	14%
Semi-skilled	74	71	70	1	1%
Unskilled	44	48	40	8	17%
Total	**508**	**608**	**522**	**86**	

3.2.9.3 *Employment Changes*

The table below depicts employee turnover and the recruitment profile of SENTECH:

Salary band	Employment at beginning of period	Appointments	Terminations	Internal Movement	Employment at end of period
Top management	6	4	1	-	9
Senior management	30	6	3	(14)	19
Professional qualified	90	7	11	16	102
Skilled	264	10	15	23	282
Semi-skilled	74	20	3	(21)	70
Unskilled	44	2	2	(4)	40
Total	**508**	**49**	**35**	**-**	**522**

The internal movements were largely due to reclassification of positions and to some extent, internal appointments.

Back to table of contents

3.2.9.4 Reasons for Staff Leaving

SENTECH's turnover rate for the year is 5,98%, comprising 3,42% resignations and 2,4% involuntary turnover. The turnover rate decreased from 7,9% in 2011/12 to 5,98% in 2012/13. Resignations dropped from 4,3% in 2011/12 to 3,42% in 2012/13.

Reasons for staff leaving	Number	% of total no. of staff leaving
Death	2	5,71%
Resignation	20	57,14%
Dismissal	3	8,57%
Retirement	10	28,57%
Total	**35**	**100%**

3.2.9.5 Employment Equity

SENTECH is committed to addressing areas of under-representation across all levels by meeting its employment equity targets, embracing a culture of inclusion, empowering women to increase their level of representation in senior positions and providing processes and systems that are inclusive of people with disabilities. Whilst the company continues to focus on employment equity at this juncture, there is however still a challenge that exist, for example black women and disabled employees in particular are still underrepresented. The company aims to improve its employment equity status through the implementation of a three year equity plan with clear objectives, strategies and numerical targets. Furthermore, the company commitment is demonstrated by the inclusion of equity targets in the performance contracts of executives and senior managers. Our talent management strategy is also geared towards developing historically disadvantaged individuals. The table below details the company employment Equity profile.

Employment Equity Report 2012/2013

OCCUPATIONAL LEVELS	Male					Female					TOTAL
	African	Coloured	Indian	White	Employees with disability	African	Coloured	Indian	White	Employees with disability	
Top Management											
Current	5	0	1	0	0	3	0	0	0	0	**9**
Senior Management											
Current	8	1	0	2	0	6	1	0	1	0	**19**
Professionally Qualified and Experienced Specialist and Mid-Management											
Current	36	5	3	37	0	13	3	1	4	0	**102**
Skilled technical and Academically qualified workers, Junior Management, Supervisors, Foremen and Superintendants											
Current	101	11	10	62	3	75	5	5	13	0	**282**
Semi-skilled and discretionary decision making											
Current	33	3	0	1	0	20	4	1	8	0	**70**
Unskilled and defined Decision making											
Current	33	4	0	1	0	2	0	0	0	0	**40**
Total	**216**	**24**	**14**	**103**	**3**	**119**	**13**	**7**	**26**	**0**	**522**

Back to table of contents

3.2.10 Employee Health and Wellness

SENTECH is committed to fostering an environment that maintains the health and wellness of its employees. A holistic approach to employee health and wellbeing that encompasses a broad spectrum of programmes including HIV and Aids and campaigns is being adopted to improve employee wellness. SENTECH has already embarked on a process to engage an experienced service provider to assist in the implementation of its Employee Assistance Programme, which will be available to all employees.

In the year under review, SENTECH dealt with a number of wellness cases of which 14 were referred to outsourced professionals. Primary challenges present for the referral made, included the following: Stress and burnout, marital/relationship issues, domestic issues, depression and other mental health concerns, legal guidance regarding divorce and separation, financial and psychological wellness.

A financial management training course to assist employees with their own financial management was developed.

A number of safety programmes, including safety audits and appointments of key health and safety representatives into various structures have gone a long way in improving the safety standards. The company is also working towards a consolidated health and safety framework to further improve the safety of its employees.

3.2.11 Skills Development

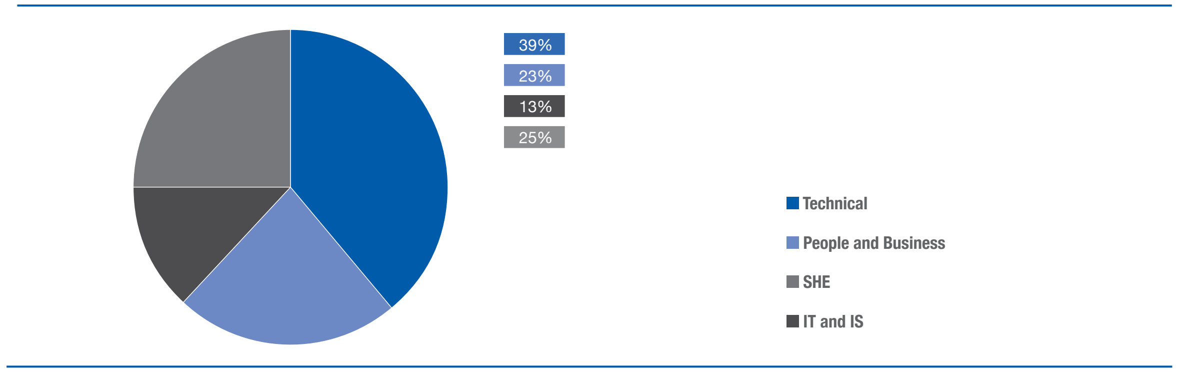
SENTECH is committed to the development of its employees. A workforce with the right skills, experience and training, continues to be the key priority.

During 2012 to 2013 SENTECH invested R4,1 million (1,59% of total employee costs) in direct training activities and trained 326 staff members, 16 bursars and 33 trainees through an internship programme run in partnership with MICT Seta.

The 326 employees have been trained in 934 programmes, which are offered by the Learning and Development Centre of Excellence. A further 16 employees were provided with transferable skills training, which involves developing employees' core technical skills so that they are employable in the ICT industry.

In-house training is provided through The SENTECH Training to ensure that employees remain abreast of developments in all areas according to global trends. The training provided during the period can be summarised as follows;

Figure 8: Learning Programmes



Training Costs

Level	Training Expenditure	Training Expenditure as a % of Personnel Cost	Number of training programmes	Average training cost per programme	Number of employees trained	Average training cost per employee
Top Management	2 270	0,02%	1	2 269	1	2 270
Senior Management	87 760	0,46%	20	4 388	11	7 978
Professional Qualified	380 715	0,47%	114	3 339	58	6 564
Skilled	3 184 403	2,64%	628	5 070	187	17 029
Semi-skilled	349 020	1,95%	121	2 884	44	7 932
Unskilled	135 831	1,73%	50	2 716	25	5 433
Totals	**4 139 999**	**1,59%**	**934**	**4 432**	**326**	**12 699**

3.2.12 Labour Relations, Discipline and Misconduct

Nature of disciplinary action	Number
Verbal warning	1
Written warning	2
Final written warning	3
Dismissal	3
Total	**9**

During the 2012/13 financial year, the Company had low numbers of disciplinary incidents that resulted in formal disciplinary proceedings, compared to the previous financial year 2011/12. The number of employee terminations as a result of dismissals, dropped from seven in the previous year 2011/12, to three in the current reporting period.

The decrease in the number of formal disciplinary incidents and proceedings is as a result of effective internal controls and mechanisms applied by management during the previous reporting period ranging from effective and positive communication of the Company's strategic objectives, workshops conducted regarding the Company's disciplinary and grievance procedure at various levels of management, effective application of progressive disciplinary mechanisms and high levels of employee engagement through the process of building Human Resource Management Tools as part of project Sakh'umntu.

Back to table of contents

3.3 SUPPLY CHAIN MANAGEMENT

SENTECH Supply Chain Management (SCM), as promulgated in the Public Finance Management Act, No. 1 of 1999, as amended, exists to give effect to Section 217 of the South African Constitution. SENTECH's commitment to Supply Chain Management governance is reflected through its application of National Treasury Regulations, even though SENTECH, being a schedule 3B entity, is exempted from such regulations.

In this regard, SCM ensures that SENTECH delivers on its mandate to roll out the Digital Terrestrial Television network infrastructure and to provide a high standard of service to its clients and the people of South Africa. To this extent, SENTECH has embarked on the various activities to bring effectiveness, efficiency and compliance into the SCM department.

Part of the process was the intervention made in improving and strengthening the SCM processes, focusing mainly, among others, on the following SCM elements:

3.3.1 Demand Management

To ensure an uninterrupted flow of goods and services, the SCM division has developed a capex demand schedule where a detailed assessment of various SENTECH capex requirements are identified, and specifications thereof are established and aligned to the available budget.

3.3.2 Acquisition Management

The implementation of term contract, supply contract, panel agreement and framework agreement was instrumental in ensuring that there is efficiency and effectiveness in delivering on the required goods and services timeously.

With the improved procurement processes, SCM managed to accomplish the statistics below:

- 65 tenders advertised of which nine were Requests for Information or Expressions of Interest, with 37 awarded, 11 cancelled and six still under evaluation by the end of March 2013;
- 3 945 Purchase Orders were issued;
- An estimated 62% of infrastructure projects was awarded to Level 1-4 BBBEE companies (excluding international suppliers);
- Bid Committees were implemented – Bid Adjudication Committee (BAC) members were formally appointed. Security Clearance and Vetting will be completed in 2013/14, including the training thereof;
- The SCM policy and the Delegation of Authority were approved and implemented mid-year to ensure that SENTECH is compliant to the latest SCM regulations and practices;
- The structure was reviewed and approved to ensure that resources are aligned to the processes within SCM and improve the segregation of duties within SCM; and
- The Enterprise Development Plan was developed to focus on the development of BEE and Qualifying Macro Enterprises (QME) to take part in the supply, delivery, installation of goods and services for the ICT network infrastructure.

Despite the afore-mentioned intervention and achievements, SCM still faces various challenges in respect of insufficient human resources and the appropriate skills necessary to execute the Department's mandate. The mandate is to provide a professional, excellent, effective and efficient service in order to ensure the continuous flow of goods and services, with the end goal to enable SENTECH to achieve its objectives.

Going forward, SCM will continue improving on the above and further focus on:

- Co-ordinating the annual BEE accreditation;
- Capacitating the Department with relevant resources and skills;
- Training of BAC members;
- Implementing a full Logistics Management function to ensure proper inventory management processes, expediting and distribution of goods and services;
- Implementating an updated and reliable Supplier Register aligned with SENTECH's Demand Plan;
- Implementating a proper contract register to eliminate and manage irregular expenditure;
- Improving customer relationships by implementing the Business Partnership Operating Model;
- Mapping of SCM procedures and processes; and
- Implementing a communication plan to ensure proper implementation of all the new processes.

Back to table of contents

3.4 CORPORATE SOCIAL INVESTMENT

SENTECH CSI's model seeks to invest in both financial and non-financial resources to develop and uplift underserviced or rural communities. The focus is strongly based on connecting institutions of learning to a world of information. During the period under review, SENTECH continued investment in Mindset Health, Mindset Learn and school's connectivity.

The CSI investment for the year under review in comparison to the previous financial year is as follows:

	2011/2012 Financial Year	2012/2013 Financial Year
	Actual	Actual
Total	R2 536 252	R9 228 515
School connectivity	R1 060 222	R4 273 951
Mindset (Health and Learn)	Part of cost of sales	R4 038 096
ICT related programmes	R1 456 030	R916 468
National campaigns	R20 000	

Through the schools' connectivity programme, the Company sought to install computer labs at 14 schools across the country for the year under review. These computer labs are equipped with 20 computers and VSAT internet connectivity and are provided to both primary and secondary schools in rural and underserviced areas. The targeted 14 schools were installed and are listed below:

Name of School	Province
Bankhara Bodulong High	Northern Cape
Mabarhule Secondary	Mpumalanga
Madadzhe Secondary	Limpopo
Sediti High	Free State
Amaphisi High	KwaZulu-Natal
Mosikare Secondary	North West
Victoria Mxenge Secondary	Eastern Cape
Ncedolwethu Secondary	Eastern Cape
Mary Help Primary	KwaZulu-Natal
RalsonTshinanne Secondary	Limpopo
Ntodeni Secondary	Limpopo
Kabenziwa	Mpumalanga
Dumelang Primary	Mpumalanga
Hibernia Primary	West Cape

The support of related ICT programmes took place in the second quarter. The planned community radio station project has been extended to July 2013 for completion, as the studio that will host the radio station is still under construction.

For the financial year 2012/2013 flagship projects in the CSI programme was the connection of more schools to achieve a wider spectrum of learning institutions that have access to information. Greater investment went to supporting more ICT orientated programmes, such as bursaries, techno girl and the e-learning workshop.

3.5 RISK MANAGEMENT

Effective and visible risk management has never been more relevant in a business than in the current environment. The Accounting Authority, which is the Board of SENTECH, is the ultimate Chief Risk Officer of the institution and is accountable for the institution's risk management in terms of legislation (Public Finance Management, Act 1 of 1999 as amended - PFMA). The Board has set the right tone for risk management in SENTECH.

Significant strides have been made in establishing Enterprise Risk Management within SENTECH. Best practices as set out in ISO 31000, the King III Report, COSO and the Protocol on Good Corporate Governance in the Public Sector have been used to develop a relevant risk management policy and framework for the organisation. To this end, during the year under review, the Board approved an Enterprise-wide Risk Management Policy and framework which management immediately started implementing. An independent review of the risk management process confirmed that good progress has been made in implementing risk management principles and processes.

The top risks that the organisation faced were identified, assessed and treatment actions put in place and continual monitoring was instituted to ensure that goals and objectives are met. The significant risks that SENTECH faced during this performance period included, among others:

- Policy and Regulatory issues;
- Financial sustainability;
- Fluctuations in foreign exchange rates; and
- Skills shortage (as experienced globally).

The road ahead: While there has been meaningful and pleasing progress, much still remains to be done in fully embedding the culture and practice of risk management into day-to-day activities and improving the effectiveness, efficiency and transparency of the processes, as required by the PFMA.

Back to table of contents

3.6 INTERNAL AUDIT

Internal audit follows a risk-based internal audit approach, as opposed to a compliance approach that is limited to evaluation of adherence to procedures. The internal audit plan and approach is informed by the strategy and risks of SENTECH.

The internal audit function (IAF) provides the board, the Audit and Risk Committee (ARC) and management of the operations with independent and objective consulting and assurance services to assist in evaluating the control environment and improving governance, risk management and control processes. The IAF was outsourced to PKF. The IAF adheres to the Institutes of Internal Auditors Standards for the Professional Practice of Internal Auditing and operates in accordance with its Code of Ethics.

Internal Audit meets with the ARC Chairperson before each audit committee meeting and at other times when deemed necessary and expedient.

Among other things the IAF provides:

- Confirmation that risks are appropriately identified and managed;
- Confirmation of the adequacy and effectiveness of the established internal control system; and
- Confirmation that significant legislative or regulatory issues impacting SENTECH, are recognised and addressed appropriately and provides objective confirmation that management presents reliable information to the board.

The Internal Audit plan is approved annually by the ARC and is based on risk assessments that are continually updated to identify not only existing and residual risks, but also emerging risks. It also covers issues highlighted by the ARC for special attention.

Internal Audits are conducted across SENTECH in accordance with the approved annual plan. Audit results are reported to management who are responsible for appropriate corrective actions to eliminate weaknesses. Follow-up audits are conducted in areas where weaknesses have been identified. The IAF verifies that corrective actions are duly implemented by management and that these are effective in strengthening internal controls in order to mitigate business risks.

The appointment of the Executive Internal Audit and Compliance brought about much desired speed in various interactions with internal and external stakeholders and improved the entire processes.

Internal audit assisted with various investigations, assignments and projects during the financial year ending 31 March 2013; particularly:

- Investigations were conducted on the awarding of the FM tender; and
- Assisted with the SAP recovery project during the SAP system failure in July/August 2013. The SAP failure initially resulted in a situation whereby data was initially not recoverable and required vendor intervention to assist in the recovery.

Annually the Audit and Risk Committee (ARC) reviews the Internal Audit Charter, wherein the purpose, authority and responsibilities of the IAF are formally defined. The combined assurance model and the assurance provided by the IAF are also considered by the ARC.

The ARC is satisfied that the IAF is appropriately independent and that it has fulfilled its responsibility to assist and advice the ARC and the Board and has made such statement to the Shareholder.

3.7 COMPLIANCE REPORT

In March 2012, SENTECH appointed a full-time compliance officer. The Compliance department acts in both a consultative and reporting role within SENTECH. During the period under review, a SENTECH Compliance Manual and Mandate was drafted and approved by EXCO and the Audit and Risk Committee. This manual and mandate spell out roles and responsibilities including oversight of the Compliance department.

Compliance training for the relevant legislation governing SENTECH as a schedule 3B, being the Public Finance Management Act (PFMA), was conducted during the period under review with SCM and finance staff having attended. A more detailed PFMA compliance training programme will be rolled out in the next year for managers who are impacted by this legislation on a day-to-day basis. In addition, the following achievements are recorded:

- A list of applicable legislation, codes and regulations that have an impact on SENTECH have been, communicated and published on the intranet site.
- A list of employee legislation applicable for HR has been done, which lists the applicable legislation, with a summary and penalties therein.
- A compliance risk management has been done on Occupational Health and Safety in consultation with SENTECH's Health and Safety Representative. Risks have been identified with action plans in place.
- A draft Promotion of Access to Information Act (PAIA) document has been drafted by the Compliance Department for SENTECH. Approval by stakeholders is required in order for it to be finalised. Thereafter it can be communicated to SENTECH's staff.
- Compliance awareness on ''why the need for compliance" has been done, communicated and published onto the intranet site.
- Gap Analysis on the new Labour legislation that has an impact on HR processes and procedure has been preliminary done by the Compliance Department, and enactment of this legislation is awaited as it is still a bill.
- Compliance has had interactions with National Treasury on SCM queries and processes during the financial year.
- Compliance advice and awareness has been given to various business units within SENTECH.

In the next year, compliance focus will be on compliance training around key legislation being the PFMA and other core legislation across all business units within SENTECH in a workshop base. Compliance monitoring on key themes will be conducted through a Compliance Monitoring plan.

Back to table of contents

4

Annual Financial Statements

The reports and statements set out below comprise the annual financial statements presented to the shareholder:

Index

The annual financial statements were prepared under the supervision of Kenneth Wienand CA (SA), Senior Consultant - Finance. They were audited by KPMG Inc., registered auditors, in accordance with the applicable requirements of the Companies Act of South Africa, 71 of 2008.

Government's arm in the communications sector, intervening through network based infrastructure.

Back to table of contents

ACCOUNTING AUTHORITY'S RESPONSIBILITIES AND APPROVAL

The Group's Accounting Authority is responsible for the preparation and fair presentation of the group's annual financial statements and the annual financial statements of SENTECH SOC Limited comprising the statements of financial position at 31March 2013, and the statements of comprehensive income, changes in equity and cash flows 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 of South and the Public Finance Management Act of South Africa. In addition, the Group's Accounting Authority is responsible for preparing the Accounting Authority's Report.

The Accounting Authority is also responsible for such internal control as the Accounting Authority determines is 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.

The Accounting Authority has made an assessment of the Company and 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 and Company 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 Accounting Authority on 29 July 2013 and are signed on its behalf by:

TJA Mongake
Authorised Director

P Mashile
Authorised Director

STATEMENT BY THE COMPANY SECRETARY

In terms of section 88(e) of the Companies Act, 2008, as amended, I certify that, to the best of my knowledge and belief, SENTECH SOC Limited and subsidiaries have lodged with the Registrar of Companies for the financial year ended 31 March 2013, all such returns required in terms of the Companies Act, 2008, as amended, and that all such returns are true, correct and up to date.

Adv M Ramoshaba
Company Secretary
29 July 2013

Back to table of contents

REPORT OF THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee (the Committee) is constituted as a Board Committee to fulfil statutory duties in terms of section 51 (1) (a) (ii), section 76 and 77 of PFMA read together with regulation 27 of Treasury Regulations and section 94 (7) of the Companies Act, 2008 as well as all other duties assigned to it by the Board.

Terms of Reference

The Audit and Risk Committee has adopted formal terms of reference that have been approved by the Accounting Authority, and has executed its duties during the past financial year in accordance with these terms of reference.

Composition

The Shareholder appointed the following directors as Committee members: Mr M Dhlamini, Mr P Mashile and Ms L Khumalo, in addition the Shareholder appointed Ms J Masemola as the Chairperson of the Committee. As at the date of this report the committee membership appointed at the AGM comprises of Mr P Mashile (member) and Ms J Masemola (Chairperson). The terms of certain directors appointed at the AGM expired and in order to ensure that the committee had a quorum Mr S Mjwara and Mr S Molala were nominated to the committee by the Accounting Authority.

NAME	POSITION	START DATE	DATE TERM ENDED
J Masemola ^~	Chairperson	25 September 2012	
P Mashile*~	Non-executive Director	1 March 2012	
M Dhlamini**~	Non-executive Director	1 March 2010	28 February 2013**
L Khumalo**~	Non-executive Director	1 June 2010	31 May 2013**
S Mjwara*	Non-executive Director	1 July 2013	
S Molala*	Non-executive Director	1 July 2013	

^ *Independent Chairperson appointed by the Minister of Communication*

* *Current Board Member*

** *Term ended*

~ *Appointed at AGM*

Meetings

The Committee held five meetings during the year under review.

Membership and attendance at meetings					
	2012				2013
	23 May	25/26 July	20 August	23 October	23 January
Ms J Masemola	n/a	n/a	n/a	√	√
Mr M Dhlamini	√	√	√	√	√
Ms L Khumalo	√	√	√	√	√
Mr P Mashile	n/a	n/a	√	√	√

√ Present.

n/a Director resigned or not yet appointed.

The external and internal auditors attend committee meetings and have had unrestricted access to all committees of the Board that deal with audit and/or risk issues of the company. In addition, the Executive directors, Executive: Risk and Executive: Internal Audit attends committee meetings by permanent invitation.

Statutory Duties

In execution of its statutory duties during the past financial year, the Audit and Risk Committee:

- Nominated for appointment as auditor, KPMG Inc. who in our opinion is independent of the company;
- Determined the fees to be paid to KPMG Inc. as disclosed in Note 23;
- Determined KPMG Inc's terms of engagement;
- Believes that the appointment of KPMG Inc. complies with the relevant provisions of the Companies Act and King III;
- Developed and implemented a policy setting out the categories of non-audit services that the external auditors may and may not provide, split between permitted, permissible and prohibited services;
- Pre-approved all non-audit service contacts with KPMG Inc.;
- Received no complaints relating to the accounting practices and internal audit of the company, the content or auditing of its financial statements, the internal financial controls of the company and other any related matters; and
- Made the following submissions to the Accounting Authority on matters concerning the company's accounting policies, financial control, records and reporting and:
  - o We concur that the adoption of the going concern premise in the preparation of the financial statements is appropriate;
  - o the change in account policy with respect to the extension of the period from 1 year to 3 years for revaluation of immovable property was approved; and
  - o the accounts receivable bad debt policy was approved during the period.

Delegated Duties

Oversight of Risk Management

The committee has:

- Received assurance that the process and procedure followed by the risk management committee are adequate to ensure that financials risk are identified and monitored;
- The committee has satisfied itself that the following areas have been appropriately addressed:
  - o Financial reporting risks;
  - o Internal financial controls;
  - o Fraud risks as it related to financial reporting; and
  - o IT risks as it related to financial reporting.
- Reviewed tax and technology risks, in particular how they are managed.

Internal Financial Controls

- Reviewed the effectiveness of the company's system of internal financial controls including receiving assurance from management, internal audit and external audit;
- Reviewed significant issues raised by the internal audit and audit process; and
- Reviewed policies and procedures for preventing and detecting fraud.

Based on the processes and assurances obtained, we believe that significant internal financial controls are effective.

Regulatory Compliance

The Audit and Risk Committee has compiled with all applicable legal and regulatory responsibilities.

Back to table of contents

External Audit

Based on processes followed and assurances received, nothing has come to our attention with regards to the external auditor's independence.

Details of the external auditors are set out in Accounting Authority report.

The term of appointment of KPMG Inc. is expiring based on the decision of the Board we have recommended that an open tender process be entered into and based on the results thereof we will make a recommendation to the Accounting Authority.

Internal Audit

The committee has:

- Reviewed and recommended the internal audit charter for approval;
- Evaluated the independence, effectiveness and performance of the internal audit function and compliance with its mandate;
- Satisfied itself that the internal audit function has the necessary resources, budget, standing and authority within the company to enable it to discharge its functions;
- Appointed and assessed the performance of the Executive Head: Internal Audit;
- Approved the internal audit plan; and
- Encourage cooperation between external and internal audit.

The Executive Internal Audit reports administratively to the Chief Executive Officer (CEO) and functionally to the Audit and Risk Committee and has unrestricted access to the Audit and Risk Committee chairperson.

Finance Function

The Chief Financial Officer (CFO) resigned from SENTECH in July 2012. At the date of the report a new CFO has been appointed. During the period under review the Company appointed highly qualified CA(SA)'s with over 50 years' combined experience to manage the finance function on an interim basis. We are satisfied that they have the adequate experience and knowledge to ensure the smooth running of the finance function.

In making these assessments, we have obtained feedback from both external and internal audit.

Based on the processes and assurances obtained, we believe that the accounting practises adopted are effective.

Financial Statements

Based on process and assurances obtained, we recommend the Group and Company annual financial statements to the Accounting Authority for approval.

On behalf of the Audit and Risk Committee:

P Mashile
29 July 2013

ACCOUNTING AUTHORITY'S REPORT

1. General

- Group revenue from operations (excluding Dual Illumination) increased by 7% to R831 million (2012 - R776 million).
- Increase in Group operating profit from operations by 20% to R177 million.
- Cash generation with cash generated from operations increasing from R277 million to R299 million.
- DTT coverage of 80,43% by 31 March 2013.
- Tracking agreed milestones on analogue to DTT migration.
- R457 million spent on additions to property, plant and equipment in 2013.
- Interest on government grant funds recognised in income in previous years net of taxation to be refunded to National Treasury amounting to R173 million. We have also included R21 million being interest earned in the current year net of taxation.
- ICASA settlement of prior year licence fees of R43 million, R8 million was recognised in 2012 and an additional R35 million was recognised in 2013.

The review provides a high level commentary on the financial position and performance of SENTECH SOC Limited and its subsidiaries ("the Group") for the year ended 31 March 2013. The review should be read together with the annual report.

2. Basis of Preparation and Principal Accounting Policies

The Group financial statements and Company financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa and the Public Finance Management Act ("PFMA") of South Africa.

2.1 IFRS

The application of IFRS by SENTECH, a Schedule 3B entity is contrary to Chapter 28 of the Treasury Regulations which specifies that Statement of Generally Accepted Accounting Practice ("SA GAAP") should be used.

National Treasury has approved this departure from Treasury Regulation 28.1.6 pending the review of SA GAAP by the Office of the Auditor General and the Accounting Standards Board (ASB).

This approval is issued in terms of Section 79 of the PFMA and remains in effect until further notice or amendment to the Treasury Regulation.

The current period financial statements have been prepared on a basis consistent with the prior year financial statements save for the following:

2.2 Interest Earned on Government Grant Cash

The Group had in previous financial periods followed the accounting practice of recognising as income, interest earned on government grants that have been received. The basis for this practice was on the understanding that the grant documentation had been silent on the application of the interest.

Back to table of contents

The annual financial statements of SENTECH for all periods up to 31 March 2012 have been prepared by the Accounting Authority and approved by the Minister of Communications (the sole shareholder) and submitted to National Treasury on the above-mentioned basis. The cumulative impact of interest earned on government funds net of taxation has been R173 million for all periods up to 31 March 2012. In terms of prior audited financial statements R98 million related to prior to period ended 31 March 2010, R37 million related to the financial year ended 31 March 2011 and R35 million to the period 31 March 2012. Had these entries been accounted for in these periods the restated retained income would have been a accumulated loss of R55 million in 2010, Retained income of R81 million in 2011 and R180 million in 2012.

The correct treatment would have been to increase deferred income by the amount of interest and not recognise it in the statement of comprehensive income as own interest earned until such time as the conditions of the grant were met. This has been confirmed in the letter from the Deputy Director General – Public Finance dated 5 November 2012 where he requested the capital amount plus interest be paid back to the National Revenue Fund on National Wireless Broadband and Eassy Submarine Cable grants.

In terms of the IFRS accounting treatment requirements the interest previously accounted for as interest accruing to the Group will need to be recognised as a finance costs reflected in the statement of comprehensive income in the 2013 financial year. The treatment of this will have a negative impact on our current year profit after tax amounting to R173 million.

2.3 Companies Act

These financial statements have been prepared in compliance with the Companies Act, 71 of 2008 which was promulgated with an effective date of 1 May 2011.

2.4 PFMA

The Group has complied in all material respects with the requirements of the PFMA.

2.5 Legal and Regulatory Environment

Licensing

The Electronic Communications Amendment Act, No 36 of 2005, was published on 8 January 2008 and came into effect on 2 February 2008.

Licensing

Effective 1 April 2009, ICASA issued SENTECH with the following licences in terms of the Electronic Communications Act (ECA):

Held directly by SENTECH SOC Limited

Individual Electronic Communications Network Services (011/ECNS/JAN09)
Individual Electronic Communications Services Licence (011/ECS/JAN09)
Individual Electronic Communications Services Licence (0457/IECS/JAN/09)
Individual Electronic Communications Network Services (0457/IECNS/JAN09)

Held by InfoSat SOC Proprietary Limited

Individual Electronic Communications Network Services (0282/IECNS/MAR09)
Individual Electronic Communications Services Licence (0282/IECS/MAR09)

The Group received a legal claim from ICASA in the 2012 financial year. The claim was settled in the current year and entered into an agreement to pay R43 million relating to the licence fees payable over 2 years.

2.6 Key Areas Where the Accounting Authority's Judgement has been Applied

Certain accounting policies have been identified as involving particularly complex or subjective judgements or assessments. The nature of these assumptions is inherently long-term and future experience may result in actual amounts differing from these estimates. The following accounting policies have been identified as involving particularly complex or subjective assessments:

- Measurement of employee benefits;
- Determination of provisions;
- Deferred tax liability on revalued and grants assets;
- Valuation of property, plant and equipment;
- Recovery of DTT Dual Illumination costs;
- Depreciation rates; and
- Impairment of assets.

3. Capital Management

One of the key focus areas of the Accounting Authority 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 in order 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 government initiated programmes.

The Group's debt, equity and cash balances were as follows:

Statement of financial position	**2013 R'000**	**2012 R'000**
Loans and borrowings	(25 101)	(45 429)
Other financial liabilities	(30 411)	-
Deferred income	(160 074)	(889 294)
Government grant payable	(606 816)	-
Post retirement liabilities	(198 625)	(172 622)
Shareholder equity	(889 641)	(909 075)
Cash and cash equivalents	1 560 260	1 605 937

The Group has completed a detailed review of all operating assets in line with its maintenance and replacement asset programme. This exercise has determined that capital expenditure of R414 million is required over the next three years, which the Group intends funding with current and future internally generated cash flows.

The DTT project to migrate from analogue to digital transmission is funded entirely from government grant funds. The grant funds including VAT for capital expenditure and operating costs are as follows:

Grants	**Capital R'000**	**Operating R'000**
Approved	1 488 000	330 000
Requested	1 488 000	330 000
Received	(1 010 753)	(240 000)
Total grants to be received	**477 247**	**90 000**

Grant funded assets are currently recognised net of the Government funding. In the case of the DTT grant assets, it is anticipated that these will be fully funded by grant funding. Accordingly, these assets, in terms of the current accounting policy will be recorded at a zero cost. SARS has issued a practice note in December 2010

Back to table of contents

that allows the claiming of a wear and tear on grant funded asset. After the switch on of DTT in June 2015 the Group will earn revenue on these assets, benefiting from wear and tear deduction with no depreciation charge. This will distort the capital management of the Group, and it is therefore the intention of the Accounting Authority to review the current accounting policy on grant assets for the 31 March 2014 annual financial statements. Grant assets commissioned and included in capital work-in-progress amounted to R289 million.

National Treasury has written to SENTECH in November 2012 requesting that the R500 million funding for Broadband less VAT plus interest of R121 million and the Eassy marine cable grant of R21 million less VAT plus interest of R6 million be returned to the National Revenue Fund. This was the amount as at 31 March 2012. We have also provided for the R21 million interest earned net of taxation on these amounts in the 2013 financial year the total of R607 milion is reflected on the face of the Statements of Financial Position.

The Group has an unfunded post-retirement medical aid obligation for employees who joined before 2005. As well as an obligation to fund shortfalls in the closed defined benefit pension fund. This obligations are currently valued at R198 million and increases each year due to medical inflation and employees going on retirement. These obligations are viewed by the Accounting Authority as part of the Group debt.

The Group's normalised debt to equity ratio has moved from 24% to 24,5% at 31 March 2013.

4. Financial Performance

Group revenue, excluding Dual Illumination, from operations increased by 7% over the prior year from R776 million to R831 million, achieved earnings before interest and depreciation ("EBITDA") margin of 25% whilst Group operating profit increased by 20% from R148 million to R177 million year on year.

The subdued revenue growth is mainly due to price increases limited to CPI and very little new sales activity in the period. The normalised operating profit margin is 19% (2012: 22%).

A review of the operating profit after adjusting for once-off items is presented below:

	%	2013 R'000	%	2012 R'000
Operating income from operations		176 722		148 598
Actual operating margin	20		18	
Adjustment for exceptional Items				
Movement in provisions		-		19 842
Revaluation of retirement obligations		25 603		41 809
ICASA settlement		35 500		8 000
DTT Illumination government grant		(68 224)		(36 260)
Normalised operating income		**169 601**		**181 989**
Normalised operating margin	19		22	

Finance income of R27 million (2012 – R22 million) was earned on the Group's own cash. The increase is due to the higher amounts of cash invested over the period, the comparative figure has been adjusted to take into account the correction of the policy in the treatment of interest on Government funds held.

The normalised finance cost of R20 million (2012 – R18 million) relates principally to interest on the DBSA infrastructure loan and the interest cost on the unfunded post-retirement medical liability. The balance of the interest expense of R173 million relates to interest on government funds which were previously recognised in prior periods as belonging to the Group. This is dealt with more comprehensively in note 2.2 of this report.

In addition to the ICASA settlement, licence fees increased by R22 million to R34 million (2012 – R12 million).

5. Cash Flow

The Group has performed exceptionally in achieving strong cash generation. The cash generated amounted to R299 million (2012 – R277 million).

The current cash outflows included tax payments of R57 million and R457 million on capital expenditure on own and grant funded assets.

6. Capital Commitments

The Group's capital expenditure will be funded from internal cash resources whilst all other capital expenditure will be funded by grant funds received and to be received. The Group has estimated the following capital commitments for 31 March 2014 financial year based on our corporate plan:

	2014 R'000
Capital expenditure	
SENTECH internal funding	414 048
Government grant funds (net of VAT)	601 000
DTT	601 000
	1 015 048

7. Going Concern

The Accounting Authority has reviewed the corporate plan and prepared a cash flow forecast for the 18 months to 30 September 2014. The corporate plan concludes that the Group 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 fact the government grants that have been approved and the additional funds that have been requested to complete the DTT rollout will be made available. On the basis of this review, and in light of the current financial position, approved grant funding, the Accounting Authority is satisfied that the Group and Company has access to adequate cash resources to continue in its operational existence for the foreseeable future and is a going concern, and have continued to adopt the going concern basis in preparing the financial statements.

8. Post Year End Events

The Accounting Authority is not aware of any other matters or circumstances arising since the end of the financial year that would impact the reported results, other than those matters already disclosed in these financial statements.

9. Authorised and Issued Share Capital

2 000 ordinary shares are held by the State, represented by the Minister of Communications.

10. Borrowing Limitations

In terms of the Company's Articles of Association, the Accounting Authority shall not have the power to borrow without the prior approval of the shareholder and the Minister of Finance. The Minister of Communications has approved a banking facility with ABSA for R74 million which includes an overdraft facility of R6,7 million. The facility has not yet been utilised and will only be used when required by the Group.

Back to table of contents

11. Dividends

No dividends were declared or paid during the year under review.

12. Directors

The Accounting Authority is represented by the board of directors, in terms of the Public Finance Management Act of South Africa. The directors of the Company during the year and to the date of this report are as follows:

NAME	POSITION	START DATE	DATE TERM ENDED
TJA Mongake*	Chairperson	01 August 2012	
	Non-executive Director	1 March 2012	
P Mashile*	Acting Chairperson	1 March 2012	31 July 2012
	Non-executive Director	1 March 2011	
ZD Hlatshwayo**	Non-executive Director	1 March 2010	28 February 2013
HM Dhlamini**	Non-executive Director	1 March 2010	28 February 2013
LT Khumalo**	Non-executive Director	1 June 2010	31 May 2013
SJ Mjwara*	Non-executive Director	1 March 2012	
SM Molala*	Non-executive Director	1 March 2012	
SJ Mohapi*	Chief Executive Officer	1 November 2010	
TP Phili#	Chief Finance Officer	15 August 2011	26 July 2012
KS Matabane*	Chief Operating Officer	1 July 2012	

* *Current Board Member*

\# *Resigned*

** *Term ended*

13. Audit and Risk Committee

The Audit and Risk Committee of the Group comprised the following members who were appointed to the Audit and Risk Committee by the Minister at the AGM:

NAME	POSITION	START DATE	DATE TERM ENDED
JK Masemola ^~	Chairperson	25 September 2012	
P Mashile*~	Non-executive Director	1 March 2012	
HM Dhlamini**~	Non-executive Director	1 March 2010	28 February 2013**
LT Khumalo**~	Non-executive Director	1 June 2010	31 May 2013**
SJ Mjwara*	Non-executive Director	1 July 2013	
SM Molala*	Non-executive Director	1 July 2013	

^ *Independent Chairperson appointed by the Minister of Communication*

* *Current Board Member*

** *Term ended*

~ *Appointed at AGM*

14. Company Secretary

The secretary of the company is Adv M Ramashoba appointed 1 July 2013. The company secretary's business and postal addresses are as follows:

Business address	*Postal address*
SENTECH Park	Private Bag X06
Octavia Street	Honeydew
Radiokop	2040

15. External Auditors

KPMG are the current auditors of the company and the group.

INDEPENDENT AUDITOR'S REPORT

To Parliament and the shareholder, the Department of Communication on SENTECH SOC Limited.

Report on the Financial Statements

We have audited the group financial statements and financial statements of SENTECH SOC Limited as set out on pages 73 to 120, which comprise the statements of financial position as at 31 March 2013, and the statements of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Authority's Responsibility for the Financial Statements

The Accounting Authority is responsible for the preparation and fair presentation of these financial statements 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, and for such internal control as the Accounting Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of SENTECH SOC Limited as at 31 March 2013, and its consolidated and separate financial performance and consolidated and separate 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.

Other Reports Required by the Companies Act

As part of our audit of these financial statements for the year ended 31 March 2013, we have read the Accounting Authority's Report, the Report of the Audit and Risk Committee and the Statement by the Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on Other Legal and Regulatory Requirements

Public Audit Act Requirements

In accordance with the Public Audit Act of South Africa (PAA), and the *General Notice* issued in terms thereof, we report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined Objectives

We performed procedures to obtain evidence about the usefulness and reliability of the information in the performance overview report for the year ended 31 March 2013 as set out on pages 18 to 21 in the annual report, and reported thereon to the Accounting Authority.

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance overview report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information.*

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

There were no material findings on the performance overview report concerning the usefulness and reliability of the information.

Compliance with Laws and Regulations

We performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA.

Internal Control

We considered internal control relevant to our audit of the financial statements, performance overview report and compliance with laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.

We did not identify any deficiencies in internal control that we considered sufficiently significant for inclusion in this report.

Back to table of contents

Other Reports

Investigations

Investigations Completed as Advised to Us

The Accounting Authority commissioned an investigation into an employee's alleged fraud and misconduct. The investigation was completed and the allegations were found not to be valid and no disciplinary actions were required.

Investigations in Progress as Advised to Us

The Accounting Authority commissioned an investigation into an employee's alleged fraud and misconduct. The investigation relating to the possible criminal misconduct has not been concluded at the date of finalising this report and it is expected that the investigation will be concluded in the following year.

KPMG Inc.
Registered Auditor

Per Maureen Rattigan
Chartered Accountant (SA)
Registered Auditor
Director
29 July 2013

KPMG Crescent
85 Empire Road
Parktown

STATEMENTS OF FINANCIAL POSITION

as at 31 March 2013

		Group		Company	
	Note(s)	2013 R'000	2012 R'000	2013 R'000	2012 R'000
Assets					
Non-current assets					
Property, plant and equipment	6	545 559	506 808	545 559	506 808
Intangible assets	7	-	-	-	-
Investments in subsidiaries	8	-	-	*	*
Deferred tax	14	-	322	-	322
Employee benefits	13	-	1 300	-	1 300
Total non-current assets		**545 559**	**508 430**	**545 559**	**508 430**
Current assets					
Inventories	9	13 127	7 491	13 127	7 491
Trade and other receivables	10	60 495	41 235	60 518	41 217
Cash and cash equivalents	11	1 560 260	1 605 937	1 560 131	1 605 806
Total current assets		**1 633 882**	**1 654 663**	**1 633 776**	**1 654 514**
Total assets		**2 179 441**	**2 163 093**	**2 179 335**	**2 162 944**
Equity and liabilities					
Equity					
Share capital and premium	12	75 892	75 892	75 892	75 892
Reserves		510 762	482 554	510 762	482 554
Retained earnings		302 987	350 629	302 942	350 538
Total equity		**889 641**	**909 075**	**889 596**	**908 984**
Liabilities					
Non-current liabilities					
Employee benefits	13	198 625	172 622	198 625	172 622
Deferred tax	14	2 525	-	2 525	-
Other financial liabilities	15	15 816	-	15 816	-
Loans and borrowings	17	-	23 935	-	23 935
Total non-current liabilities		**216 966**	**196 557**	**216 966**	**196 557**
Current liabilities					
Other financial liabilities	15	14 595	-	14 595	-
Loans from group companies	16	-	-	-	-
Loans and borrowings	17	25 101	21 494	25 101	21 494
Current tax payable		13 996	2 653	13 996	2 653
Trade and other payables	18	239 374	105 014	239 313	104 956
Deferred income – government grants	19	160 074	889 294	160 074	889 294
Provisions	20	12 878	39 006	12 878	39 006
Government grant payable	21	606 816	-	606 816	-
Total current liabilities		**1 072 834**	**1 057 461**	**1 072 773**	**1 057 403**
Total liabilities		**1 289 800**	**1 254 018**	**1 289 739**	**1 253 960**
Total equity and liabilities		**2 179 441**	**2 163 093**	**2 179 335**	**2 162 944**

* Amounts are below R1 000.

Back to table of contents

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 March 2013

	Note(s)	Group 2013 R '000	Group 2012 R '000	Company 2013 R '000	Company 2012 R '000
Revenue	22	899 383	812 585	899 373	812 585
Cost of sales	23	(513 408)	(547 456)	(513 408)	(547 611)
Gross profit		**385 975**	**265 129**	**385 965**	**264 974**
Operating expenses	23	(97 275)	(71 259)	(97 275)	(71 259)
Selling expenses	23	(12 829)	(6 750)	(12 829)	(6 750)
Administrative expenses	23	(99 149)	(38 522)	(99 107)	(38 544)
Results from operating activities		**176 722**	**148 598**	**176 754**	**148 421**
Finance income	25	27 485	62 127	27 484	62 126
Finance costs	26	(193 030)	(18 466)	(193 015)	(18 465)
Profit before tax		**11 177**	**192 259**	**11 223**	**192 082**
Tax expense	27	(58 819)	(57 984)	(58 819)	(57 984)
(Loss) profit for the year		**(47 642)**	**134 275**	**(47 596)**	**134 098**
Other comprehensive income					
Revaluation of property		39 178	38 158	39 178	38 158
Income tax related to other comprehensive income		(10 970)	(9 006)	(10 970)	(9 006)
Other comprehensive income for the year, net of taxation		**28 208**	**29 152**	**28 208**	**29 152**
Total comprehensive income for the year		**(19 434)**	**163 427**	**(19 388)**	**163 250**

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 March 2013

Group	Share Capital R '000	Share Premium R '000	Total Share Capital R '000	Revaluation Reserve (1) R '000	Other Reserves (2) R '000	Total Reserves R '000	Retained Earnings R '000	Total Equity R '000
Balance at 31 March 2011	2	75 890	75 892	364 788	88 614	453 402	216 354	745 648
Profit for the year	-	-	-	-	-	-	134 275	134 275
Other comprehensive income	-	-	-	29 152	-	29 152	-	29 152
Total comprehensive income for the year	-	-	-	29 152	-	29 152	134 275	163 427
Balance at 31 March 2012	2	75 890	75 892	393 940	88 614	482 554	350 629	909 075
Loss for the year	-	-	-	-	-	-	(47 642)	(47 642)
Other comprehensive income	-	-	-	28 208	-	28 208	-	28 208
Total comprehensive income for the year	-	-	-	28 208	-	28 208	(47 642)	(19 434)
Balance at 31 March 2013	2	75 890	75 892	422 148	88 614	510 762	302 987	889 641
Note(s)	12	12	12					

(1) Revaluation reserve

Land and buildings are revalued to fair value annually. In the current year, buildings constructed on leased land were revalued. The last valuation was performed on 31 March 2013. See Note 6.The revaluation reserve movement for the year on the land and buildings is the gross revaluation amount of R39 178 000 (2012: R38 158 000) less the corresponding deferred tax amount of R10 970 000 (2012: R9 006 000).

(2) Other reserves

The SABC,in terms of an agreement arrangement by the shareholder,waived the interest-free portion of its long-term loan. The gain is reflected as a non-distributable reserve to increase the equity contribution from the shareholder.

Back to table of contents

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 March 2013

Company

	Share Capital R '000	Share Premium R '000	Total Share Capital R '000	Revaluation Reserve (1) R '000	Other Reserves (2) R '000	Total Reserves R '000	Retained Earnings R '000	Total Equity R '000
Balance at 31 March 2011	2	75 890	75 892	364 788	88 614	453 402	216 440	745 734
Profit for the year	-	-	-	-	-	-	134 098	134 098
Other comprehensive income	-	-	-	29 152	-	29 152	-	29 152
Total comprehensive income for the year	-	-	-	29 152	-	29 152	134 098	163 250
Balance at 31 March 2012	2	75 890	75 892	393 940	88 614	482 554	350 538	908 984
Loss for the year	-	-	-	-	-	-	(47 596)	(47 596)
Other comprehensive income	-	-	-	28 208	-	28 208	-	28 208
Total comprehensive income for the year	-	-	-	28 208	-	28 208	(47 596)	(19 388)
Balance at 31 March 2013	2	75 890	75 892	422 148	88 614	510 762	302 942	889 596
Note(s)	12	12	12					

Refer to the Group statement of changes in equity for notes on the Revaluation reserve and Other reserves.

STATEMENTS OF CASH FLOWS

for the year ended 31 March 2013

		Group		Company	
	Note(s)	2013 R '000	2012 R '000	2013 R '000	2012 R '000
Cash flows from operating activities					
Cash generated from operations	28	298 633	277 381	298 621	277 368
Finance income received		27 485	62 127	27 484	62 126
Interest paid	29	(5 773)	(7 203)	(5 758)	(7 202)
Tax paid	30	(56 870)	(65 076)	(56 870)	(65 076)
Net cash inflow from operating activities		**263 475**	**267 229**	**263 477**	**267 216**
Cash flows from investing activities					
Acquisition of property, plant and equipment-grant funded and own assets	6	(457 073)	(82 956)	(457 073)	(82 956)
Proceeds from sale of property, plant and equipment	31	61	10	61	10
Net cash outflow from investing activities		**(457 012)**	**(82 946)**	**(457 012)**	**(82 946)**
Cash flows from financing activities					
Advance received from other financial liabilities		30 411	-	30 411	-
Repayment of loans and borrowings		(20 328)	(19 302)	(20 328)	(19 302)
Government grants received	19	152 486	341 140	152 486	341 140
Interest capitalised	19	26 714	4 465	26 714	4 465
Utilisation of government grant funding excluding acquisition of property, plant and equipment	19	(73 119)	(40 449)	(73 119)	(40 449)
Interest capitalised on government grant payable, including tax		31 696	-	31 696	-
Net cash inflow from financing activities		**147 860**	**285 854**	**147 860**	**285 854**
Net (decrease) increase in cash and cash equivalents		**(45 677)**	**470 137**	**(45 675)**	**470 124**
Cash and cash equivalents at the beginning of the year		1 605 937	1 135 800	1 605 806	1 135 682
Cash and cash equivalents at end of the year	11	**1 560 260**	**1 605 937**	**1 560 131**	**1 605 806**

Back to table of contents

1. Reporting Entity

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 financial statements of the Company as at and for the year ended 31 March 2013 comprise of the Company and its subsidiaries (together referred to as the "Group" and individually as the "Group entities"). The group primarily is involved in signal distribution and has transmission stations across the country and provides broadcasting services. Where references are made to "the group" in the accounting policies to the company, where the context requires, and unless otherwise noted.

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 of South Africa, No. 71 of 2008, as amended, and the Public Finance Management Act, No. 1 of 1999, as amended by Act 29 of 1999, of South Africa.

The financial statements were authorised for issue by the Accounting Authority on 29 July 2013.

2.2 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.

2.3 Functional Currency

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

2.4 Use of Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, 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 judgements in applying accounting policies that have the most significant effect on the amounts recognised in these financial statements are included in note 3 and the following notes:

- Notes 3.4 and 6 – valuation of property, plant and equipment;
- Notes 3.9 and 13 – measurement of employee benefits;
- Notes 3.15 and 27 – utilisation of tax losses; and
- Notes 3.10, 20 and 36 – 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 Group entities.

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.

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 on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then 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 Rands, 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;
- 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; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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 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 Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

Back to table of contents

3.3 Financial Instruments

Classification

The Group 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.

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.

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.

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, 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 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, which includes restricted cash and non-restricted cash which is 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 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 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 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. 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.

Back to table of contents

Increases in the carrying value arising on the revaluation of Buildings (revaluation surpluses) are credited in other comprehensive income and presented in the revaluation reserve in equity. 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 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. 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. Depreciation is recognised from the date the property, plant and equipment is available for use. For self-constructed assets depreciation is recognised from the date the asset is completed and ready for use. 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 for the current and comparable period:

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, technical 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 Intangible Assets

Licences

Licences are shown at historical cost less accumulated amortisation and impairments. Licences are amortised on a straight line basis over their estimated useful lives, which is the period of the licences according to the licence, ranging from 15 to 25 years.

3.6 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.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statements of financial position as a finance lease obligation. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This liability is not discounted.

3.7 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, provision is made for obsolete, slow-moving and defective inventories.

Back to table of contents

3.8 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 to the extent that it cannot be recouped from the revaluation reserve for revalued assets.

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.

3.9 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 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 Group 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 medical and pension plans are 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 government 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 total of any unrecognised past service costs and 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 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. When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit plans in personnel expenses in profit or loss. 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.

3.10 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.

Back to table of contents

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.

3.11 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 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.

Goods sold

The Group sells a range of broadcasting and telecommunication products. Sales of goods are recognised when a Group entity 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.

Services

The Group sells 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 other income.

3.12 Government Grants

Grants that compensate the Group for the cost of an asset are recognised initially as deferred income which is classified as a current liability. Grants relating to completed and incompleted 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.

3.13 Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.14 Finance Income and Finance Costs

Finance income comprises dividend income and interest income on the Group's own cash. 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, 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.

3.15 Tax

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.

Back to table of contents

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; differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

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.

3.16 Related Parties

Related parties include the Department of Communications (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 Company 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. New Standards and Interpretations

Standards and Interpretations Not Yet Effective

At the date of authorisation of the financial statements of SENTECH SOC Limited and subsidiaries for the year ended 31 March 2013, the following Standards and Interpretations were issued but not yet effective and will be applicable to the Group:

Effective for the Financial Year Commencing 1 April 2013

- IAS 1 amendment Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income
- IFRS 7 amendment Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 13 Fair Value Measurement
- IAS 19 (amendments) Employee Benefits: Defined Benefit Plans
- IAS 27 Separate Financial Statements (2011)

Effective for the Financial Year Commencing 1 April 2014

- IAS 32 Offsetting Financial Assets and Financial Liabilities

Effective for the Financial Year Commencing 1 April 2015

- IFRS 9 Financial Instruments

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

Amendment to IAS 1 Presentation of Financial Statements

The company will present those items of other comprehensive income that may be reclassified to profit or loss in the future separately from those that would never be reclassified to profit or loss. The related tax effects for the two sub-categories will be shown separately. This is a change in presentation and will have no impact on the recognition or measurement of items in the financial statements. The amendment will be applied retrospectively and the comparative information will be restated. The amendment is effective for periods beginning on or after 1 July 2012.

IAS 27 (2011) Separate Financial Statements

IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

The adoption of IAS 27 (2011) will not have a significant impact on the company's separate financial statements. The standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

IFRS 13 Fair Value Measurement

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

IAS 19 Employee Benefits (2011)

IAS 19 (2011) changes the definition of short-term and long-term employee benefits to clarify the distinction between the two. For defined benefit plans the Group will have to change is accounting policy for the recognition of actuarial gains and losses. These will be recognised immediately in other comprehensive income and no longer in profit or loss. The Group may also need to assess the impact of the change in measurement principles of expected return on plan assets. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

Amendments to IFRS 7 Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities

The amendments contain new disclosure requirements for financial assets and financial liabilities that are offset in the statement of financial position; or are subject to enforceable master netting arrangements or similar agreements. The Group applies offsetting in the financial statements and will be required to provide additional disclosures in this regard. This amendment is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

Amendments to IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities

The amendments clarify when an entity can offset financial assets and financial liabilities. This amendment will result in the Group no longer offsetting two of its master netting arrangements. This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

IFRS 9 Financial Instruments

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The Group and Company will adopt this standard for the financial year commencing 1 January 2015. The adoption of IFRS 9 (2010) is expected to have an impact on the Group and Company's financial assets, but not any impact on the Group and Company's financial liabilities.

5. Critical Accounting Estimates, Judgements and Key Assumptions

Estimates, judgements 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, judgements 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 method used for the revaluation of land and building is the income capitalisation amount and the depreciation 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 depreciation 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 to 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 3.8. 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.

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, the following factors are taken into consideration:

- 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, the following factors are taken into consideration:

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

Non-Derivative Financial Liabilities

Taxation

Judgement 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.

Back to table of contents

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 defined benefit funds assets and liabilities at the end of each reporting period.

6. Property, Plant and Equipment

Group and Company

	2013			2012		
	Cost/ Valuation R'000	Accumulated Depreciation and Impairment R'000	Carrying Value R'000	Cost/ Valuation R'000	Accumulated Depreciation and Impairment R'000	Carrying Value R'000
Land and buildings	642 484	(176 878)	465 606	623 018	(172 754)	450 264
Motor vehicles	2 646	(2 170)	476	2 518	(2 128)	390
Computer, technical and office equipment	1 003 178	(965 716)	37 462	768 900	(734 918)	33 982
Capital work in progress	42 015	-	42 015	22 172	-	22 172
Total	**1 690 323**	**(1 144 764)**	**545 559**	**1 416 608**	**(909 800)**	**506 808**

Reconciliation of property, plant and equipment - Group and Company - 2013

	Opening Balance R'000	Additions R'000	Disposals and Impairments R'000	Transfers R'000	Revaluations R'000	Government Grant Funded R'000	Depreciation R'000	Total R'000
Land and buildings	450 264	450	(6)	12 537	39 178	(13 164)	(23 653)	465 606
Motor vehicles	390	-	-	632	-	(424)	(122)	476
Computer, technical and office equipment	33 982	474	(221)	121 814	-	(114 392)	(4 195)	37 462
Capital work in progress*	22 172	456 149	(12 684)	(134 983)	-	(288 639)	-	42 015
	506 808	**457 073**	**(12 911)**	**-**	**39 178**	**(416 619)**	**(27 970)**	**545 559**

Reconciliation of property, plant and equipment - Group and Company - 2012

Land and buildings	417 264	1 355	(471)	17 503	38 158	-	(23 545)	450 264
Motor vehicles	369	117	-	-	-	-	(96)	390
Computer, technical and office equipment	62 618	1 153	(1 431)	57 081	-	(50 552)	(34 887)	33 982
Capital work in progress	198 419	80 331	-	(74 584)	-	(181 994)	-	22 172
	678 670	**82 956**	**(1 902)**	**-**	**38 158**	**(232 546)**	**(58 528)**	**506 808**

*R12 684 000 included in the disposals relates to impairment.

Buildings are revalued to fair value on a three year cycle by external independent valuators as per the accounting policy, see note 3.4. In line with this policy, the Group's buildings constructed on leased land were revalued on 31 March 2013 by the directors in conjunction with JHI Valuations. A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the Group.

Valuations were made on the basis of comparative land sales in each area and buildings based on the net replacement valuation 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 shareholders' equity.

Back to table of contents

If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	Group and Company	
	2013 R '000	2012 R '000
Cost	236 972	236 125
Accumulated depreciation and impairment losses	(74 639)	(75 344)
Carrying amount	**162 333**	**160 781**

7. Intangible Assets

	Group and Company					
	2013			2012		
	Cost/ valuation R'000	Accumulated Amortisation and Impairments R'000	Carrying Value R'000	Cost/ Valuation R'000	Accumulated Amortisation and Impairments R'000	Carrying Value R'000
Licences	15 671	(15 671)	-	15 671	(15 671)	-

Other information

In 2010, licences relating to Multimedia and Carrier of Carriers with a carrying amount of R15 671 000 were replaced by the Electronic Communications Act licences and were derecognised instead of impaired. There is no impact on profit or loss or the statements of financial position.

8. Investments in Subsidiaries

			Company	
Name of Company	Held by	Holding	Carrying Amount	
		%	2013 R'000	2012 R'000
Infohold SOC Proprietary Limited	SENTECH SOC Limited	100	*	*
Vivid Multimedia SOC Proprietary Limited	SENTECH SOC Limited	100	*	*
SENTECH International SOC Proprietary Limited	SENTECH SOC Limited	100	*	*
			*	*

* amounts are below R1 000.

The subsidiaries above are unlisted and registered in South Africa.

Infohold SOC Proprietary Limited holds 100% of the shares of its subsidiary InfoSat SOC Proprietary Limited. InfoSat SOC Proprietary Limited's business was discontinued in 2010.

Intercompany loans have been disclosed in Note 16.

9. Inventories

	Group and Company	
	2013 R'000	2012 R'000
Consumables	9 827	16 861
Inventories	4 300	-
	14 127	16 861
Inventories write-downs	(1 000)	(9 370)
	13 127	**7 491**

The inventory held is not encumbered.

10. Trade and Other Receivables

	Group		Company	
	2013 R '000	2012 R '000	2013 R '000	2012 R '000
Trade receivables	44 665	46 398	44 717	46 053
Less: Impairment	(9 582)	(16 662)	(9 612)	(16 335)
Net trade receivables	35 083	29 736	35 105	29 718
Other receivables	6 202	6 451	6 203	6 451
Deposits	1 723	882	1 723	882
Staff loans	2	-	2	-
Loan and receivables	43 010	37 069	43 033	37 051
Prepayments	13 630	4 166	13 630	4 166
VAT	3 855	-	3 855	-
Total trade and other receivables	**60 495**	**41 235**	**60 518**	**41 217**

Receivables from related parties for both Group and Company included in trade and other receivables amounts to R9 609 000 (2012 – R2 891 000). Refer to note 34.

The maximum exposure to credit risk at the reporting date is the fair value of each class of debtor mentioned above. The group does hold any collateral as security.

11. Cash and Cash Equivalents

	Group		Company	
	2013 R '000	2012 R '000	2013 R '000	2012 R '000
Unrestricted cash				
- Own cash	800 776	565 516	800 647	565 385
- Restricted cash	759 484	1 040 421	759 484	1 040 421
- Government grants cash	523 666	871 263	523 666	871 263
- Interest earned on government grant cash	235 818	169 158	235 818	169 158
	1 560 260	1 605 937	1 560 131	1 605 806

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 Department of Communications ("DOC") when the grants were received. The project and capital cash balances, net of VAT excluding the interest earned, which is currently managed on behalf of the DOC is as follows:

Back to table of contents

Projects

	Group and Company	
	2013	2012
	R '000	R '000
Digital Terrestrial Transmission and Dual Illumination	18 414	328 271
Broadband	438 596	438 596
Eassy – undersea cable	18 421	18 421
Community broadcasters	7 665	4 460
2010 World Cup Soccer	40 570	81 515
	523 666	871 263
Interest earned on Government grants cash	235 818	169 158
	759 484	**1 040 421**

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	1 218
	1 145	**2 212**

12. Share Capital and Premium

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**

The shareholder (Minister of Communications) controls the unissued shares.

13. Employee Benefits

The employee benefits are made up as follows

Retirement pension benefits (liability)/asset	(400)	1 300
Post retirement medical benefits	(198 225)	(172 622)
	(198 625)	**(171 322)**

13.1 Retirement pension benefits

The Group provides retirement benefits to all its employees and operates a funded defined benefit plan and a defined contribution plan governed by the Pension Funds Act of 1956. The defined benefit plan was actuarially valued on 31 March 2013 by an independent actuary and will be evaluated again at the end of the 2014 financial year. The fund is a legal entity separate from the Group. The assets of the fund are invested according to statutory prescriptions and the investments policy of the fund.

	Group and Company	
	2013	2012
	R '000	R '000
Present value of funded obligation	(15 400)	(12 100)
Fair value of plan assets	15 000	13 400
Net (liability)/asset recognised at year-end	(400)	1 300
Change in the defined benefit funding obligation		
Present value of funded obligation at beginning of the year	(12 100)	(11 600)
Service cost benefits earned during the year	(350)	(370)
Interest cost on projected benefit obligation	(1 000)	(900)
Benefits paid	-	770
Actuarial losses	(1 950)	-
Present value of funded obligation at end of the year	**(15 400)**	**(12 100)**
Change in plan assets		
Fair value of plan assets at the beginning of the year	13 400	12 900
Expected return on plan assets	1 300	1 200
Employee and employer contributions	300	270
Benefits paid	-	(770)
Actuarial losses	-	(200)
Fund surplus	**15 000**	**13 400**
Net (liability)/asset	**(400)**	**1 300**
Components of the retirement pension benefits recognised in profit and loss		
Current service cost	350	370
Interest cost	1 000	900
Actuarial losses recognised	1 950	200
Expected return on plan assets	(1 300)	(1 200)
Total included in employee remuneration costs	**2 000**	**270**
Movement in benefit fund (liability)/asset		
Net asset at beginning of the year	1 300	1 300
Net amount recognised in profit or loss	(2 000)	(270)
Contributions paid to the fund	300	270
Net (liability)/asset at end of the year	**(400)**	**1 300**
Principal actuarial assumptions used	**%**	**%**
Discount rate	8,2	8,8
Future salary increases	7	7
Expected return on plan assets	9,4	10
Future pension increases	-	6,4
Normal retirement age of members	63 years	63 years
Proportion of employees opting for early retirement	41,8	41,8
Members of the fund		
Active members at beginning of the year	4	5
Exits during the year	-	(1)
Active members at end of the year	**4**	**4**

The investments of the fund are in utilised type of investments (insurance policies). The investments of the fund provided a return of 9,3% and a Rand value of R1 300 000 (2012 – 9,3% and a rand value of R1 200 000) for the year-end, which was derived from a "spectrum" of Government Bond Rates plus a small equity premium. The investments are expected to provide a return similar to that assumed in determining the expected present value of the plan assets. The assets of the fund are invested according to statutory prescriptions and the investment policy of the fund. Projected contributions to the fund for the year ended 31 March 2013 financial year are R0,3 million (2012: R0,3 million).

There were no major differences between the previous actuarial assumptions and what occurred in the current year.

Sensitivity analysis			Group and Company
2013			
Change in liability	8,2%	+0,5%	-0,5%
0,5% change in discount rate and 0,24% change in future pension increase (R'000)	(15 400)	(15 700)	(15 100)

Sensitivity analysis			Group and Company
2012			
Change in liability	8,8%	+0,5%	-0,5%
0,5% change in discount rate and 0,5% change in future pension increase (R'000)	(12 100)	(12 400)	(11 800)

	2013 R '000	2012 R '000	2011 R '000	2010 R '000	2009 R '000
Historical information					
Retirement pension benefits					
Present value of the obligation	(15 400)	(12 100)	(11 600)	(9 000)	(9 200)
Present value of the plan assets	15 000	13 400	12 900	10 600	11 400
	(400)	1 300	1 300	1 600	2 200
Actuarial losses (gains) recognised	1 950	(200)	(230)	700	2 000

13.2 Retirement medical aid benefits

The Group provides post-retirement benefits to its retirees in the form of contributions to the independent medical aid fund and operates as an unfunded defined benefit plan. Members employed on or after 1 July 2005, are not entitled to any post retirement subsidy of medical scheme contributions. The liability was actuarially valued at 31 March 2013 by an independent actuary, and will be evaluated again at the end of the 2014 financial year. The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method. Actuarial gains and losses are recognised as they arise in profit or loss.

	Group and Company	
	2013 R '000	2012 R '000
Present value of unfunded obligations	198 225	172 622
Change in the defined benefit fund obligation		
Liability at beginning of the year	172 622	130 813
Benefits paid	(4 916)	(4 181)
Components of the retirement medical benefits recognised in profit and loss		
	30 519	45 990
Current service cost	4 936	3 965
Interest cost	14 459	11 263
Actuarial losses recognised	11 124	30 762
Liability at end of the year	**198 225**	**172 622**

	Group and Company	
	2013 R '000	2012 R '000
Principal actuarial assumptions used	%	%
Discount rate	9,5	8,5
Annual increase in health care costs	8	8
CPI inflation	6	6
Expected retirement age	63-65 years	63-65 years

The expected employee benefits to be paid for the 31 March 2014 financial year amount to R6,3 million (2012 – R4,9 million). Projected expenses to the fund for the 31 March 2014 financial year amount to R35,9 million (2012 – R19,4 million).

Sensitivity analysis			Group and Company
2013			
Change in liability	9,10%	+1%	-1%
1% change in health care cost inflation (R'000)	198 225	231 564	171 279
1% change in current service and interest cost	23 611	28 055	20 068

Sensitivity analysis			Group and Company
2012			
Change in liability	8,00%	+1%	-1%
1% change in health care cost inflation (R'000)	172 622	202 700	148 434
1% change in current service and interest cost	19 395	23 193	16 387

	2013 R '000	2012 R '000	2011 R '000	2010 R '000	2009 R '000
Historical information					
Retirement medical aid benefits					
Present value of the obligation	198 225	172 622	130 813	119 580	122 140
Actuarial losses (gains) recognised	11 124	30 762	(686)	(13 578)	10 185

Analysis of unexpected gains and losses

The accrued liability amounted to R172,6 million as at 31 March 2012. Based on a projection of this result and assuming that all actuarial assumptions have borne out in practice, the expected accrued liability as at 31 March 2013 is R187,1 million. The accrued liability calculated in this valuation is R198,2 million, reflecting an unexpected loss of R11,1 million.

An unexpected loss of R2,7 million arose as a result of a reduction in the real discount rate, i.e. a reduction in the difference between the discount rate and the health care cost inflation assumption, from 0,5% per annum to 0,4% per annum. This change was necessitated by a reduction in real bond yields.

An unexpected loss of R6,7 million arose as a result of higher than expected increases in medical scheme contributions. Unexpected changes in membership resulted in a loss of R1,7 million.

Back to table of contents

14. Deferred Tax

	Group and Company	
	2013 R '000	2012 R '000
Deferred tax (liability) asset		
Deferred tax	(2 525)	322
Movement in temporary differences		
At beginning of the year	322	(10 643)
Prior year adjustment	(625)	-
Recoginised in profit and loss	8 748	19 971
Recoginised in other comprehensive income	(10 970)	(9 006)
At end of the year	**(2 525)**	**322**

Deferred tax liabilities are attributable to the following:	Group and Company		
	Property, plant and Equipment R'000	Prepayments and Deposits R'000	Total R'000
Balance at 31 March 2011	**(75 369)**	**(1 846)**	**(77 215)**
Recognised in profit and loss	(1 159)	764	(395)
Recognised in other comprehensive income	(9 006)	-	(9 006)
Balance at 31 March 2012	**(85 534)**	**(1 082)**	**(86 616)**
Recognised in profit and loss	10 080	(1 135)	8 945
Recognised in other comprehensive income	(10 970)	-	(10 970)
Prior year underprovision	(625)	-	(625)
Balance at 31 March 2013	**(87 049)**	**(2 217)**	**(89 266)**

Deferred tax assets are attributed to the following:	Group and Company		
	Provisions R'000	Unearned Income and Deposits R'000	Total R'000
Balance at 31 March 2011	**61 313**	**5 259**	**66 572**
Recognised in profit and loss	21 383	(1 017)	20 366
Balance at 31 March 2012	**82 696**	**4 242**	**86 938**
Recognised in profit and loss	(3 708)	3 511	(197)
Balance at 31 March 2013	**78 988**	**7 753**	**86 741**

The deferred tax accounted for in other comprehensive income during the year is as follows:	Group and Company	
	2013 R '000	2012 R '000
Revaluation surplus in other comprehensive income – property, plant and equipment	(10 970)	(9 006)

15. Other Financial Liabilities

	Group and Company	
	2013 R '000	2012 R '000
Held at amortised cost		
Other financial liability	30 411	-

The other financial liability relates to an amount payable to ICASA in terms of an agreed settlement relating to licence fee payable in prior years. The amount agreed settlement amount was R43,7 million. At 31 March 2013 the settlement terms were R8 million payable by 31 March 2013 thereafter 23 equal monthly payments of R1,5 million and a final settlement amount of R0,5 million.

Non-current liabilities		
At amortised cost	15 816	-
Current liabilities		
At amortised cost	14 595	-
	30 411	**-**

16. Loans to/(from) Group Companies

	Company	
	2013 R '000	2012 R '000
Subsidiaries		
Loan owing to subsidiary- InfoSat	52 156	52 202
Loan owing by subsidiary- InfoSat	(46 932)	(46 936)
	5 224	5 266
Impairment of loans to subsidiary	(5 224)	(5 266)
	-	-

Both loans are of long term nature, non-interest bearing, and there are no terms of repayment. However, in terms of IAS1 – Presentation of Financial Statements, the amounts owing to subsidiaries have been disclosed as current as there is not an unconditional right to avoid payment for more than 12 months after reporting date.

SENTECH SOC Limited has agreed to provide its subsidiaries InfoSat SOC (Pty) Ltd and Infohold SOC (Pty) Ltd, with the necessary financial support to enable them to realise their assets and settle their liabilities in the normal course of business. Where relevant, SENTECH SOC Limited has also subordinated in terms of loans receivable in favour of other creditors for the period of 18 months from the date of issue of the financial statements.

17. Loans and Borrowings

	Group and Company	
	2013 R '000	2012 R '000
Interest-bearing liabilities		
Held at amortised cost		
Development Bank of Southern Africa - Loan	25 101	45 429
Less: Short-term portion	(25 101)	(21 494)
Long-term portion	**-**	**23 935**

The loan from the Development Bank of Southern Africa was used to fund infrastructure development. The loan is for a period of 10 years ending on 31 March 2014 and is unsecured. Interest is charged at a fixed rate of 11,03% per annum and the loan is repayable in bi-annual equal installments.

Contractual cash flows for loans and borrowings have been disclosed in note 32.2.

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000

18. Trade and Other Payables

Trade payables	67 163	47 511	67 102	47 508
Amounts due to related parties (Note 34.3.4)	33 233	640	33 233	640
Accrued expenses	88 896	15 453	88 896	15 398
Financial liabilities	189 292	63 604	189 231	63 546
Unearned income	5 512	2 550	5 512	2 550
Customer deposits	8 071	6 006	8 071	6 006
Lease straight-lining accrual	14 039	12 819	14 039	12 819
Leave pay accrual	22 460	20 035	22 460	20 035
Total trade and other payables	**239 374**	**105 014**	**239 313**	**104 956**

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

	Group and Company	
	2013 R '000	2012 R '000

19. Deferred Income – Government Grants

Analysis of movements in deferred income		
Opening balance	889 294	817 934
Net funding received (see below)	152 486	341 140
Grant income refundable, net of VAT (Note 21)	(457 017)	-
Acquisition of property, plant and equipment	(127 985)	(50 552)
Net interest capitalised	**3 267**	**3 215**
Interest capitalised for FIFA 2010 project	4 538	4 465
Taxation paid on interest for FIFA 2010 project (Note 27)	(1 271)	(1 250)
Interest deferred	**61 787**	**-**
Interest deferred until approval is received	22 176	-
Taxation paid	(6 210)	-
Interest previously recognised awaiting approval	45 821	-
Utilisation recognised in profit and loss	**(73 119)**	**(40 449)**
– Community broadcasters	(4 804)	(4 189)
– Dual illumination recovery of operating expenses	(68 223)	(36 260)
– Other items expensed to profit or loss	(92)	-
	448 713	1 071 288
Less: Net presentation basis of Government grant funded assets included in property, plant and equipment work-in-progress (Note 6)	(288 639)	(181 994)
Closing balance	**160 074**	**889 294**
Net funding received		
Government grants received	173 834	388 900
Deemed VAT (14%)	(21 348)	(47 760)
	152 486	**341 140**

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, see note 3.12.

The Company had in previous financial statements recognised interest earned on government grants that have been received in profit or loss. The basis for this practice was on the understanding that the grant documentation had been silent on the application of the interest. The financial statements of SENTECH for all periods up to 31 March 2012 have been prepared by the Accounting Authority and approved by the Minister of Communications (the sole shareholder) and submitted to National Treasury on this basis. The Accounting Authority has decided that interest earned on government grant monies will form part of the grant, therefore will only be recognised in profit and losses when approval is received.

The interest earned on other remaining government grants amounting to R45 821 000 (net of taxation) from previous years and R15 966 000 (net of taxation) for the current year has been recognised in deferred income – government grant until such time as approval is received from the Department of Communication that the interest income is allocated to SENTECH for utilisation. Thus a total of R61 787 000 (net of taxation) is awaiting approval prior to SENTECH recognising the interest in profit or loss.

20. Provisions

Reconciliation of provisions - Company and Group - 2013

	Opening balance R'000	Additions R'000	Utilised during the year R'000	Total R'000
Legal and other provisions	39 006	675	(26 803)	12 878

Reconciliation of provisions - Company and Group - 2012

	Opening balance R'000	Additions R'000	Utilised during the year R'000	Total R'000
Legal and other provisions	11 164	27 842	-	39 006

The Accounting Authority has raised provision for legal and other provisions that are likely to be incurred. The analysis of the provisions is as above.

	Group and Company	
	2013 R '000	2012 R '000
Analysis of provisions		
Legal fees	2 100	1 500
Signal distribution licence	-	8 000
Legal claim	9 114	8 714
Onerous contract	-	19 128
Ex-employee claim	1 664	1 664
	12 878	**39 006**

Legal

The company and group is defending several claims which have been instituted against it by other parties and the expected exposure included above.

Onerous contract

In the prior year, the company had an onerous contract of R19,1 million provided for. The company entered into a non-cancellable contract for the acquisition of 29 000 decoders. The arrangement was entered into to avoid further signal spillage into areas not permitted as well as to avoid further legal costs relating to settlement for an order that the company cancelled. The obligation for the decoders for which it was not likely that the company would recover was provided for in the prior year. In the current year a settlement with the supplier was reached and the decoders that were provided for were written-off.

Back to table of contents

21. Government Grant Payable

The Company had in previous financial statements recognised interest earned on government grants that have been received in profit or loss. The basis for this practice was on the understanding that the grant documentation had been silent on the application of the interest. The financial statements of SENTECH for all periods up to 31 March 2012 have been prepared by the Accounting Authority and approved by the Minister of Communications (the sole shareholder) and submitted to National Treasury on this basis.

This has been confirmed in the letter from the DDG – Public Finance dated 5 November 2012 where he requested the capital amount plus interest be refunded to the National Revenue Fund on National Wireless Broadband and Eassy Submarine Cable grants. Therefore included in government grant payable is the capital and interest earned on government grant received for National Wireless Broadband and Eassy Submarine Cable.

The Accounting Authority has decided that interest earned on government grant monies will form part of the grant, therefore will only be recognised in profit and losses when the conditions of the grant are met. The interest earned on other remaining government grants amounting to R45 821 000 (net of taxation) from previous years and R15 966 000 (net of taxation) for the current year has been recognised in deferred income – government grant until such time as approval is received from the Department of Communication that the interest income is allocated to SENTECH for utilisation. Thus a total of R61 787 000 (net of taxation) is awaiting approval prior to SENTECH recognising the interest in profit or loss.

The total interest reversed previously recognised in the profit and loss in the current year in terms of IAS20: Government Grants is R172 799 000, of which R126 978 000 relating to Broadband and Eassy government grants is accrued for in Government Grant Payable and R45 821 000 has been accrued in Deferred income – government grants. The total interest reversed is not tax deductable.

The amount is made up of the following:

	Group and Company
	2013 R'000
Government grant payable	
Broadband capital,net of VAT	457 017
Eassy capital,net of VAT	438 595
Interest payable on grant refund	18 422
- Interest earned,net of tax recognised previously in profit or loss	149 799
- Interest earned,net of tax	126 978
	22 821
Closing balance of refund due	**606 816**

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000

22. Revenue

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Terrestrial television services	419 257	389 294	419 257	389 294
Terrestrial FM radio services	186 844	177 560	186 844	177 560
Terrestrial MW radio services	6 218	4 547	6 218	4 547
Terrestrial short wave radio services	23 703	24 450	23 703	24 450
Terrestrial and satellite linking	78 921	79 266	78 921	79 266
Satellite direct-to-home	44 405	37 957	44 405	37 957
Business television	7 140	4 419	7 140	4 419
Facility rentals	39 692	31 281	39 692	31 281
VSAT	24 343	23 331	24 343	23 331
Dual illumination grant income	68 224	36 260	68 224	36 260
Other	636	4 220	626	4 220
	899 383	812 585	899 373	812 585

23. Expenses by Nature

The following is disclosed for profit and loss from operations:

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Cost of sales	513 408	547 456	513 408	547 611
Operating expenses	97 275	71 259	97 275	71 259
Administration expenses	99 149	38 522	99 107	38 544
Selling expenses	12 829	6 750	12 829	6 750
	722 661	663 987	722 619	664 164
Cost of sales includes the following:				
Employee costs (see note 24)	289 521	272 973	289 521	272 973
Depreciation, amortisation and impairments	27 970	58 528	27 970	58 528
Operating lease expense - satellite rental	111 501	95 022	111 501	95 022
Transmitter tubes	8 255	11 247	8 255	11 247
Support equipment	2 261	21 357	2 261	21 357
Other cost of sales	73 900	88 329	73 900	88 484
	513 408	547 456	513 408	547 611

	Group and Company 2013 R '000	Group and Company 2012 R '000
Operating expenses includes the following:		
Operating lease expenses		
- Premises	9 935	9 098
- Lease rentals on operating lease - Other	2 413	2 166
Auditors remuneration		
- Current year audit fees	3 056	2 555
- Prior year underprovision	1 585	2 332
Legal and consulting fees	25 857	23 864
Transport costs	20 849	17 816
Loss on impairment of property, plant and equipment	12 849	1 892
Other operating expenses	20 731	11 536
Total Operating expenses	97 275	71 259

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
Administration expenses includes the following:				
Licences	65 091	12 269	65 091	12 269
- Spectrum	33 534	7 656	33 534	7 656
- ICASA	30 411	-	30 411	-
- ECNS/ECS	1 087	4 572	1 087	4 572
- Other	59	41	59	41
Other administration expenses	34 058	26 253	34 016	26 275
	99 149	38 522	99 107	38 544
Selling expenses includes the following:				
Advertising and Other selling expenses	12 829	6 750	12 829	6 750
	12 829	6 750	12 829	6 750

24. Employee Costs

	Company	
	2013 R'000	2012 R'000
Salaries and wages	219 567	191 280
Medical aid contributions		
-current employees	23 177	20 992
-pensioners	5 159	4 309
-post -retirement obligations,excluding interest	16 060	34 727
Statutory charges	887	701
Pension costs - defined contribution plan	24 671	20 694
Post-retirement pension benefits	-	270
	289 521	272 973
Total number of employees at year-end (excluding temporary staff)	522	508

25. Finance Income

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
Recognised in profit and loss				
Sanlam Collective Investments Dividends	8 727	8 221	8 727	8 221
Interest income-financial institutions	18 758	53 906	18 757	53 905
	27 485	62 127	27 484	62 126

The company has been requested to return funds received for the Broadband and Eassy Projects to the National Revenue fund on 5 November 2012. The refund request has been made for the capital portion together with the interest earned over the period, net of taxation which includes interest earned in the current year amounting to R22 176 000. The finance income has been recognised directly in the government grant payable.

The company has decided, based on the above directive not to recognise interest received on government funding in the Statement of Comprehensive Income until such time as approval is received for its utilisation.

26. Finance Costs

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
Recognised in profit or loss				
Borrowings	5 615	6 640	5615	6640
Other financial interest				
Other interest expenses	157	563	142	562
Interest on government grant payable	126 978	-	126 978	-
Post retirement medical interest	14 459	11 263	14 459	11 263
Interest previously recognised deferred to deferred income-government grants	45 821	-	45 821	-
	193 030	18 466	193 015	18 465

Interest earned on Government Grant Funds

The company has been requested to return funds received for the Broadband and Eassy Projects to the National Revenue fund on 5 November 2012. The refund request has been made for the capital portion together with the interest earned over the period, net of taxation thus R126 978 000 has been recognised as a finance cost expense.

The company has decided based on the treatment of the refund requested, the Accounting Authority has amended the policy to only recognise the interest earned on government grant funding, which has not yet been spent until approval is received. The interest is recognised directly in the deferred income – government grant. The company recognised interest previously accounted for in the finance costs amounting to R45 821 000.

27. Income Tax Expense

	Group and Company	
	2013 R'000	2012 R'000
Major components of the tax expense		
Current		
Local income tax - Current period	72 075	79 205
Tax recovered from grant funds (Note 19)	(1 271)	(1 250)
Prior year over provision	(3 862)	-
	66 942	77 955
Deferred		
Deferred tax credit	(8 748)	(19 971)
Arising from prior period adjustments	625	-
	(8 123)	(19 971)
	58 819	57 984

	Group and Company	
	2013 R'000	2012 R'000
Reconciliation of the tax expense		
Reconciliation between applicable tax rate and average effective tax rate		
Applicable tax rate	28,00%	28,00%
Expenses not deductible	468,00%	0,70%
Dividend income exempt	(22,00%)	(1,20%)
Prior year adjustments	(6,00%)	2,70%
Capitalised interest income	11,00%	0,70%
Taxation recovered on interest capitilised	- %	(0,70%)
Interest income not recognised -refunded to National Treasury	79,00%	- %
Tax refund	(34,00%)	- %
	524,00%	30,20%

Back to table of contents

28. Cash Generated from Operations

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Results from operating activities	176 722	148 598	176 754	148 421
Adjustments for:				
Depreciation and amortisation	27 970	58 528	27 970	58 528
Impairment of property, plant and equipment	12 684	-	12 684	-
Loss on disposals of property, plant and equipment	165	1 892	165	1 892
(Decrease)/increase in provision for the impairment of inventories	(8 370)	500	(8 370)	500
(Decrease)/increase in trade and other receivables provision	(7 080)	449	(6 723)	473
(Decrease)/increase in provision for the impairment of loans to subsidiary	-	-	46	60
Movements in retirement benefit assets and liabilities	12 844	30 546	12 844	30 546
(Decrease)/increase in provisions	(26 128)	27 842	(26 128)	27 842
Cash generated from operations before working capital changes	**188 807**	**268 355**	**188 242**	**268 262**
Changes in working capital	**109 826**	**9 026**	**109 379**	**9 106**
Decrease/(increase) in inventories	2 734	(676)	2 734	(676)
Increase in trade and other receivables	(12 182)	(10 276)	(12 578)	(10 282)
Increase in trade and other payables	119 274	19 978	119 273	20 124
Decrease in loan from subsidiary	-	-	(50)	(60)
Cash generated from operations	**298 633**	**277 381**	**298 621**	**277 368**

29. Interest Paid

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Amount recognised in profit or loss	(193 030)	(18 466)	(193 015)	(18 465)
Interest on post-retirement medical aid	14 459	11 263	14 459	11 263
Interest accrued on government grants refundable	172 798	-	172 798	-
	(5 773)	(7 203)	(5 758)	(7 202)

30. Tax Paid

	Group and Company 2013 R'000	Group and Company 2012 R'000
Balance at beginning of the year	(2 653)	11 476
Current tax for the year recognised in profit or loss	(66 942)	(77 955)
Tax recovered from grant funds	(1 271)	(1 250)
Balance at the end of the year	13 996	2 653
	(56 870)	(65 076)

31. Proceeds from Sale of Property, Plant and Equipment

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Carrying amount of disposals (Note 6)	226	1 902	226	1 902
Loss on disposal of property, plant and equipment	(165)	(1 892)	(165)	(1 892)
	61	**10**	**61**	**10**

32. Financial Instruments

32.1 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Cash and cash equivalents	11	1 560 260	1 605 937	1 560 131	1 605 806
Loans and receivables	10	43 010	37 069	43 033	37 051
		1 603 270	**1 643 006**	**1 603 164**	**1 642 857**

The maximum exposure for loans and receivables at the reporting date by geographic region was:

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Domestic	40 314	31 618	40 337	31 600
Foreign	2 696	5 451	2 696	5 451
	43 010	**37 069**	**43 033**	**37 051**

Impairment losses

The ageing of loans and receivables at the reporting date was:

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Not past due date	24 687	25 593	24 685	25 594
Past due 30 days	(1 848)	6 599	(1 848)	6 599
Past due 60 days	2 864	2 776	2 864	2 776
Past due 90 days and more	17 307	2 101	17 332	2 082
Net loans and receivables	**43 010**	**37 069**	**43 033**	**37 051**

Back to table of contents

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000

The movement in the allowance for impairment in respect of loans and receivables during the year was as follows:

Balance at beginning of year	(16 662)	(16 213)	(16 335)	(15 862)
Impairment loss (recognised)/utilised	7 080	(449)	6 723	(473)
	(9 582)	**(16 662)**	**(9 612)**	**(16 335)**

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.

32.2 Exposure to liquidity risk

Financial liabilities at year-end were as follows:

Trade and other payables	189 292	63 604	189 231	63 546
Loans and borrowings	25 101	45 429	25 101	45 429
Other financial liabilities	30 411	-	30 411	-
Carrying amount	**244 804**	**109 033**	**244 743**	**108 975**

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

1 year or less				
Trade and other payables	182 292	63 604	189 231	63 546
Loans and borrowings, including interest	25 101	25 942	25 101	25 942
Other financial liabilities	14 595	-	14 595	-
2 – 5 years				
Loans and borrowings, including interest	15 816	29 398	15 816	29 398
Total contractual cash flows	**244 804**	**118 944**	**244 743**	**118 886**

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

	Group and Company	
	2013 R'000	2012 R'000
32.3 Unutilised borrowing capacity		
Approved and unutilised overdraft facilities	6 700	6 700

32.4. Exposure to currency risk

Loans from group companies and loans and borrowings are denominated in South African Rand.

The exposure to currency risk was as follows based on carrying amounts for other financial instruments:

Group and Company	Loans and Receivables R '000	Trade and Other Payables R '000	Cash and Cash Equivalents R '000	Net Exposure at Year-End R '000
2013				
GBP	1 510	-	399	1 909
EUR	530	(454)	6 394	6 470
USD	656	-	3 398	4 054
	2 696	**(454)**	**10 191**	**12 433**
2012				
GBP	1 627	(26)	5 208	6 809
EUR	1 370	(4 441)	13 160	10 089
USD	2 454	(1 162)	5 688	6 980
CHF	-	(481)	-	(481)
SEK	-	(1 205)	-	(1 205)
	5 451	**(7 315)**	**24 056**	**22 192**

The following significant exchange rates applied during the year:

Group and Company	Average Rate		Reporting Date Spot Rate	
	2013 R	2012 R	2013 R	2012 R
GBP	13,504	11,848	14,226	12,3
EUR	11,045	10,225	12,027	10,256
USD	8,586	7,418	9,359	7,692
CHF	9,212	8,432	10,071	8,518
SEK	1,272	1,135	1,476	1,16

Sensitivity Analysis

A 10 percent 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. The analysis is performed on the same basis for 2012.

	Group and Company	
	2013 R '000	2012 R '000
GBP	137	490
EUR	466	726
USD	292	503
CHF	-	(35)
SEK	-	(87)

A 10 percent strengthening of the Rand against the currencies at 31 March would have had equal but opposite effect in the above currencies to the amounts shown above, on the basis that all other variables remain constant.

32.5 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.

	Group		Company	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
Profile				
The interest rate risk profile of the interest-bearing financial instruments was:				
Fixed rate instruments				
Development Bank of Southern Africa Loan	(25 102)	(45 429)	(25 102)	(45 429)
Variable rate instruments				
Government grants cash and cash equivalents	759 484	1 040 421	759 484	1 040 421
Own cash and cash equivalents	800 776	565 516	800 647	565 385
	1 560 260	**1 605 937**	**1 560 131**	**1 605 806**

Back to table of contents

Sensitivity analysis

A change of 100 basis points in interest rates would have increased or decreased profit or loss by R711 037 (2012– R376 652) with all other variables held constant.

32.6 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 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. For finance leases the market rate of interest is determined by reference to similar lease agreements.

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 2013 and 2012, the Group and Company 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).
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

33. Financial Risk Management

Overview

The Group has exposure to the following risks from its use of financial instruments:
- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Accounting Authority has overall responsibility for the establishment and oversight of the Group's risk management framework. The Accounting Authority is responsible for developing and monitoring the Group's risk management policies.

33.1 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 operates, has less of an influence on credit risk. There is concentration of credit risk in a single customer, South African Broadcasting Corporation (SABC) as more than fifty percent of the Company's revenue comes from this customer. SABC is the national broadcaster and is supported by the Government to ensure that it meets its obligations when they fall due. Therefore, SABC does not pose a significant credit risk and has been settling its account on a timely basis.

The Accounting Authority 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.

33.2 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 Bank for R6 700 000. The facility utilisation has been disclosed in note 32.3.

33.3 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 of the value of 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 respective presentation currency of the Group. The currencies in which these transactions are primarily denominated are, 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.

33.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each department. This responsibility is supported by the development of overall group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with group standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with management and the Audit Committee so that corrective action is taken.

33.5 Capital management

One of the key focus areas of the Accounting Authority 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 in order 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.

	Group	
	2013 R '000	2012 R '000
The core debt components of the Group is as follows:		
Borrowings	25 101	45 429
Unfunded post retirement employee benefits obligation	198 625	172 622
	223 726	**218 051**

The unfunded post retirement medical benefits 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 where they remain in employment with SENTECH until retirement. This is a commitment that increases at medical initiation which approximates at least 2 percent above CPI.

Key capital structure data:

	Group	
	2013 R '000	2012 R '000
Shareholder Funds – Equity	889 641	909 075
Earnings before interest, and depreciation tax (EBITDA)	204 692	207 126
Interest paid	20 074	17 903
Long term borrowings	5 615	6 640
Other interest expenses	14 459	11 263
The Group benchmarks the following capital ratios:		
Debt to Equity ratio		
Target	Less than 40%	Less than 40%
Actual	24%	24%
Debt to EBITDA		
Target	Greater than 3	Greater than 3
Actual	0,94	1,05
EBITDA to interest paid cover		
Target	Greater than 10	Greater than 10
Actual	10	11

34. Related Parties

Related party transactions occurred between SENTECH,Department of Communication(DOC),The Independent Communications

Authority of South Africa (ICASA) and the South African Broadcasting Corporation (SABC).

All transactions with government departments were on an 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 2013 and 31 March 2012.

Back to table of contents

Transactions with key management personnel

34.1 Loans to directors

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

34.2 Key management compensation

Group and Company

	Period of Service (months)	Basic Salary R '000	Expense and Other Allowances R '000	Provident Fund R '000	Fees R '000	Total R '000
Directors emoluments 2013						
Executive						
TP Phili	4	450	5	76	-	531
SJ Mohapi	12	2 492	14	369	-	2 875
KS Matabane	9	1 148	11	171	-	1 330
Non-executive						
HM Dhlamini	12	-	4	-	227	231
ZD Hlatshwayo	12	-	6	-	229	235
LT Khumalo	12	-	-	-	230	230
P Mashile	12	-	-	-	347	347
SM Molala	12	-	6	-	304	310
TJA Mongake	12	-	8	-	308	316
SJ Mjwara	12	-	6	-	230	236
		4 090	60	616	1 875	6 641
Chairperson – Audit Committee						
JK Masemola	7	-	-	-	152	152

Group and Company

	Period of Service (months)	Basic Salary R '000	Expense and Other Allowances R '000	Provident Fund R '000	Fees R '000	Total R '000
Directors emoluments 2012						
Executive						
TP Phili	8	870	10	136	-	1 016
SJ Mohapi	12	2 107	14	315	-	2 436
Non-executive						
HM Dhlamini	12	-	5	-	245	250
ZD Hlatshwayo	12	-	7	-	294	301
LT Khumalo	12	-	5	-	254	259
P Mashile	12	-	5	-	233	238
SM Molala	1	-	-	-	9	9
TJA Mongake	1	-	-	-	9	9
SJ Mjwara	1	-	-	-	9	9
S Rapeti	1	-	-	-	-	-
		2 977	46	451	1 053	4 527
Chairperson – Audit Committee						
R Van Wyk	9	86	-	-	-	86

See Accounting Authority'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:

Group and Company

	Position	Period of Service (Months)	Basic/ Fees R '000	Expense and Other Allowances R '000	Pension Fund R '000	Total R '000
2013						
T Masooa	Executive: Human Resource	12	1 177	-	239	1 416
MM Matobako	Executive: Risk Management	6	588	-	148	736
PN Phukubje	Executive: Internal Audit	2	203	-	42	245
NB Motswasele	Executive: Business Services	12	1 170	-	227	1 397
DW Ngwenya	Executive: Technology	12	1 215	-	181	1 396
Z Adams	Senior Legal Counsel	12	1 117	-	230	1 347
Z Mthembu	Executive: Strategy Co-ordination	5	610	-	92	702
			6 080	-	1 159	7 239

Group and Company

	Position	Period of Service (Months)	Basic/ Fees R '000	Expense and Other Allowances R '000	Pension Fund R '000	Total R '000
2012						
T Masooa	Executive: Human Resource	5	415	2	89	506
Z Adams	Senior Legal Counsel	12	1 039	10	219	1 268
NB Motswasele	Executive: Business Services	3	231	-	44	275
DW Ngwenya	Executive: Technology	3	278	-	42	320
D Dube	Executive: Legal & Regulatory	4	334	1	63	398
			2 297	13	457	2 767

Back to table of contents

34.3 Transactions and balances with related entities

Government grants

Various transactions were entered into with the Department of Communication 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 19. Entities controlled by the Department of Communications

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

	Group and Company	
	2013 R '000	2012 R '000
34.3.1 Sale of goods and services		
SABC	505 145	469 731
South African Post Office	3 748	5 937
USAASA	6 059	986
	514 952	**476 654**

Services are rendered at market related rates.

34.3.2 Purchases of goods and services		
South African Post Office	31	2
SABC	275	238
ICASA	78 887	10 960
	79 193	**11 200**

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

34.3.3 Related party receivables		
South African Post Office	991	1 050
SABC	2 243	424
USAASA	6 907	1 417
Impairment of related parties	(532)	-
	9 609	**2 891**
34.3.4 Related party payables		
ICASA	33 233	640
34.3.5 Transactions with subsidiaries		
Loans owing by subsidiary	52 156	52 202
Impairment of loans to subsidiary	(5 224)	(5 266)
Loans owing to subsidiary	(46 932)	(46 936)
	-	-

35. Commitments

Capital commitments

Capital expenditure contracted for at the reporting date but not yet incurred is as follows:

	Group and Company	
	2013 R '000	2012 R '000
Requested per corporate plan		
• SENTECH funded assets	414 048	208 352
• Government grant funded assets	601 000	506 145
Approved but not contracted	136 533	317 000
Contracted	70 902	54 128

The authorised capital expenditure for property, plant and equipment is planned to occur in the next financial year. It will be financed from internal cash resources 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 23.

Minimum lease cash payments due		
- within one year	46 760	86 647
- in second to fifth year	90 168	216 339
- later than five years	48 959	-
	185 887	**302 986**

36. Contingent Liabilities

Ex-employees claims

The Group received legal claims from former employees claiming that they were unfairly dismissed. The matters are currently being heard by the CCMA. The maximum claim that the CCMA may hand down to the group is the equivalent of 12 months salary. Management is uncertain on the outcome of these legal cases.

37. Losses through Criminal Conduct, Irregular, Fruitless and Wasteful Expenditures

All losses through criminal conduct and any irregular expenditure

Section 1 of the Public Finance Management Act, No. 1 of 1999, as amended, 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.

Back to table of contents

The following amounts have been determined as being losses through irregular expenditure, in terms of section 55(2)(b)(i) of the Public Finance Management Act, No. 1 of 1999, as amended:

	Group and Company	
	2013 R '000	2012 R '000
Opening balance	36 862	30 991
Add: Irregular Expenditure in current year - Supply chain management process not followed	5 807	5 871
Less: Investigated and found not to be irregular	(502)	-
Closing balance	**42 167**	**36 862**

Post year end, on 28 May 2013, the Accounting Authority submitted an application to National Treasury to condone R32,3 million of irregular expenditure. The approval has not been received as at the date of approval of the financial statements. On 22 March 2013, the Executive Committee (EXCO) condoned R8 million of irregular expenditure.

Material losses through fruitless and wasteful expenditures

Section 1 of the Public Finance Management Act, No. 1 of 1999, as amended, 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 Communications for the year under review:

Balance at 1 April	4 702	4 624
Losses identified during prior years	-	78
Balance at 31 March	**4 702**	**4 702**

38. Borrowing Limitations

In terms of the Company's Articles of Association, the Accounting Authority shall not have the power to borrow without the prior approval of the shareholder and the Minister of Finance. The Minister of Communications has approved a banking facility with ABSA for R74 million which includes an overdraft facility of R6,7 million. The facility has not yet been utilised and will only be used when required by the Company.

39. Going Concern

The Accounting Authority has reviewed the corporate plan and prepared a cash flow forecast for the 18 months to 30 September 2014. 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 fact the government grants that have been approved and the additional funds that have been requested to complete the DTT rollout will be made available. On the basis of this review, and in light of the current financial position, approved grant funding, the Accounting Authority is satisfied that the Company and Company has access to adequate cash resources to continue in its operational existence for the foreseeable future and is a going concern, and have continued to adopt the going concern basis in preparing the financial statements.

40. Events after the Reporting Period

The Accounting Authority is not aware of any other matters or circumstances arising since the end of the financial year that would impact the reported results, other than those matters already disclosed in these financial statements.

NOTES

Back to table of contents

NOTES

HEAD OFFICE
Augusta House
Fourways Golf park
Roos Street
Fourways
2055

SENDER TECHNOLOGY PARK (STP)
Octave Street
Radiokop
Honeydew
2040

POSTAL ADDRESS
Private Bag X06
Honeydew
2040
South Africa

CONTACT DETAILS
CALL CENTRE NO: 0860 736 832 /
0860 084 843
FAX NO: 086 743 4411

EMAIL: support@sentechsa.com
WEBSITE: www.sentech.co.za