



06 February 2017

SENTECH 2015/16 ANNUAL REPORT

1. INTRODUCTION

SENTECH was established as a technical division of the South African Broadcasting Corporation (SABC), responsible for the corporation's signal distribution services. In 1992, the division was corporatized 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 entity, 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 granted two additional licences, allowing the company to provide international voice-based telecommunications and multimedia services. These licences were subsequently converted into an Individual I-ECNS and an Individual Electronic Communications Service (I-ECS), licenced in terms of the Electronic Communications Act, No. 36 Of 2005.¹

SENTECH has to ensure that South African citizens receive superior quality broadcasting services through a reliable infrastructure, providing both Radio and Television content. Universal access to media content is the primary focus of the company in line with the National Development Plan (NDP). Its primary product portfolio consists of:

- **Broadcasting Signal Distribution (BSD):** This product comprise Direct to Home (DTH) satellite services, television and radio services
- **Infrastructure services:** These services are offered in the form of facilities leasing and infrastructure hosting
- **Data Connectivity:** Very Small Aperture Terminal (VSAT) being the technology used for providing data connectivity²

2. SENTECH'S RISK ASSESSMENT REPORT

The entity listed the following risks as potential threats to its business and goal attainment:

Risk Description	Risk Treatment
Threats to existing and new revenues	In a global economic market where revenues are under pressure for most businesses, SENTECH

¹ SENTECH (2016)

² Ibid



	<p>has been no exception to this business climate. In response to this risk, SENTECH has implemented a range of mitigation strategies such as diversification of both product portfolio and customer mix. In order to diversify products portfolio and customer mix, in an era where technologies are becoming rapidly obsolete, SENTECH's technology road-map was reviewed to ensure appropriateness of the technologies deployed.</p>
Ageing analogue TV infrastructure due to delayed Analogue Switch Off	<p>Replacement programmes have been in place and executed for some of the analogue equipment. The company procured infrastructure that can also be migrated for services such as Digital Audio Broadcast (DAB+) in VHF.</p> <p>SENTECH continued to implement its maintenance programmes to ensure network performance aligned to customer Service Level Agreements. In response to the Analogue Switch Off risks, SENTECH responded as discussed under risks 8 and 10 below.</p>
Threats to sustained availability of energy to run efficient operations	<p>SENTECH developed and is rolling out a strategy for alternative sources of energy. The load shedding impact was minimal during the year under review, resulting in acceptable energy costs.</p>
Effects of extreme weather conditions on SENTECH operations	<p>SENTECH developed a comprehensive Business Continuity Management Programme which is being implemented. This includes a Business Continuity Plan (BCP) that will enable the company to respond to all natural disasters and other incidents. Parts of the Disaster recovery plans that are a subset of the BCP are being implemented at the Company's disaster recovery site at Nasrec.</p>
Foreign exchange	<p>SENTECH is exposed to foreign exchange rates fluctuations as a significant amount the Company's operational (e.g. satellite) and capital costs are denominated in foreign currencies; and revenue generated in foreign currency is not significant to constitute a natural hedge. The company continued to monitor foreign denominated cash resources and purchasing of foreign currency at favourable exchange rates, when necessary. The foreign</p>



	<p>debtors have been limited to a maximum of two months foreign currency denominated revenues.</p>
<p>Lack of a dynamic workforce that can take SENTECH into the future</p>	<p>The Company had already initiated a partnership with University institutions to build capacity for scarce skills in engineering, specifically targeted at female Historically Disadvantaged Individuals (HDIs). Training continued to be conducted to provide some of the much needed skills in line with the training plan that was developed for the year. SENTECH has also embarked on an Organisation Design and Development (ODD) process which will assist the Company identify skills needed to take SENTECH into the future and to ensure that people are organised in a way that is best to deliver on its business model and the SENTECH mandate. More information regarding responses to this risk is available under the Human Resources section of this report.</p>
<p>Impact of policy and regulatory environment</p>	<p>SENTECH continued to monitor the ITA licensing processes issued by ICASA. The status quo remains until Cabinet pronounces on the ICT Review Report.</p> <p>Uncertainty in the outcome of State-Owned Companies (SOC) rationalisation process remains until finalisation of the process. SENTECH continued to participate in the engagements and will continue to do so, until the process is finalised.</p>
<p>Complexity of DTT migration</p>	<p>The delayed launch of Commercial Digital Terrestrial Television has the potential to negatively impact the Company's future financial sustainability. Any further delays will result in the Company having to deplete its cash reserves to maintain the DTT transmitter network and to provide for its depreciation. SENTECH continued to participate in the interventions established by the Shareholder to expedite the launch of Commercial DTT. In response to the risk of cross-border interferences, the company has engaged with neighbouring countries in order to manage interferences.</p>



Delayed ASO and the funding of Dual Illumination	Furthermore, other stakeholders have been continually engaged regarding ASO plan and these will continue.
Sustainability of suppliers and service providers of mission critical equipment and services	<p>SENTECH relies on external solution manufacturers and service providers operating in a volatile global economic environment; which could impact the long-term sustainability of technology partners and ability to remain in business. The company has implemented a process of conducting a due diligence on suppliers of its mission critical equipment and services on an annual basis.</p> <p>Shortage of specialist high mast maintenance skills locally impacts on SENTECH's critical maintenance projects. In response, SENTECH is developing those skills through implementation of its enterprise and supplier development strategy.</p>
Potential for Cyber-attacks and physical security	A Cyber Security plan and a physical security plan have been developed and are being implemented.

Source: SENTECH Annual Report 2016

3. 2015/16 PROGRAMME PERFORMANCE

The year under review, i.e. 2015/16 marks the fourth consecutive year in which SENTECH's performance was delivered against a clean audit given by the external auditors, making this the fourth consecutive clean audit by the entity.

Out of the 17 planned targets, the entity did not achieve 3 targets, i.e. 82.5 per cent of planned targets were achieved. Targets that were not achieved include:

- Performance contracts were not signed due to engagements between workers and the employer regarding the 13th cheque
- As part of ensuring universal access to digital broadcasting signal distribution network services, SENTECH had planned to complete 4 Greenfield Site but only managed to complete 2.
- As part of ensuring universal access to connectivity network services, SENTECH had planned to install 300 data connectivity terminals by the end of the 2015/16 financial term by this target was cancelled due to the instability of the technology which resulted in the product being discontinued



The entity should give details on measures taken to address the challenges experienced in achieving the set targets. Have these challenges been resolved?

As part of targets achieved during the 2015/16 financial year, Sentech listed the following successes:

- The entity's revenue was R1.18 billion, this is a growth of 7 per cent
- EBIT was R196.14 million, this is a growth of 15 per cent from the 2014/15 financial year
- NPAT was R199.80 million, this is a growth of 18 per cent from the 2014/15 financial year
- 82.35 per cent of all Key Performance Indicators (KPIs) were achieved
- B-BBEE Level 3 achieved³
- Number of employees grew to 541 from 539
- Network availability exceeded the annual target;
- Customer satisfaction levels were above target at 72 per cent;
- 34 community radio broadcasters were connected and
- 31 Frequency Modulation (FM) expansion transmitters were connected.

SENTECH spent the year under review focusing on Broad-Based Black Economic Empowerment (B-BBEE) through the implementation of the enterprise and supplier development strategy in order to contribute to the economic transformation of the ICT sector. The entity should give details on progress in this regard.

4. FINANCIAL REVIEW 2015/16

The entity's financial performance for 2015/16 financial year is as follows:

- Group revenue from continuing operations increased by 7 per cent to R1 179 million compared with the 2014/15 R1 107 million
- Cash generated from operations decreased by 25 per cent to R 96 million compared with the 2014/15 R127 million
- R 111 million (net of Government grant) was spent on additions to property, plant and equipment and

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- The return on net assets from continuing operations exceeded the target of 8 per cent to reach 11.26 per cent due to savings against budget in various classifications of expenditure.

4.1. SANTECH's Product Review

4.1.1. Primary Products

The Broadcasting Signal Distribution (BSD) services currently account for 86 per cent of the total SENTECH revenue base, in 2015 BSD accounted for 84 per cent. While facilities leasing⁴ accounts for 5 per cent. This has not moved from the previous financial year's 5 per cent⁵, with the smallest contributor being Very Small Aperture Terminal (VSAT) at less than 1 per cent, also similar percentage in 2015. In short, Direct to Home (DTH) satellite services, television and radio services continue to dominate the entity's portfolio.

Overall revenue increased by 6.31 per cent from the previous year mainly because of growth in network expansions on the signal distribution side, however, this is expected to flatten in the following financial year as growth will be constrained by the availability of frequencies for FM and the migration from analogue to digital terrestrial television.

4.2. Broadcasting Signal Distribution

4.2.1. Analogue Television (ATV)

ATV generated R555 million, compared with R477million of revenue generated in the 204/15 financial year. However, there was a slight decrease in revenue from Commercial TV, a result of the termination of Bay TV (R197k) due to license expiration and e.tv's cancellation of analogue contribution feeds in preparation for DTT.

The highlight for the year for television was the completion of the DTT commercialisation project which entails billing implementation for DTT that was completed during the last quarter of 2015/16 financial year. During the financial year, SENTECH reached agreements with broadcasters on the tariffs and finalised the ASO tariff model in line with the analogue switch off plan. During this year the DTT performance period was announced by the Honourable Minister of Communications which will enable SENTECH to commence billing of DTT services.

⁴ This falls under infrastructure services programme

⁵ SENTECH (2015)



4.2.2. Direct-To-Home Satellite (DTH-S)⁶

DTH-S revenue for the period was R152m which was 20 per cent below budget as a result of the delay in finalising content aggregators commercial agreements. DTH-S revenue still managed to achieve a growth of 31,8 per cent, from the previous year's R113 million.

4.2.3. Frequency Modulation

During the 2015/16 financial year, SENTECH provided FM BSD services to 18 SABC radio stations, 18 commercial radio stations and to 129 community radio stations. FM revenue currently accounts for 23 per cent of SENTECH revenue. The FM portfolio achieved a 21 per cent year-on-year growth and yielded revenue of R265 million compared to the 2014/15 R220 million, which is an increase of R45m compared to the previous financial year which comprises of revenue generated from Public FM R191 million, from Commercial FM R52 million and from Community FM R17million.

Public FM revenue growth came mainly from FM expansion of 31 additional transmitter sites. SENTECH provided an additional 34 community FM services in the year.

4.2.4. Medium Wave⁷

During the 2015/16 financial year, SENTECH did not provide any new MW BSD services and Medium Wave (MW) continued to contribute less than 1 per cent of SENTECH's revenue and achieved R8.7million revenue, increasing the revenue by R1.07million from the 2014/15 MW revenue.

4.2.5. Short Wave

During the 2015/16 financial year, SENTECH provided Short Wave (SW) BSD services to one additional African broadcaster, however, lost one international broadcaster. SW currently contributes 2,4 per cent of SENTECH revenue and achieved R28 million revenue compared to R25 million generated in the previous financial year. Although the entity's sustainability plan provided measures to improve SW performance but it has continuously generated a loss. SENTECH will embark on an exercise that will determine whether it continues to offer the

⁶ The DTH-S Service has four main customer categories, namely, existing terrestrial broadcasters, as part of the DTT gap-filler platform, Free-To-View broadcasters, Super programme aggregators (PA's) and Business TV/Radio customers.

⁷ Medium wave (MW) is the part of the medium frequency (MF) radio band used mainly for AM radio broadcasting.



service or ultimately discontinue it due to technology obsolescence that has led to high maintenance costs.

4.3. Infrastructure Services

SENTECH rentals out over 220 sites to more than 90 service providers (public and private) who use the infrastructure for various communication services. Facilities rental's revenue was R59 million during the 2015/16 compared with the R 54million for the 2015/16 financial year.

4.4. Connectivity Services

4.4.1. Very Small Aperture Terminal

The VSAT product has continued to make significant losses for a considerable period of time. Therefore, SENTECH has therefore taken a strategic decision to exit the broadband product offering to prevent further and continued losses that are incurred by the product, while retaining the point-of-sale (transactional services) offering. The HUB reached its end of life cycle with the intention to replace it 2016/17. During the period under review, the revenue dropped by 40 per cent to R6 million compared with the 2014/15 R10.6million. The revenue underperformance was largely due to existing infrastructure having reached its end of life stage and suspended sales of the service as the VSAT hub is being upgraded

5. AUDIT REPORT 2015/16 FINANCIAL YEAR

SENTECH achieved unqualified opinion on financial statements;

- No material findings on pre-determined objectives and
- No material findings on compliance with laws and regulations.

2011/12	2012/13	2013/14	2014/15	2015/16
Unqualified Audit with many findings-KPMG Inc.	Clean Audit	Clean Audit-Rakoma and Associates Inc.	Clean Audit-Rakoma and Associates Inc.	unqualified opinion Audit conducted by Rakoma and Associates Inc.

IRREGULAR, FRUITLESS, WASTEFUL AND UNAUTHORISED EXPENDITURE (2010/11- 2015/16)



SENTECH (SOC) Limited has not incurred any amount relating to both irregular expenditure as well as on fruitless and wasteful and unauthorised expenditure during the year under review.

Table 1: Irregular, fruitless, wasteful and unauthorised expenditure 2010/11-2015/16

Year Incurred	Irregular Expenditure R'000	Fruitless and wasteful expenditure R'000
2012/13	R 42 167	R 4 702
2013/14	R 0. 00	R 0. 00
2014/15	R 0.00	R 0.00
2015/16	R 0.00	R 0.00

6. Human Resource Management

SENTECH has succeeded to keep the vacancy rate at 8 per cent. Although, when analysing vacancies per employment, there are levels with very high vacancy rate. These include; top management level that has 29 per cent vacancy rate, senior management level has 22 per cent vacancy rate, and semi-skilled level has 17 per cent vacancy rate. However the entity has succeeded in maintaining low vacancy rate at the professional level which has 6 per cent vacancy rate, unskilled level has 0 per cent vacancy rate.

7. REFERENCES

National Treasury (2013) National Estimates of Expenditure 2015/16

SENTECH (2013) Annual Report 2014/15. Fourways-Honeydew, Johannesburg:
Government Printers

SENTECH (2013) Annual Report 2015/16. Fourways-Honeydew, Johannesburg:
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