



SENTECH CORPORATE PLAN

2016 -2019

29 February 2016

TABLE OF ABBREVIATIONS

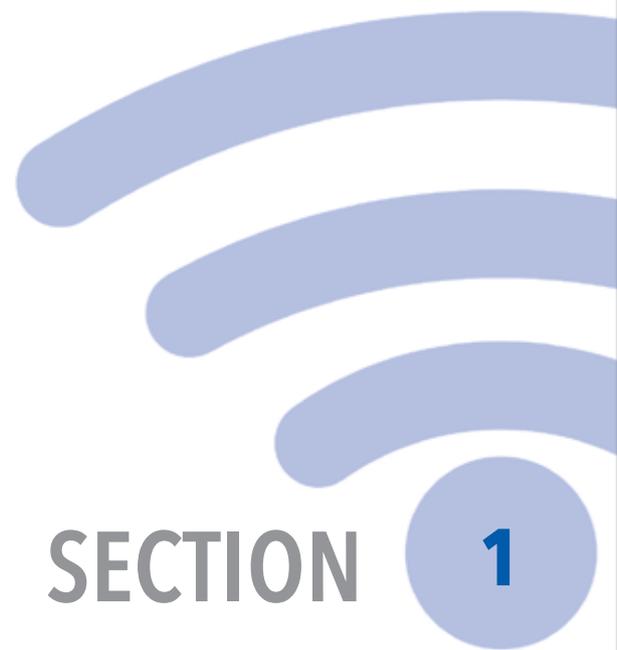
ARC	Audit and Risk Committee
ASO	Analogue Switch-Off
ASB	Accounting Standards Board
ATV	Analogue Television
BCEA	Basic Conditions of Employment Act, Act No of 75 of 1997
BDM	Broadcasting Digital Migration
BSD	Broadcasting Signal Distribution
CA	Conditional Access
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditure
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CNBP	Consolidated National Broadband Plan
COO	Chief Operations Officer
CPIX	Consumer Price Index
CRM	Customer Relations Management
CSI	Corporate Social Investment
CWU	Communication Workers Union
DAB	Digital Audio Broadcast
DD1	Digital Dividend 1
DD2	Digital Dividend 2
DMB	Digital Multimedia Broadcasting
DOA	Delegation of Authority
DOC	Department of Communications
DR	Disaster Recovery
DRM	Digital Radio Media
DTH-S	Direct-to-Home Satellite
DTPS	Department of Telecommunications and Postal Services
DTT	Digital Terrestrial Television
DVB	Digital Video Broadcasting
DVB-T	Digital Video Broadcasting - Terrestrial
EBCP	Enterprise Wide Business Continuity Plan
EBIT	Earnings Before Interest and Tax
ECA	Electronic Communications Act No 36 of 2005
ECNS	Electronic Communications Network Services
ECS	Electronic Communications Services
EEA	Employment Equity Act, Act No 55 of 1998
ERMCO	Enterprise Risk Management Committee

ESD	Enterprise Supplier Development
EXCO	Executive Committee
E&M	Entertainment and Media
FM	Frequency Modulation
FPP	Fraud Prevention Plan
FTA	Free-To-Air
FTBFP	Final Terrestrial Broadcasting Frequency Plan
FY	Financial Year
GAAP	Generally Accepted Accounting Principles
GIBS	Gordon Institute of Business Science
GDP	Gross Domestic Product
HR	Human Resources
ICASA	Independent Communications Authority of South Africa (Regulatory Authority)
ICT	Information and Communication Technology
IPTV	Internet Protocol Television
ISP	Internet Service Provider
ITA	Invitation To Apply
ITU	International Telecommunications Union
I-ECNS	Individual Electronic Communications Network Services
I-ECS	Individual Electronic Communications Services
ISA	International Standards of Auditing
KMs	Kilometres
KPI	Key Performance Indicator
KU Band	Kurtz-under Band
LRA	Labour Relations Act, Act No 66 of 1995
MCA	MultiChoice South Africa
MDDA	Media Development and Diversity Agency
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategy Focus
MW	Medium Wave
NBN	National Broadcast Network
NDP	National Development Plan
NGP	National Growth Plan
NWBN	National Wireless Broadband Network
OC	Operations Centre
OPEX	Operational Expenditure
OTT	Over-the-top Services
PCTPS	Portfolio Committee on Telecommunications and Postal Services
PFMA	Public Finance Management Act, Act No 1 of 1999

PPP	Public Private Partnerships
RBO	Relationship by Objective
RRC	Regional Radio Conference
RONA	Return on Net Assets
RSP	Retail Service Provider
SA	South Africa
SABC	South African Broadcasting Corporation
SADIBA	South African Digital Broadcasters Association
SED	Socio-Economic Development
SETA	Sector Education and Training Authority
SITA	State Information Technology Agency
SLA	Service Level Agreement
SMMEs	Small, Medium and Micro-sized Enterprises
SOC	State Owned Company
SAPS	South African Police Services
STL	Studio-to-Transmitter Link
STP	Sender Technology Park
SW	Shortwave
TR	Treasury Regulations
TV	Television
UHF	Ultra High Frequency
UP	University of Pretoria
USALS	Universal Satellites Automatic Location System
VAS	Value Added Service
VOD	Video on Demand
VSAT	Very Small Aperture Terminal
WITS	University of the Witwatersrand
WRC	World Radiocommunication Conference

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SECTION

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FOREWORD BY THE CHAIRPERSON



1. FOREWORD BY THE CHAIRPERSON

SENTECH hereby presents the Corporate Plan for the Medium Term Expenditure Framework (MTEF) for the 2016 – 2019 period to the Executive Authority and the Portfolio Committee on Telecommunications and Postal Services (PCTPS) in terms of the Money Bills Amendment Procedure and Related Matters Act of 2009 and to National Treasury as prescribed in Section 52 of the Public Finance Management Act and Treasury Regulation 29.

SENTECH is a Schedule 3B Public Entity whose primary Public Service Mandate, in terms of the SENTECH Act and the Electronic Communications Act, is ‘...To provide electronic communications network services and electronic communications services...’ that distribute broadcasting services to all South Africans’.

As one of the primary enablers of government interventions in the Information and Communication Technology (ICT) sector, SENTECH’s business strategy is informed by and aligned to the Medium Term Strategic Focus (MTSF) objectives, the Strategic Goals of the Department of Telecommunications and Postal Services for the same period, as well as the Company’s internal objectives as adopted by the Board from time to time.

For this MTEF period, the Board is re-committing SENTECH to a singular business strategy theme: ‘To provide and operate communications network services that enable all broadcasting and content services to be accessible by all South Africans.’

Whilst recognising the importance of the Broadcasting Signal Distribution (BSD) model that has served us extremely well in the past, the Board continues to acknowledge that SENTECH has to look further into the future, in which rapid technological changes are the only constant determinant of advancement and in which consumer preferences are constantly evolving. As a result, broadcasters, content aggregators and ICT service providers continue to seek to serve their customers and audiences on all available digital platforms.

In order to seize the opportunities presented by this digital environment, SENTECH has implemented some of the Shareholder’s key programmes within its public service remit, specifically digital migration, which comprises of Digital Terrestrial Television (DTT) and Direct To Home-Satellite (DTH-S).

With respect to DTT: The Company has completed the implementation and rollout of the network at all the old analogue transmitter sites, thus bringing the population and geographic coverage of the digital terrestrial network to 84% and 58% respectively. In this regard, the Company has fulfilled its network deployment obligations in respect of the Broadcasting Digital Migration (BDM) Policy and will be in position to support the complex multi-stakeholder activities required for the smooth switch-off of analogue terrestrial television services. In addition to the migration of the analogue terrestrial television network, the Company will complete the rollout of an additional two new digital Greenfield sites by the end of September 2016, thus increasing the population and geographic coverage of the digital terrestrial network to 85,1% and 58,91% respectively. In the next financial year, the company will continue to stabilise the network for commercial use.

With respect to the DTH-S Gap-Filler Platform: The DTH-S Gap-Filler Platform will be used to provide digital television services in the geographic areas that do not have digital terrestrial signal coverage. This platform has been completed and is currently providing all DTT services. This is in line with the 2013 BDM and National Broadband (‘South Africa Connect: Creating Opportunities, Ensuring Inclusion’) Policy ICT amendments presented by the ICT policy review paper of 2015.

The Board further believes that this Corporate Plan will build on the foundation that SENTECH has created in previous years and will facilitate efforts to digitise delivery of the broadcasting content. This contributes to the core policy of providing open-access interoperable technology, service and application platforms

that will deliver on the broader purpose statements of the Company. In this regard, SENTECH will increase efforts to place an even greater emphasis on customer satisfaction. This refers to customers such as broadcasters and general content providers, as well as for the needs of civil society.

The Company believes that corporate organisational health is defined by employee satisfaction, efficient and effective administration, competent operations, strong financial management and healthy customer and service provider relationships. SENTECH will fully embody all of these aspirations and will continue to build and reinforce this nascent healthy state. The Company's commitment to sound corporate health is threatened by the lack of funding for dual-illumination costs by government and the Board will continue to lead engagements with relevant stakeholders to find a long-term solution.

In conclusion, the Board would like to take this opportunity to thank the Minister of Telecommunications and Postal Services for strategic guidance towards achieving the government's MTSF objectives. We also thank our stakeholders for their insights in shaping the Company's products and solutions, the monitoring and guidance of the Parliamentary Committee on Telecommunications and Postal Services (PPCTPS) in ensuring that we remain accountable to all South African citizens; and SENTECH's employees for their tenacious passion in producing a corporate plan that ensures sustainable delivery of the Company's Public Service Mandate.

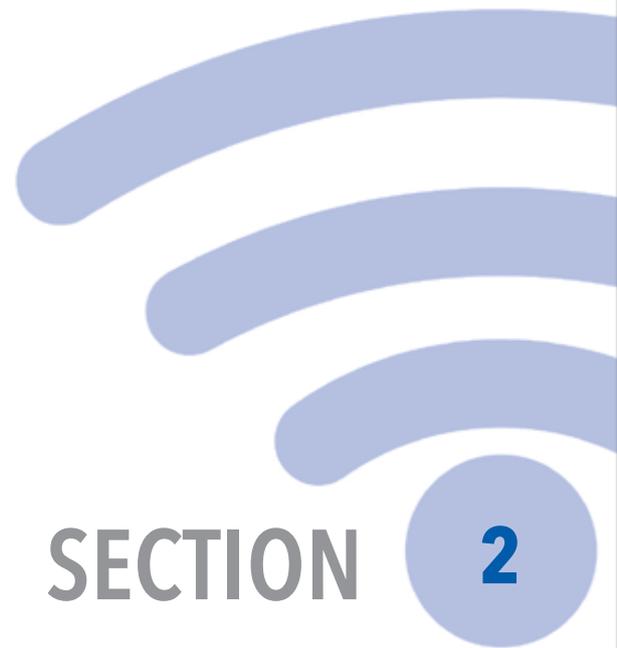


M Mello

Chairperson

SENTECH SOC LIMITED

29 February 2016



SECTION

2

EXECUTIVE SUMMARY



2. EXECUTIVE SUMMARY

SENTECH is a SOC operating in the broadcasting signal distribution (BSD) and telecommunications sector. Under the Electronic Communications Act, SENTECH is licensed to provide electronic communications network services (ECNS) and electronic communications services (ECS).

Company Purpose

SENTECH's primary public service mandate is '...to provide electronic communications network services and electronic communications services...' as stipulated by the ECA.

In 2012, SENTECH reflected beyond this mandate statement by ensuring that the Company's business operations are further aligned to the existing policy. Particular attention is placed on the 1998 White Paper on Broadcasting Policy, the 2012 Broadcasting Digital Migration (BDM) Policy, as well as the Broadband Policy of 2010, in addition to all the laws governing the existence and operations of the Company.

SENTECH reaffirms this position, mindful of the BDM and Broadband Policy amendments published in December 2013, as well as the deliberations of the ICT Policy Review Panel and evolving plans regarding the review of the Broadcasting Policy. In addition, in terms of the amendments to the ECA that were gazetted on 21 May 2014, SENTECH is now obliged by law to provide broadcasting signal distribution services as a common carrier.

Business Strategy

SENTECH took a firm decision to position the Company as a strategic enabler of government Interventions in the ICT sector, guided by the NDP and DTPS Strategic Plan for the period 2015-19.

Whilst continuing with the strategic theme of 'providing open access interoperable communications platform services that enable universal access to digital content and communication services for all South Africans', the Company has reflected on the opportunities to expand on its corporate activities in line with the Shareholder's strategic foundation and general mandate. Specifically, for the MTEF period 2016-2019, the Company will expand the breadth and depth of its content distribution services and increase the scope of its activities in support of the general communications industry. In addition to pursuing business sustainability, the Company will focus on identifying growth areas in order to substitute any revenue losses that arise due to differences between the DTT and analogue TV services tariffs. This revenue challenge will be experienced fully at analogue switch off.

SENTECH will also be guided by its strategic architecture of ensuring universal and open access and financial sustainability by enhancing customer orientation. These will be achieved through world-class infrastructure performance, competitive and affordable customer services, growth in the profitable product portfolio, critical skills and capabilities in the right structure, enabling policies, processes and systems, as well as enabling organisational culture and stakeholder engagement.

The company has revised its business model to provide more focus on the core business. SENTECH's products portfolio will be clustered into three main portfolios, consisting of:

- Content and Multimedia Services;
- Infrastructure Management Services; and
- Connectivity Services.

Content and Multimedia Services: Broadcasting signal distribution will continue to be part of SENTECH's core business. In respect of content and multimedia services, the Company will continue to develop and implement value-added services for its current customers. In this regard, the Company will continue to work with its customers to explore avenues for targeted expansions of networks and the introduction of non-network, value-added services.

The Company will make use of the skills and experience developed during the design and deployment of its DTT distribution network to lead industry efforts to deploy similar digital terrestrial radio services elsewhere. In addition, the Company will consolidate the digital network services and create capabilities to distribute content on non-traditional content distribution networks. This will enable broadcasters to offer a richer set of services and will also enable the creation of a variety of business models between traditional broadcasters and new digital media industry participants. As a result, result is that consumers will have access to a broader set of integrated linear and non-linear content services, aligned specifically with their needs and lifestyles.

Infrastructure Management Services: In this service offering, the Company will develop business models that will seek to capitalise on its capacity to provide facilities management and leasing. For the broader communications industry, the Company will consolidate its current capabilities in the management of transmitter networks and network facilities, to offer specialised and focused third-party networks and facilities management services.

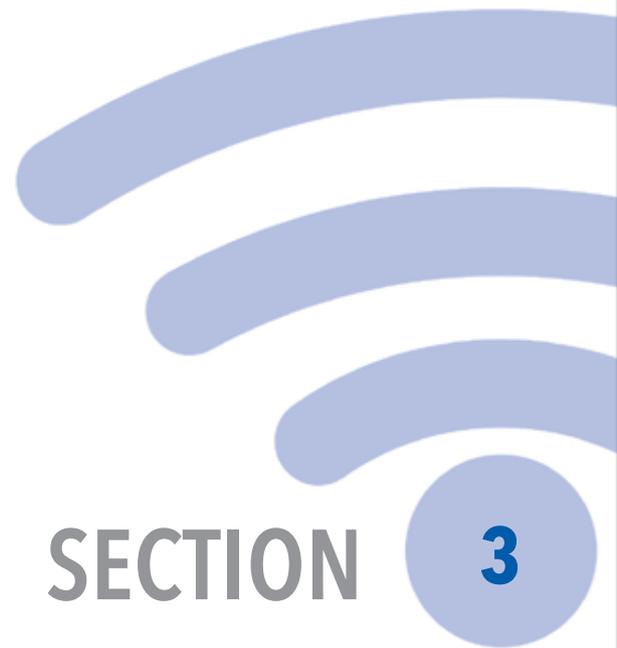
Connectivity Services: Connectivity Services will focus on the development of platforms for public safety, IOT, OTT, Smart City solutions and Wireless Broadband, underpinned by consulting services. The target for all our business is both the South African and Pan-African markets. These connectivity services will be researched and piloted to develop a clear understanding of the market and the capacity required, as well as the challenges that may be faced by the Company's infrastructure. An element of wireless broadband will form part of this business offering.

Human Resource Strategy

The key programmes for 2016 will focus on ensuring that SENTECH is fit for the future. The Company will continue to develop organisational capacity and capability to improve organisational effectiveness and performance. The following priorities, aligned to SENTECH's strategic direction, have been identified for 2016: organisational design, leadership effectiveness, a high-performance team culture, talent management, and learning and development pillars. This will be implemented through organisational development and change management.

Sustainability

The South African economy is projected to grow at just 0,2 per cent in 2016/17, with inflation at just under 6 per cent in the 2015/2016 financial year. SENTECH has had to continue to adjust its strategy and operating model to the financial realities of a global economy under stress. This strategy adjustment will continue during this MTEF period to ensure that the Company remains a sustainable going concern, operating within the ROI and the Shareholder's public value-creation parameters set by the Board and the Shareholder, while gearing itself for a successful analogue television switch off and digital television switch on.



SECTION

3

VISION, MISSION AND COMPANY VALUES



3. VISION, MISSION AND COMPANY VALUES

Vision, Mission and Company Values

Vision

To be a world-class provider of sustainable communications platform services.

Mission

To provide open access and interoperable communications platform services that enable affordable universal access to digital content services, in the context of South Africa's socio-political imperatives as a developmental state.

Values

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

- Integrity: We act ethically, with honesty, fairness and openness;
- Quality Customer Service: We are committed to proactively ensuring high levels of customer satisfaction and building a relationship based on trust;
- Innovation: We endeavor to develop and support creativity and responsible risk taking;
- Accountability: We deliver on our promises and take responsibility for our actions; and
- Social Responsibility: We endeavour to fulfil our mandate in a manner that benefits our employees, customers, suppliers, communities and the environment in all the areas in which the company operates.

Legislative Framework

SENTECH's legislative foundation is the SENTECH Act and the Company is incorporated as a State Owned Company in terms of the Companies Act. The PFMA and National Treasury Regulations serve as the authority for the organisation's financial reporting requirements. Policies have been implemented to ensure that there is compliance with all relevant legislation. The organisation is further guided by the principles embodied in the King III Report on Corporate Governance for South Africa and the Protocol on Corporate Governance in the Public Sector 2002.

Mandate

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

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 converted into an individual I-ECNS and an I-ECS, licensed in terms of the ECA

Shareholder Priorities

In preparing this Corporate Plan, SENTECH is further guided by the Shareholder’s MTSF Strategic Goals for this planning period, which are:

- Strategic Goal 1: Broadband connectivity that provides secure and affordable access for all citizens to education, health and other government services, and stimulates socio-economic development;
- Strategic Goal 2: Stable ICT Policy and Regulatory Environment that contributes to socio- economic development of the country;
- Strategic Goal 3: South Africa has a modern, sustainable and competitive postal and telecommunications sector;
- Strategic Goal 4: Inclusive information society and knowledge economy; and
- Strategic Goal 5: Optimally functional Department and SOCs that delivery effectively on their respective mandates.

Customers

This Corporate Plan is informed by the current and future needs of our primary stakeholders: our customers. The Board has committed the Company to work closely with its customers in exploiting new ICT technologies to find solutions that will ensure that South Africa’s broadcasting and content distribution industry stays at the cutting-edge of content delivery platforms.

Organisational Structure

The Board has approved an organisational structure, set out in figure 1, that is a foundation through which the business model will be delivered. It is aligned to the pillars of our strategic framework, one of which is to build an organisation that performs at the highest level through its team focus. In addition, SENTECH aims to discharge its mandate by also focusing on social investment in the areas of skills development to address the challenges of skills shortages in the ICT industry. This will be done through the SENTECH Foundation for which the legal nature and form is still to be determined.



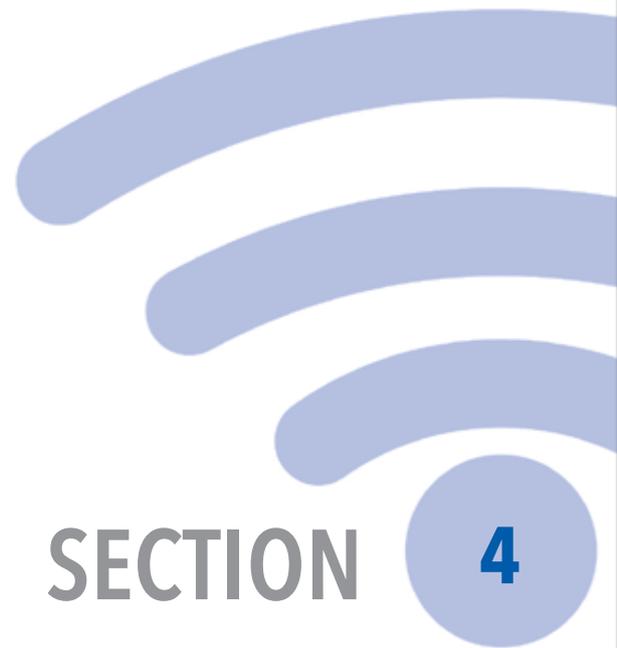
Figure 1 - Organisational Structure

*Legal nature and form to be determined

Executive Management

Position	Name	Date appointed	Highest qualification
CEO	M Booï	1 November 2015	MSc (Electrical Engineering)
COO	K S Matabane	1 July 2012	PG Dip (Business Administration)
Executive: Finance Acting CFO	O N Nekhavhambe	3 February 2014	BCom Hons CA(SA)
Company Secretary	F Sefara	1 August 2014	LLM
Executive: Operations	T J Leshope	1 September 2013	N Dip (Electrical Engineering)
Executive: Marketing & Sales	N B Motswasele	16 January 2012	N Dip (Business Management)
Acting Executive: Technology	M Venter	19 October 2015	BEng (Hons)
Executive Head: Legal and Regulatory	Z Adams	7 August 1995	BA BProc
Acting Executive: Human Resources	N Kraai	1 February 2016	BA
Executive: Strategy	Vacant	Vacant	Vacant
Executive: Risk Management	M M Matobako	8 October 2012	MBL
Executive: Internal Audit	P N Phukubje	1 February 2013	BCom Hons RGA(SA)

Table 1 - Executive Management



SECTION

4

PERFORMANCE REVIEW 2012-2016



4. PERFORMANCE REVIEW 2012-2016

In the previous years, SENTECH presented a Corporate Plan that was financially focused due to the nature of the Company's historical challenges. This position has now changed, with the Company not only having improved its corporate governance systems, but also having significantly improved its financial position. The Company has, nonetheless, still managed to perform significantly well in respect of its other objectives, as set out in the strategic framework of 2012-2016.

Public Service Mandate Implementation Review

Incremental Expansion of Public FM Radio Coverage: 2010-2016

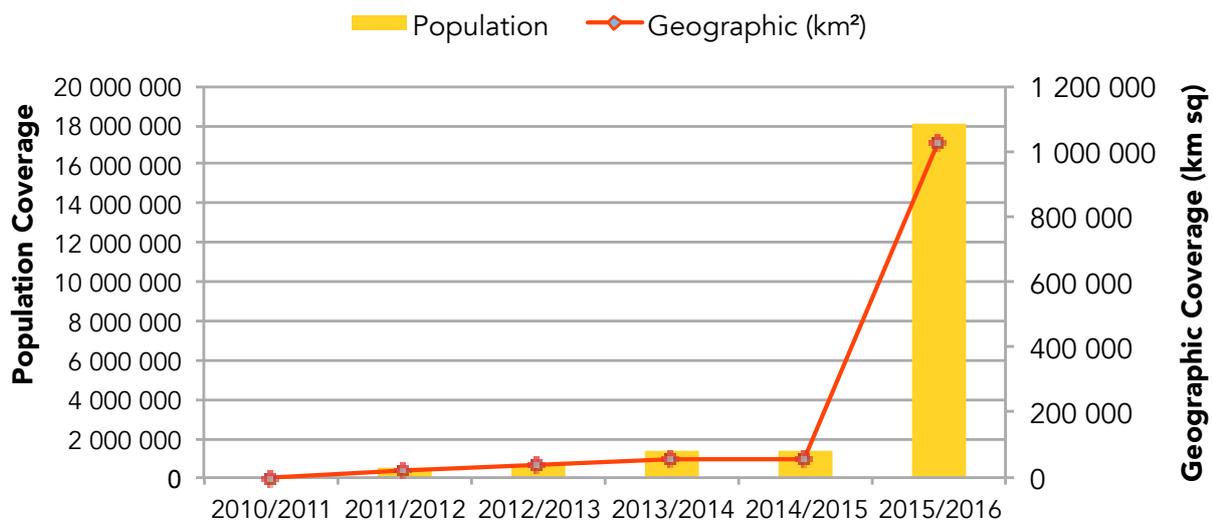


Figure 2 Incremental expansion of public FM radio coverage: 2010-2016

With regards to the Public Service radio stations, SENTECH has been instrumental in expanding the FM coverage over the last five years. Since 2010/11 to the third quarter of 2015/16, the population coverage has increased by 18 031 456, and geographical coverage by 1 021 790 square kilometres, as set out in figure 2.

Incremental Expansion of Commercial FM Radio Coverage 2010-2016

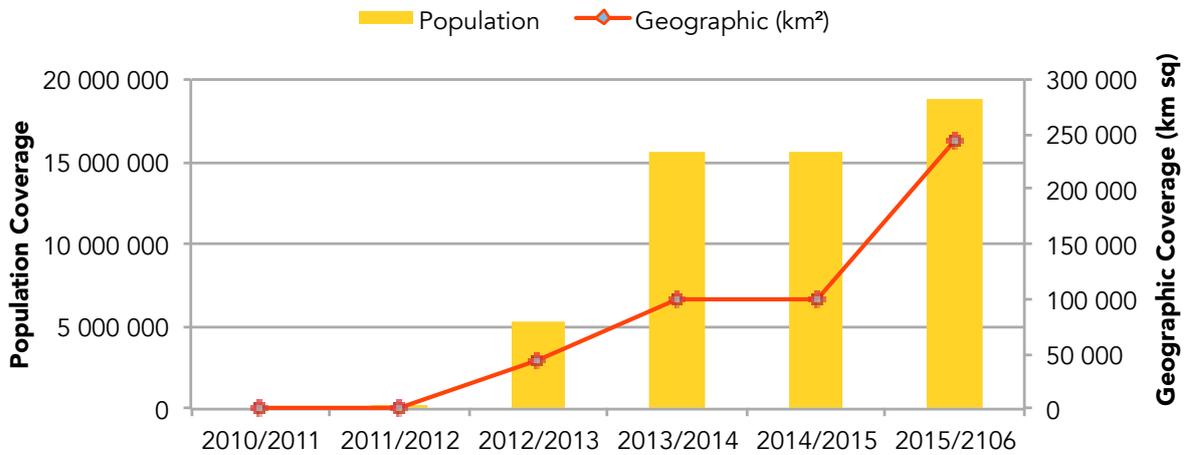


Figure 3 Incremental expansion of commercial FM radio coverage: 2010-2016

With regards to commercial radio stations, SENTECH has been instrumental in expanding the FM coverage over the last five years. Since 2010/11 to the third quarter of 2015/16, the population coverage has increased by 18 782 421, and geographical coverage by 244 003 square kilometres, as set out in figure 3.

Incremental Increase in Community FM Radio Coverage: 2010-2016

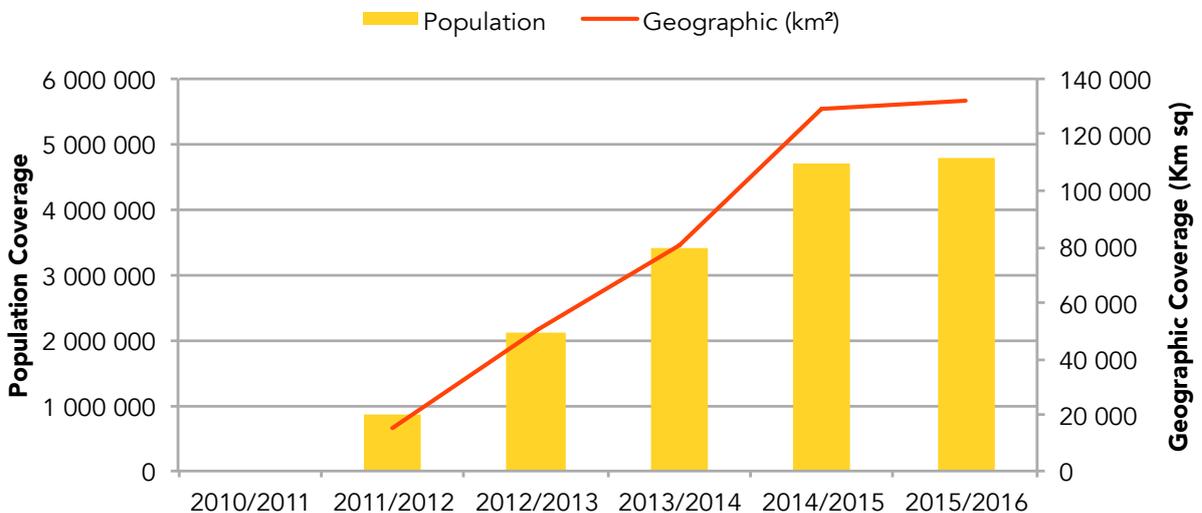


Figure 4 Incremental increase in community FM radio coverage: 2010-2016

Finally, SENTECH has been instrumental in expanding the FM community stations over the past five years. Since 2010/11 to 2015/16, the population coverage has increased by 4 785 412 to 22 096 307, or 28%, and geographical coverage by 131 920 square kilometres to 283 787, or 87%, as set out in figure 4.

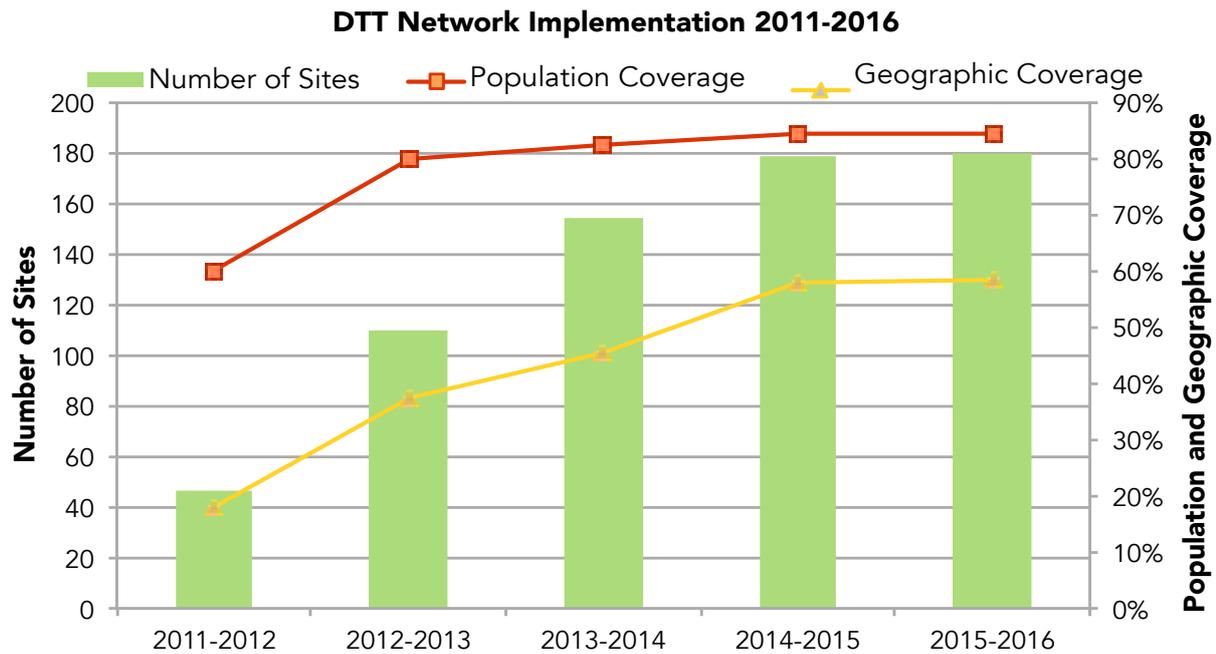


Figure 5 DTT network implementation: 2011-2016

SENTECH was tasked with rolling out a DTT infrastructure network that would allow the country to migrate from analogue to digital television to meet the requirements of the terms of Article 12.6 of the ITU GE06 Agreement ¹. SENTECH completed the DTT Network Rollout of 178 sites by the end of the 2014/15 financial year. This has resulted in a population coverage of 84% and a geographical coverage of 58%, as set out in figure 5 above, in accordance with ICASA's frequency spectrum plan. In addition, SENTECH completed two greenfield sites in the 2015/16 financial year. The remainder of the population that will not be covered by DTT is covered by the DTH satellite solution, Gap Filler, which has been completed. The map in figure 6 shows the current DTT coverage.

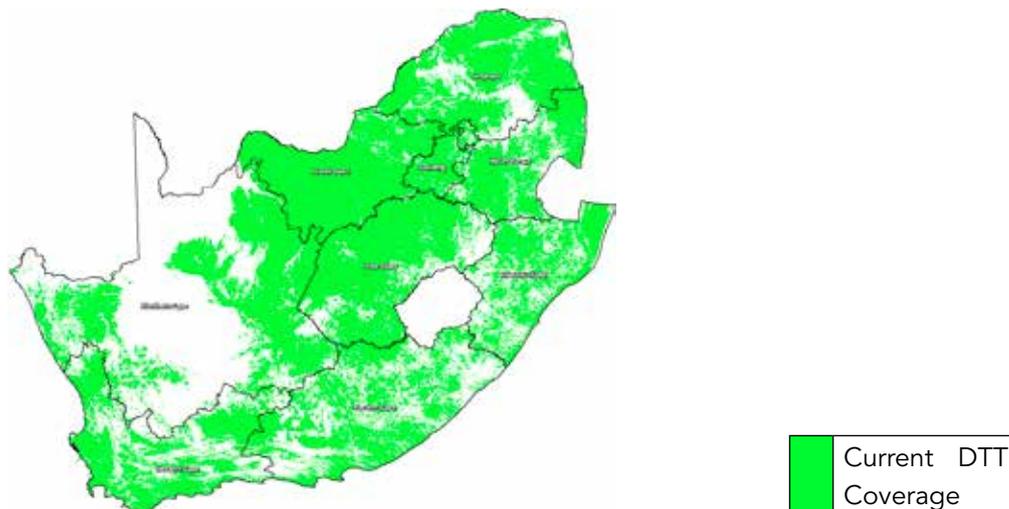


Figure 6 DTT Coverage

¹ Geneva Agreement – 2006: Regional Agreement on Digital Broadcasting

Figure 8 shows how SENTECH has performed with respect to Network Availability across the different platforms for the past five years.

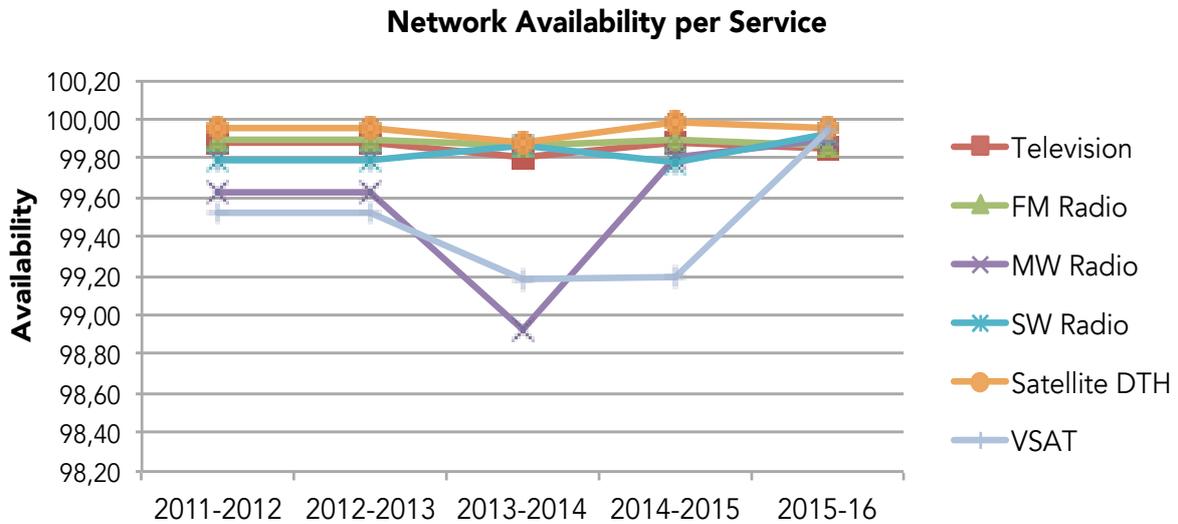


Figure 8 Network availability per service: 2011-2016

Whilst SENTECH was able to meet the overall network availability requirements across the various platforms, there was a downward trend between 2011/12 to 2013/14. This was due to a number of circumstances, such as aging infrastructure, power supply outages due to load shedding, cable theft, integration of DTT network and internal capacity to do preventative maintenance whilst operating within the corporate prescripts of the Company. During the financial year 2015/16, and specifically with the new capacity within all business units to operate efficiently within the corporate governance prescripts, the downward trend was reversed for all services other than VSAT and Shortwave Radio. A process of reviewing these non-performing services is under way. Improvement in network availability was due to replacement of unreliable network solutions and concerted efforts in preventative maintenance.

Figure 9 presents major services interruption contributors. It is notable that power remains the main contributor, followed by installations.

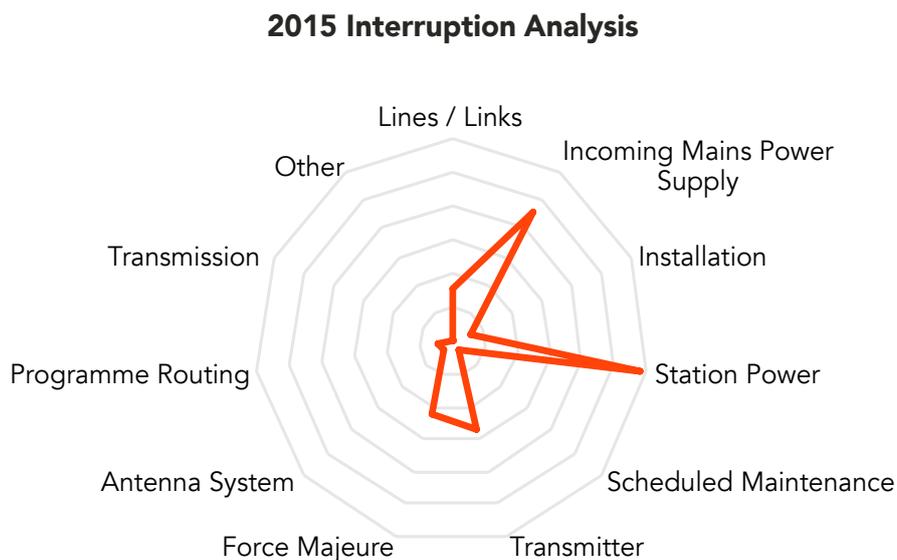


Figure 9 2015 interruption analysis

VSAT and MW platforms availability remained a challenge during the past term, primarily due to aging infrastructure and power supply interruptions. During the 2016-2019 MTEF, the Company intends putting these two services on a specific risk management strategy that will align not only the technical operational performance, but also strategic positioning and financial performance. Amongst other things, the key initiatives to improve services availability will include improving standby power availability, assets security, contribution network linking, continued preventative maintenance and replacement of unreliable network solutions.

Financial Performance Review

The Company's revenues increased by 39% from R794m in the 2010/11 financial year to R1 107m in 2014/15 resulting, after considerations of costs and other items, in an increase of 79% in Shareholder equity from R745m to R1,33bn for the same period, as set out in figure 10.

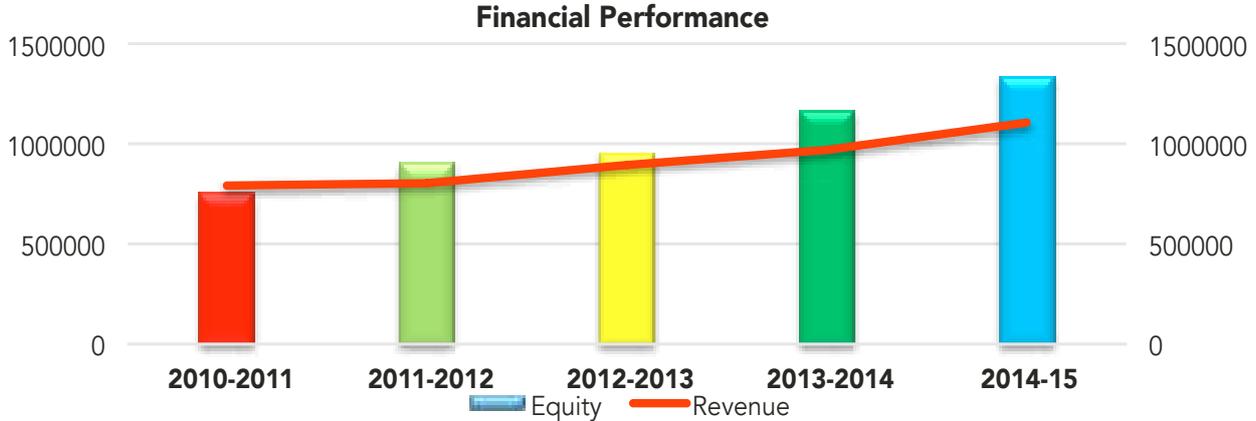


Figure 10 Financial performance: 2010-2016

What is being achieved at present is also not without its challenges. The Strategic DTT project will impact on the costs of running SENTECH until such time that the Company has completed ASO. This means that SENTECH currently runs two terrestrial television networks. Detailed in the Business Strategy below is the impact that the move from analogue to digital television will have on clients and the people of South Africa with respect to the mandate of the Shareholder to provide universal access to all South Africans.

Corporate Governance Review

Since the 2010/11 financial year, SENTECH has seen a definite improvement in corporate governance within the Company. Irregular expenditure has been reduced from R84,4million in 2010/11 to R 2,7million in 2014/15. The number of reportable findings in the audit report has reduced from 15 in 2010/11 to nil in the 2012/13, 2013/14 and 2014/15 financial years.

For the last three financial years, SENTECH has received an unqualified financial audit opinion and there were no reportable findings with respect to achievement of predetermined objectives, compliance with legislation and the effectiveness of the internal control environment.

Human Capital Review

During the 2015/16 financial year, SENTECH continued to implement key transformational programmes through Project Sakhumuntu, a strategic project aimed at building a high-performance culture by introducing integrated people processes and systems. To date, the following key interventions have been implemented.

People Transformation

Subsequent to the development of a new People Transformation Strategy, implementation has commenced to ensure improved focus on human capital development, diversity of skills and demographic representation of the Company.

Talent Management

SENTECH recognises the importance of talent management. It is considered as one of the key factors underpinning the Company's growth and ensuring the continuity of business. SENTECH has developed and promoted talent, both future leaders and highly skilled experts, for the Company's current needs, while also anticipating future needs and preparing the next generation of talent for new roles.

The main goal is to have the right talent in the right place, at the right time, at the right cost, doing the right things. Through the talent management strategy, SENTECH's business value will continue to improve by investing in our people. The following programmes have been successfully implemented.

Leadership Development Programme

SENTECH's leaders underwent a comprehensive leadership development programme in 2015. All participants graduated after completing the course content and action learning project. In addition, 360-degree feedback has once again been used as a tool to assist leadership to close identified leadership gaps. Upon completion of this process, action plans were prepared between the respective employee and line manager to address any identified gaps.

Recruiting Right Talent First Time

All senior specialists, senior, middle and executive manager recruitment candidates underwent robust assessments in order to manage SENTECH's leadership DNA.

Targeted Learning and Development

As part of the skills development strategy, an organisational plan was developed to close all identified skills gaps. This plan has been monitored on an ongoing basis to monitor progress and to identify and close emerging gaps.

Succession Management

A succession pool has been created through the appointment and development of interns who are part of the Company's internship programme. In addition, university students in some academic institutions have been sponsored through collaboration with these institutions to ensure that the Company has a strong and diverse pipeline.

Performance and Development Management System

The culture of performance within the organisation continues to be entrenched and this effort has resulted in employees signing their performance agreements.

Reward and Recognition Strategy

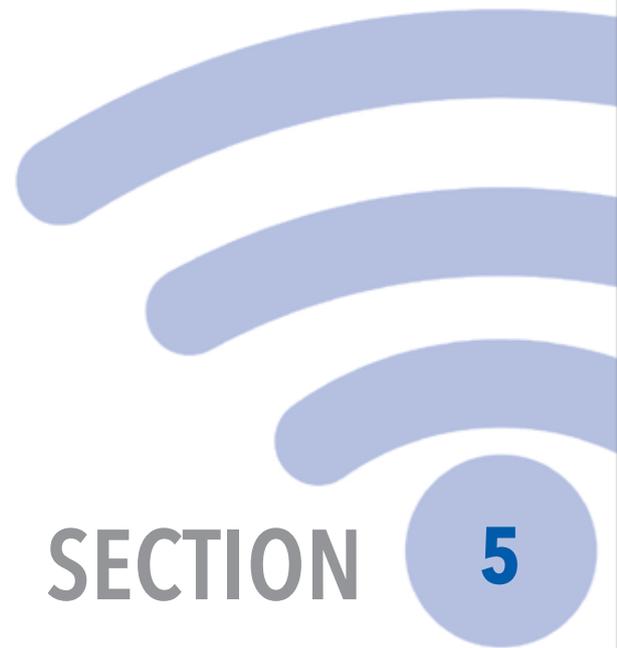
In an effort to implement the Company's comprehensive reward philosophy, salary increases were benchmarked against the industry and a performance-based incentive scheme was implemented. A performance-based reward programme that encourages development and team performance was introduced.

Employee Health, Safety and Wellness

Medical assessments for employees in high-exposure environments were implemented. This was part of the Company's medical surveillance programme to ensure health and safety and to address identified hazards in the workplace.

Employee Relations

Following an RBO exercise in 2014, work has continued on the relations with organised labour. Staff is a key stakeholder at SENTECH and therefore relations will continue to be at the centre of the Employee Relations Strategy. For the 2015/16 financial year and beyond, SENTECH will focus on improving employee relations to ensure a harmonious and healthy organisation.



SECTION

5

MARKET OUTLOOK: MTEF 2016-2019



5. MARKET OUTLOOK: MTEF 2016 - 2019

Over the past decade, numerous studies have highlighted the inherent potential for countries in developing economies to leapfrog some of the first-world economy countries through the adoption and implementation of digital technologies focused on the specific needs of each country. SENTECH believes that the 2013 BDM and Broadband Policies provide the strategic foundation for the South African ICT industry to begin its roadmap towards digital inclusiveness for all citizens.

In the short-to-medium term, SENTECH has to contend with a challenging external market environment characterised by the following:

Policy Framework

The 2015/16 financial year policy framework environment has been a challenging one for the broadcasting industry. Although it came out largely unscathed from the WRC-2015, it is concerning that both the UHF band and C-band have been identified for possible mobile services allocation and an IMT identification. An outcome of WRC-2015 is that discussion and a decision regarding the UHF band will take place again in WRC-2023.

The statement on the Cabinet meeting of 9 December 2015 indicates that it has approved the date for the commencement of the performance period, which implies that the dual illumination period will be at its commercial phase from 1 February 2016. From a policy and regulatory point of view the concern for SENTECH is that DD1 and DD2 will not be available at ASO as a result of the ICASA terrestrial broadcasting frequency plan. Policy direction is awaited with regards to the process and cost implications regarding the DTT-to-DTT migration, especially with the purpose of ensuring that DDI and DD2 are made timeously available in support of the policy with regard to South Africa Connect and South Africa's broadband.

In April 2015 a final recommendations report on the Integrated ICT Policy Review was handed over to the Minister of DTPS. The final report's main focus areas with respect to regulatory and policy were the following:

- Infrastructure and services;
- Digital society;
- Audio and audio-visual content services;
- Industry growth; and
- Institutional frameworks required to achieve the goal of a fully connected society.

The report and its recommendations will serve as a basis for government's Integrated ICT Policy White Paper. The important aspects for SENTECH that the report has addressed pertain to long-term policy certainty and the reconsideration of a licensing regime that takes into consideration technology developments, convergence of both services and infrastructure, with regards to providing ubiquitous services.

Regulatory Environment

The regulatory environment has been dynamic for both mobile and broadcasting services. The Regulatory Authority (ICASA) has published an ITA for MUX 3 subscription services and an ITA for commercial free-to-air sound broadcasting service. The announcement made by the Minister of Communication on the dual illumination performance period will greatly influence the regulatory environment in the 2016/17 financial year. Timelines for the introduction of IMT services in the bands 700 and 800 MHz are envisaged.

Radio

On 22 September 2015, the Regulatory Authority gazetted a moratorium on the licensing of new community sound broadcasting services. The following reasons were provided for the moratorium:

- A high demand for licences that is hindered by the scarcity of analogue radio frequencies;
- the Regulatory Authority has reviewed the current licensing processes and procedure regulations and therefore proposes that the process of registrations for community sound broadcasting services be done in two intervals per year; and
- the Regulatory Authority has planned to develop a new regulatory framework for community broadcasting in the 2016/17 financial year.

In August 2015 the Regulatory Authority issued an ITA for individual commercial free-to-air sound broadcasting service and spectrum licenses in the geographical market of the Northern Cape (a secondary market).

The announcement of the commencement of the dual illumination period is important for digital radio services because technologies such as DAB+ and T-DMB will be operated in the VHF band that is currently being occupied, and soon to be vacated, by analogue terrestrial television services.

The radio broadcasting industry is seeking to get the Authority to initiate public discussion on digital radio, particularly DAB+ and DRM. In 2016, the Regulatory Authority is expected to gazette the public process for information sharing and a proposal for the migration of STLs to the band 2,2GHz. The delay will put the broadcasting industry under pressure to migrate within short timelines from the 800MHz band.

Television

The television market regulatory regime remains a challenge for all industry players. Despite the ongoing court challenges with regard to policy on the DTT STB Control System, there has been movement in the Regulatory Framework in 2015 with the dual illumination period having been announced to begin on 1 February 2016.

The Regulatory Authority is advised to ensure a rigorous licensing process in terms of the Promotion of Diversity and Competition on Digital Terrestrial Television Regulations to make certain that entities that are licensed are more likely to succeed in operating in the community broadcasting environment.

In line with the Regulatory Authority's Strategic Plan 2016-2020 on the awarding of Commercial FTA Television Broadcasting Service Licences to successful applicants, SENTECH is hopeful that ICASA will still issue the licences in quarter 4 of 2015/16, as planned, or early in the 2016/17 financial year.

SENTECH was encouraged by the publication of the ITA, dated 10 September 2015 (Gazette No 39191) for the Radio Frequency Spectrum Licence for the third Digital Terrestrial Television (DTT3), popularly referred to as MUX 3, in the Promotion of Diversity and Competition on Digital Terrestrial Television Regulations 2014 for the purposes of providing commercial subscription terrestrial television broadcasting services.

The announcement of the performance period of dual illumination will exert pressure on the broadcasting industry, in as far as:

- The speedy migration of analogue services at the country's borders, to enable neighbouring countries the freedom to deploy IMT services in the 700 to 800MHz band without the fear of harmful cross-border interference;
- The migration of analogue services in the Northern Cape to ensure compliance with the SKA project;
- The Authority's intention to introduce IMT services in the 700 to 800 MHz band, as soon as possible, even on a phased approach; and
- The DoC's intention to do all that is possible to have both DTT and DTH STBs available nationally from 1 February 2016.

Beyond Digital

We are living in an 'always-connected' era. Empowered consumers have begun to seek tailored, inspired content experiences that transcend platforms and can be shared. Due to the digital migration, which has allowed for more digital content offering, consumers will want more flexibility, freedom and convenience in when and how they consume any kind of content. SENTECH will thus seek to provide the vehicle to broadcasters to enable them to satisfy the consumers' new requirements.

Entertainment and Media Market Outlook

The South African entertainment and media market (E&M) is buoyant, and continues to offer significant potential for ICT operators geared for this latent market opportunity, despite the prevailing policy and regulatory challenges.

During the MTEF, as set out in figure 11, it is projected that there will be a shift from the current E&M revenues, by share of market, away from the traditional segments to Internet, which will have an overall share of the market of 45.34% in 2019 from a forecasted base of 33.92% in 2015. For the same period, the forecasted 2015 market share of television of 26.74%, and radio of 3,75%, is expected to shrink to 22,72% and 3,30%, respectively.²

² Entertainment and Media Outlook 2015:2019 South Africa, Nigeria, Kenya, PWC (accessed online 2016.01.25)

The Future Market Share
Source: PWC Media and Entertainment Outlook 2015-2019

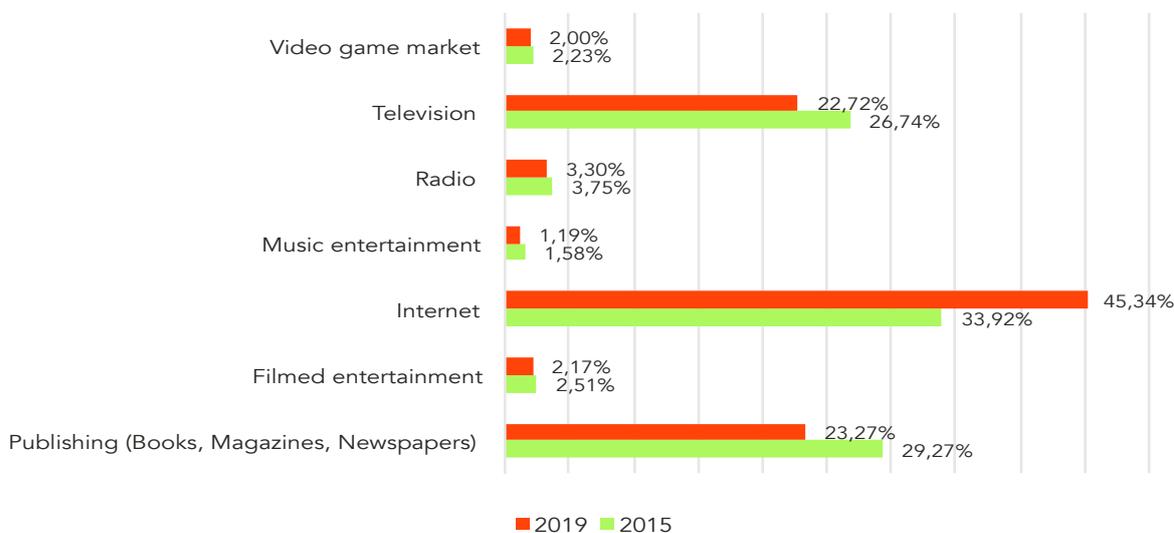


Figure 11 The future market share

In developing the strategy roadmap for the MTEF 2016 – 2019 period, SENTECH has considered the E&M market outlook and its implications on the future sustainability of the Company.

Radio

In spite of the decrease in the expected market share of advertising revenues, radio remains the most popular medium for information dissemination, with an average household usage at 91,8%. The AMPS Survey for June 2015 estimates total Past 7 Days Radio listenership at 91,8%, with commercial radio (private and public) at 88,8% and community radio at 25,9%, as set out in figure 12.³

Radio Listersnship
Source: All Media Products Survey-June 2015

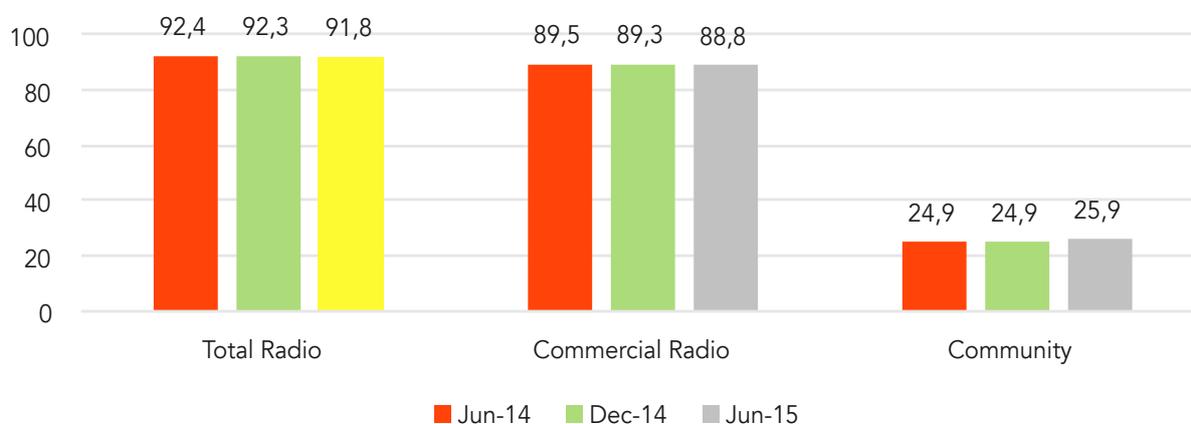


Figure 12 Radio listenership

³ All Media Products Survey - June 2015 (accessed online 2016.01.25)

As set out in figure 13, by the end of 2015 advertising spend on radio will top R4,75 billion, an average increase of 32% from the 2012 spend of R3,61 billion.⁴ Whilst Radio advertising is projected to grow by a CAGR of 5,90% between 2014 and 2019 to a total of R5,94 billion, as set out in figure 13, this growth rate is unlikely to ensure sustainability of community radio broadcasters, who continue to struggle to attract commercial revenues due to audience fragmentation.

Radio Market Revenue
Source: PWC Entertainment and Media Outlook-2015-2019

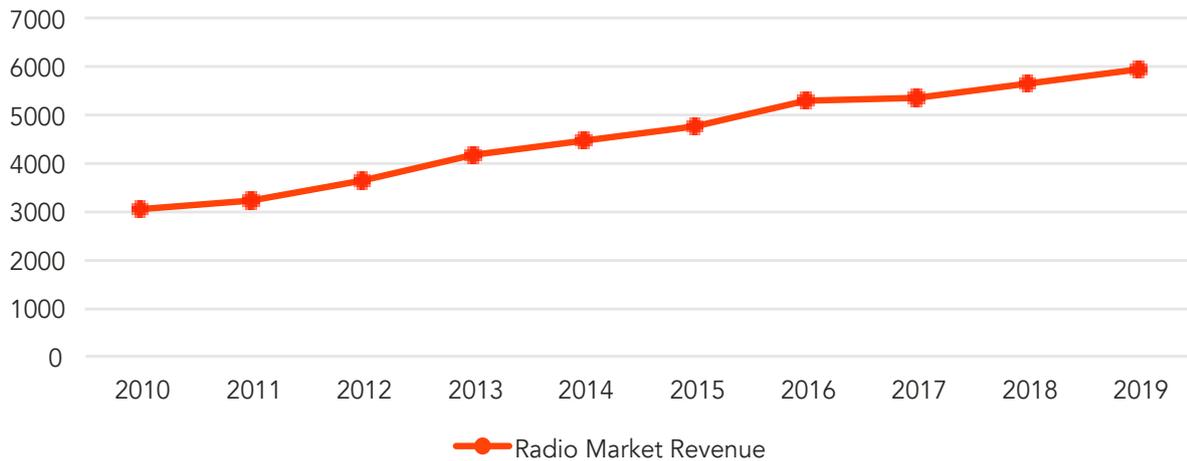


Figure 13 Radio Market Revenue

The AMPS for June 2015 estimates total past 7-days television viewership at 92,2 % of all television-owning households, as set out in figure 14. Of the National FTA Television services, SABC 1 remains the most popular television channel, with an average viewership of 76,9%, followed by SABC 2 at 72,1%, e.tv at 67% and, lastly, SABC 3 at 55,8%. Total community television viewership is estimated at an average of 10,4%.⁵

Media and Entertainment Market
Television Viewership - Past 7 Days Source: All Media Product Survey (AMPS)-June 2015

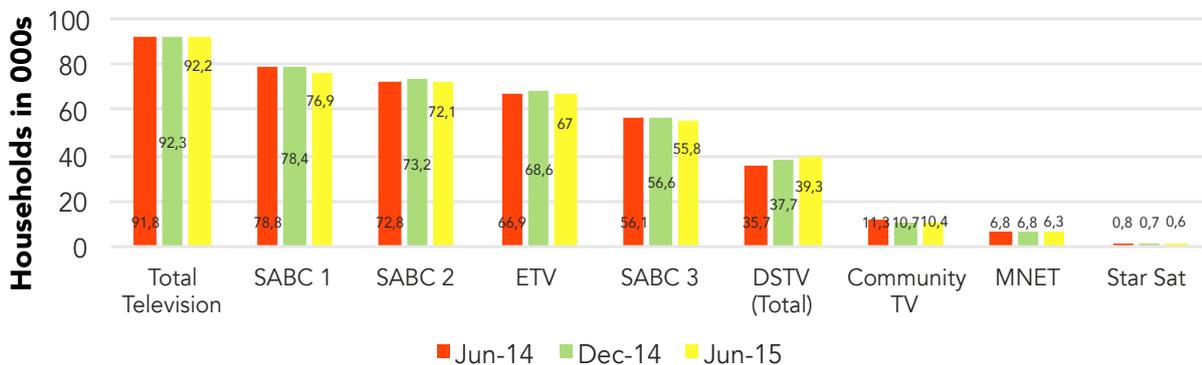


Figure 14 Television viewership: past 7 days

⁴ Entertainment and Media Outlook 2015:2019 South Africa, Nigeria, Kenya, PWC (accessed online 2016.01.25)
⁵ All Media Products Survey - June 2015 (Accessed Online 2016.01.25)

On the television revenue side, for the period 2015-2019, as set out in figure 15, subscription revenues are forecast to be R20,59 billion, compared to advertising revenues at R19,25 billion, an average CAGR of 3,70% and 6,20% respectively.⁶

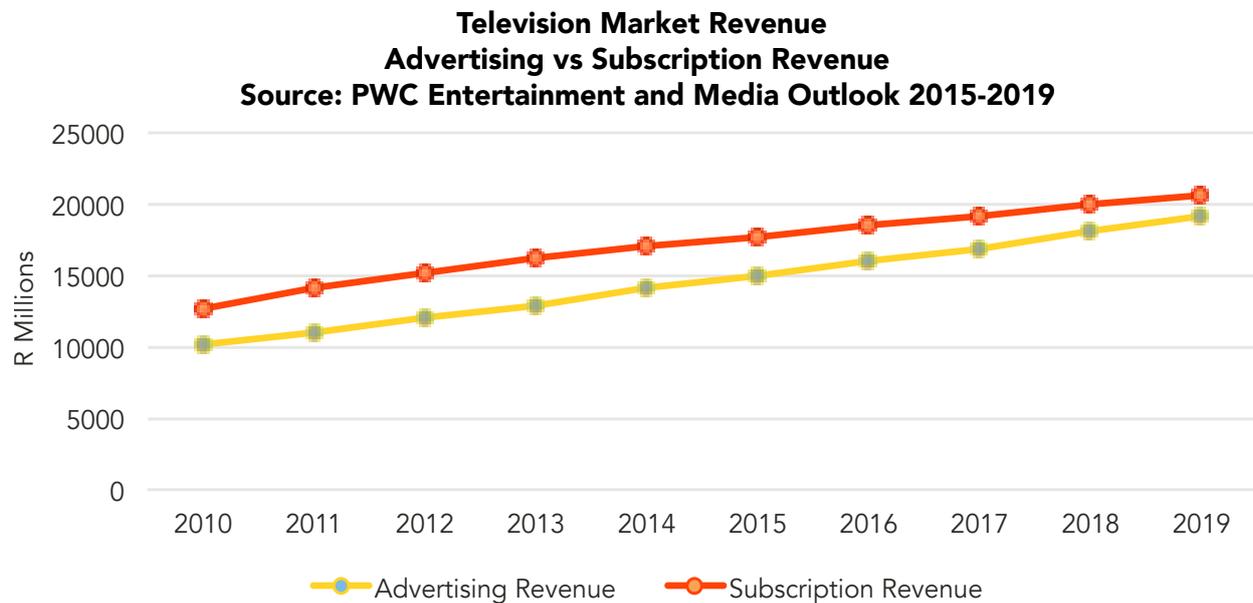


Figure 15- Television market revenue: advertising vs subscription revenue

On-Demand and OTT Content Distribution

The PWC 2015 – 2019 Media & Entertainment Outlook study estimates that the number of fixed broadband households will increase marginally from 1.5 million (2014) to just over 2,3 million in 2019. For the same period, mobile broadband mobile subscribers are forecast to grow from 19,50 million to 38 million.⁷ As set out in figure 16, it is projected that revenue from fixed and mobile broadband services will reach R 7.1 billion and R69.1 billion respectively.

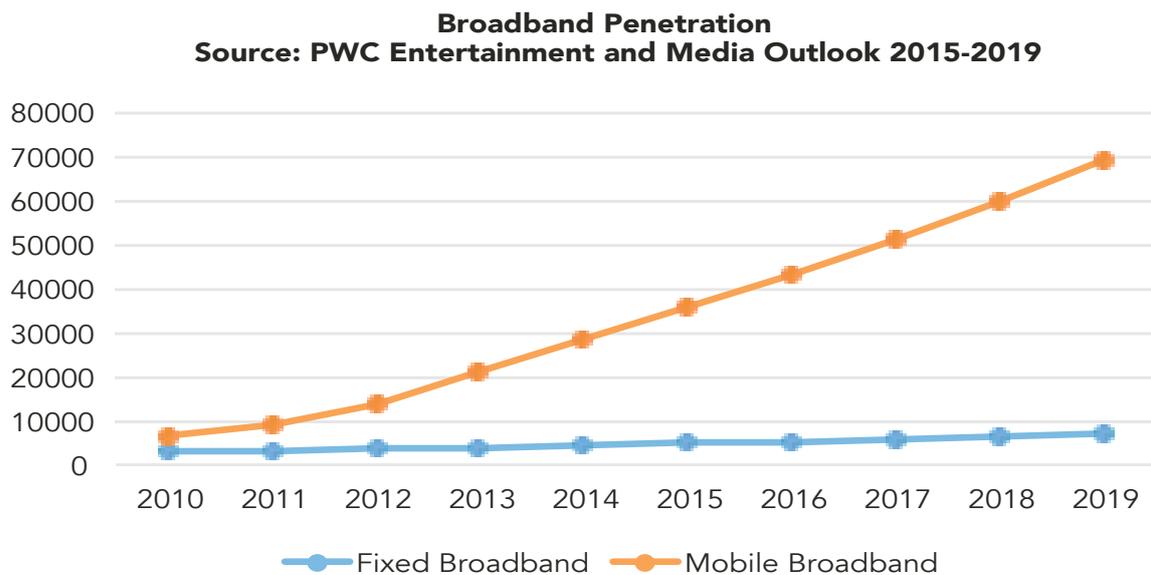


Figure 16 Media and entertainment market: broadband penetration

⁶ Entertainment and Media Outlook 2015:2019 South Africa, Nigeria, Kenya, PWC (accessed online 2016.01.25)
⁷ Entertainment and Media Outlook 2015:2019 South Africa, Nigeria, Kenya, PWC (accessed online 2016.01.25)

At the same time, the total filmed entertainment revenue market is projected to increase by 31% between 2014 and 2019, from R2.99 billion to R3,92 billion.⁸

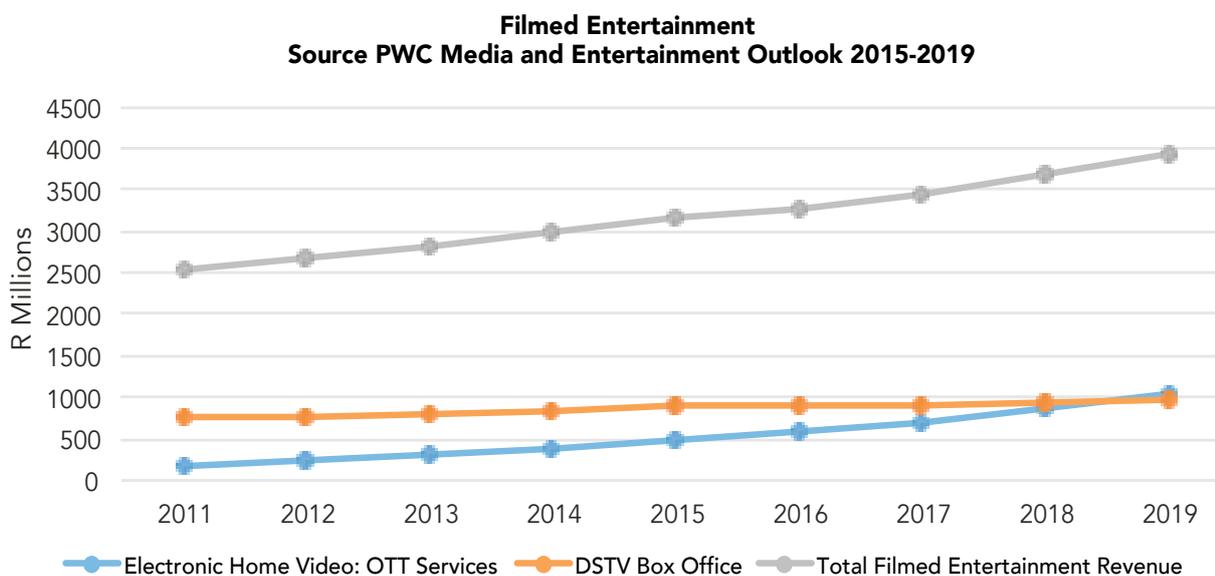


Figure 17 Filmed Entertainment

As set out in figure 17, at the end of 2019 it is forecasted that revenue for electronic home video: OTT services will reach R 1.0 billion, exceeding DSTV Box Office and physical home video revenues and representing the most significant component of filmed entertainment at 27% of overall revenues compared to 25% for DSTV Box and 26% for physical home video and 22% for cinema advertising.⁹

Adapting to the New M&E Environment

The M&E outlook and industry developments, as experienced by SENTECH over the past few years, indicate a need for a new way of doing business in this fast-evolving media and content industry. The traditional linear entertainment and media value chain, illustrated in the figure below, has evolved to be much more fluid, with business and value relationships being susceptible to change in a relatively short space of time. In order to stay relevant, SENTECH accepts that it will also need to be able to adapt to the environment, whilst at the same time being true to its vision and mandate.

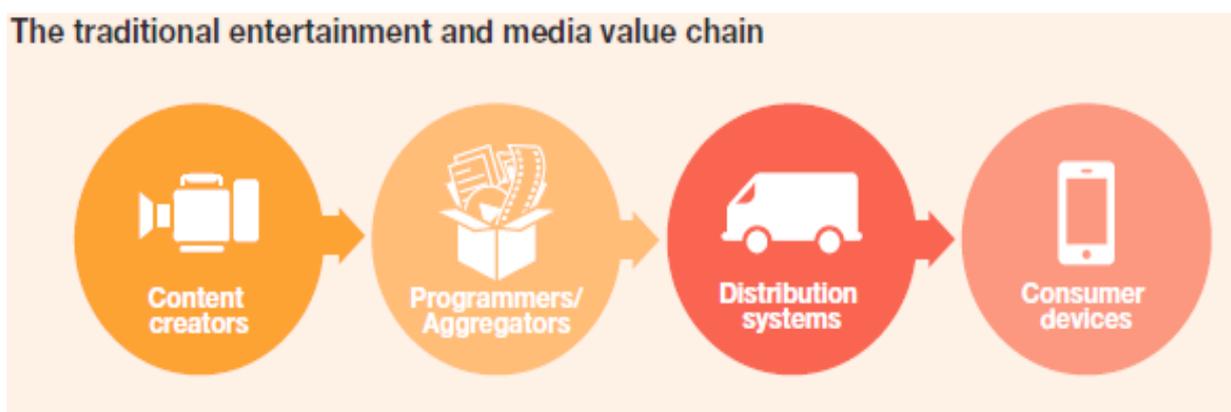
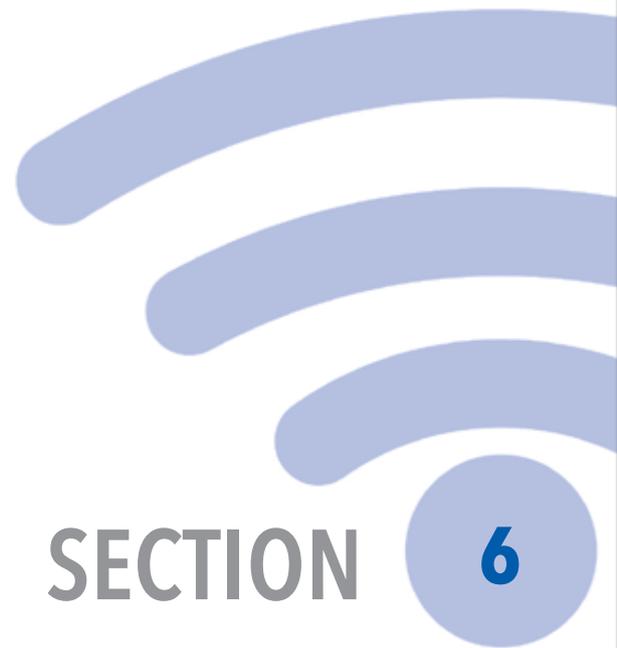


Figure 18 The traditional entertainment and value chain

⁸ Entertainment and Media Outlook 2015:2019 South Africa, Nigeria, Kenya, PWC (Accessed Online 2016.01.25)
⁹ Entertainment and Media Outlook 2015:2019 South Africa, Nigeria, Kenya, PWC (Accessed Online 2016.01.25)

In the evolving ecosystem, business relationships can easily be created between parties who hitherto did not have direct access to each other. Where content distribution is provided via non-traditional methods (for example, the Internet), relationships between the consumers, content distributors, content creators and providers of the consuming devices, change in any number of ways. In this world, SENTECH accepts that the traditional customer of a content distributor can change, requiring changes to traditional operating models.

SENTECH submits that the new digital world is, in fact, not about technology. Rather, it is about applying a digital mindset to build the right behaviours, and craft and maintain new relationships. In order to do this, SENTECH acknowledges that it does not necessarily need to evolve a digital strategy but, rather, a business strategy that is focused on relationship innovation. In the M&E industry in which SENTECH operates, this will be considered the new norm. SENTECH submits that if it does not adapt, and if there is no entity in the industry providing the certainty of cost-effective, open access,, interoperable content distribution and management platform services for this new world, the digital divide in society could widen.



SECTION

6

BUSINESS STRATEGY: MTEF 2016-2019



6. BUSINESS STRATEGY: MTEF 2016 - 2019

Introduction

During the 2016 – 2019 MTEF period, SENTECH's business strategy will remain aligned to, and guided by, the SENTECH Strategic Goals and those of the NDP and the government's 2020 strategy for the ICT sector. As early as 2011, SENTECH recognised that the global digital multichannel broadcasting and content distribution landscape was changing rapidly, fundamentally for both SENTECH and the broadcasting industry. As such, SENTECH's subsequent Corporate Plans articulated the Company's business strategy to consolidate its position as the leading provider of open-access communications network infrastructure to the broadcasting industry.

Strategic Architecture - Customer-driven Growth

To consolidate its position as a leading provider, SENTECH will pursue a customer-driven growth focus, outlined in its strategic architecture as set out in figure 19, presented in the diagram below. Informed by the mandate and critical outcomes of financial sustainability, and universal and open access, SENTECH's strategic architecture hinges on four strategic thrusts, which are:

- Enhanced customer orientation;
- World-class infrastructure performance;
- Competitive and affordable customer services; and
- Growth in a profitable product portfolio.

Critical enablers in building a high performing organisation will include critical skills and capabilities in the right structure, enabling policies, processes and systems, and enabling organisational values, culture and stakeholder engagement.

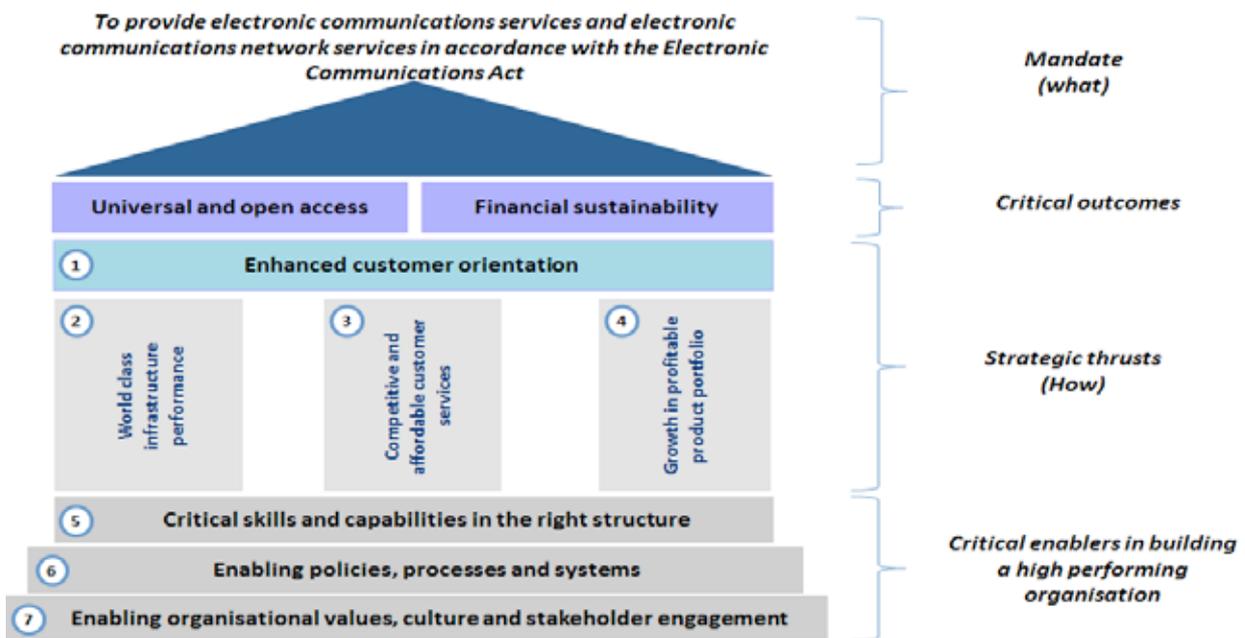


Figure 19 Strategic architecture

Business Model

The Board has reviewed the SENTECH business model to ensure that the Company is prepared for the converged digital communications ecosystem. The business model is a departure from the previous one, where focus was on establishments of business units. The current business model, which will put more emphasis on across-the-board research, development and innovation, is product and services focused into three categories, namely, content and multimedia services, infrastructure management services and connectivity services, as shown in figure 20 below.

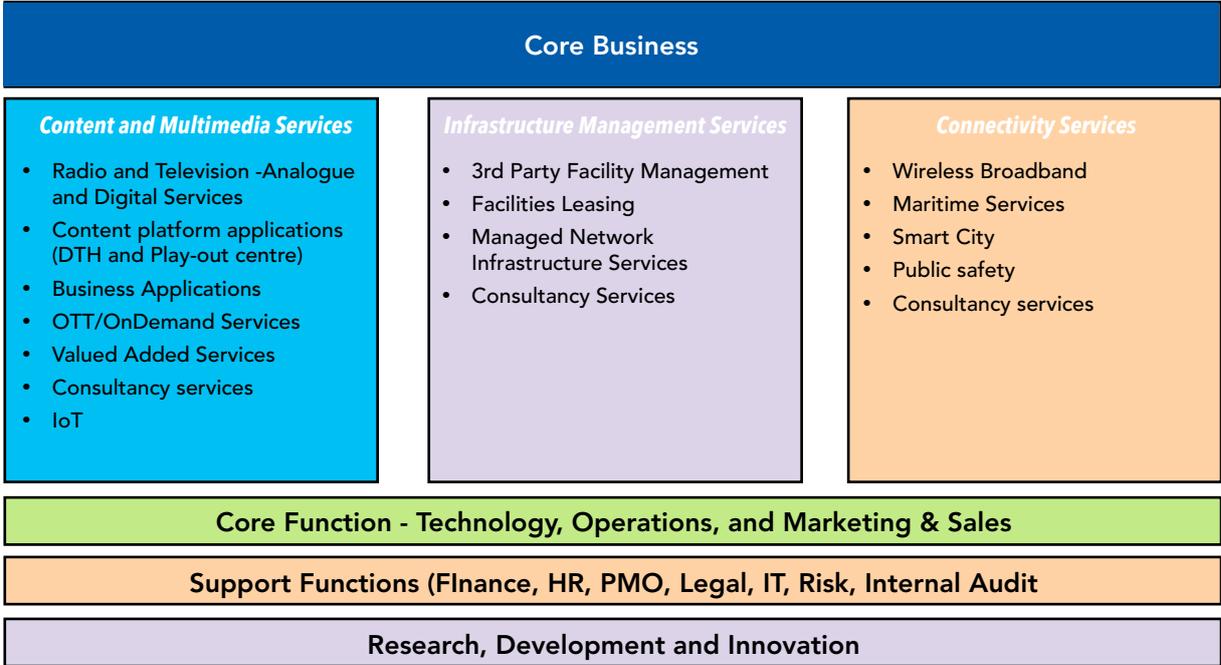


Figure 20 SENTECH operating model

Content and Multimedia Services

Content and multimedia services cover the broadcasting signal distribution services, including business television delivered via satellite DTH. There are other value-added services that form part of this service, such as OTT and Hybrid Broadcasting (e.g. HbbTV and Hybrid Radio) that will be explored further after having undergone proper testing and validation as per the approved SENTECH Product Development Blueprint.

FM Radio

SENTECH will continue to optimise the FM radio network to improve availability to guarantee advertising revenue for broadcasters and customers. SENTECH operates a network comprised of a total of 823 transmitter sites to provide FM radio signal distribution services to the public, commercial and community broadcasters, using a radio frequency spectrum between 88MHz and 108MHz. This transmitter network supports 18 public radio services, 18 commercial radio services and 106 community radio services.

For the community broadcasters the Company conducted a tariff review and implemented substantially lower tariffs, in alignment with the provisions of the ECA, which requires differentiated tariffs for community media. Further to the reduction of community broadcaster tariffs, SENTECH is committed to increase accessibility to community broadcasters by continuing with annual provincial workshops with the participation of key stakeholders ICASA, MDDA, DTPS and DOC. These workshops have improved SENTECH's relationship with community broadcasters, resulting in the growth in the number of community services provisioned to 106 at the end December 2015.

Given the moratorium on community sound broadcast licensing, implemented by the Regulatory Authority, SENTECH anticipates fewer or no community broadcasters being licensed in the 2016/17 financial year. However, SENTECH is committed and remains ready to enable broadcasters as they become licensed, in order to increase universal access.

SENTECH will also be focusing on the self-providing community broadcasters, to bring them on board the SENTECH network. It is believed that this will assist the community broadcasters to focus on content and being sustainable, whilst SENTECH manages their network. Value-added services, such as telemetry and advertisement verification and syndication, will be offered to community broadcasters to assist revenue generation, enabling the sector to become financially self-reliant.

Furthermore, SENTECH will continue to engage the commercial broadcasters, licensed in secondary markets, with the objective of rolling out their networks as soon as they are ready. SENTECH will also continue to offer network optimisation solutions to existing commercial broadcasters. This will allow broadcasters to determine appropriate, differentiated service levels in line with their business objectives. Enhancements that will allow multiple-platform access to broadcast content will be offered to SENTECH customers.

For the public broadcaster, SENTECH intends to roll out the remaining radio services through the FM and language expansion project, in line with the public broadcaster's strategic objectives. FM expansion aims to diversify radio language services across all provinces. SENTECH will further offer network access redundancy options to the public broadcaster.

Value-added services, such as distributed dynamic RDS and Internet audio streaming platform services will be developed over the MTEF period. Digital technology DAB+, once commercially available (after ASO), will offer further opportunities for growth.

SENTECH will work closely with industry partners to review other emerging digital technologies to assess feasibility to deliver digital services within the existing FM spectrum capacity.

DAB+

SENTECH, in conjunction with the NAB and SADIBA, successfully completed a technology trial of the DAB+ Digital Radio Transmission in Gauteng in November 2015. SENTECH, together with the radio industry, will be actively engaging the policy makers and the Regulatory Authority on the finalisation of the policy and regulatory framework for digital radio services.

SENTECH believes DAB+ to be a key growth area for the radio business, as it unlocks numerous opportunities for new and existing broadcasters. It is envisaged that DAB+ will exist alongside analogue FM radio for the next 10 to 15 years.

MW Radio

SENTECH provides MW radio broadcasting signal distribution services over eight transmitter sites, using the radio frequency spectrum between 535,5kHz and 1606,5kHz. This transmitter network supports two public broadcaster radio services, one commercial radio service and five community radio services.

The Company signed a broadcasting agreement in September 2015 with an MW commercial broadcaster. Growth projections for MW are informed by the one commercial and one community MW licences issued by ICASA. There are, however, some doubts about the affordability and sustainability of the licensed community broadcaster. Further growth is dependent on additional MW licences to be issued and the evolution of MW from analogue to digital standard DRM MW. Digital radio broadcasting will serve as a spectrum-efficient, high quality option for broadcasting. SENTECH has completed a DRM MW trial for Radio Pulpit, using a low-profile antenna that showcases the technology. The results of the technology trial were submitted to ICASA in 2015, with the intention of providing this service commercially, once the licensing framework has been established.

SW Radio

SENTECH's mandate is to provide universal access to electronic communication services and electronic communications network services. In addition to delivering on this mandate, it is the aim of the organisation to remain commercially sustainable. However, this has proven to be a challenge for the SW radio product, which has continuously generated a loss. During the 2016/17 financial year, SENTECH will embark on an exercise that will determine whether it continues to offer the service or ultimately discontinue it due to technology obsolescence that has led to high maintenance costs.

Terrestrial Television

The ATV signal distribution remains the major revenue contributor for SENTECH. The service revenue projection for the MTEF takes into account implementation of DTT and will remain linked to inflation tariff increases. With the announcement by the Minister of Communications of the performance period, commencing on 1 February 2016, SENTECH will implement its ASO regional plan during the performance period. As reported in the MTEF 2015- 2018 Corporate Plan, the future sustainability of SENTECH is intricately linked to the successful launch and mass household uptake of the FTA commercial DTT service. In order to assist broadcasters with their migration requirements, SENTECH has developed an ASO tariff model that has components of both analogue and digital tariffs and will be implemented in the 2016/17 financial year, in line with the regional ASO plan.

Growth of DTT is anticipated, based on the licensing of additional broadcasters on the third Multiplex (MUX 3). The Regulatory Authority published the ITA for the licensing of broadcasters on the third multiplexor targeting process completion within the 2015/16 financial year. As a result, SENTECH will engage potential broadcasters on this multiplexor to enable the network build programme completion within the 2016/17 financial year and the start of commercial operations within the MTEF. The commercialisation of MUX3 will be informed by the allocation, as per regulations, of 55 per cent for FTA broadcasters and 45 per cent for pay television broadcasters.

Business Radio and TV

SENTECH's business television and radio services currently operate in a linear environment. The evolution of the product will be to create a multi-platform environment, where business communications services, at store level, are available on multiple devices for consumers to interact with their retailer of choice. Services on offer will be traditional satellite broadcasting, push VOD, live streaming and IPTV. Engagements with existing BTV and BTR customers will take place in the 2016/17 financial year for potential migration to a digital media services platform.

Content Platform Applications

As previously recognised that future growth of the DTH market will be driven by multi-channel bouquet operators, SENTECH will continue to provide an open access and interoperable DTH platform, with focus on super programme aggregators. This approach will see SENTECH providing an array of services along the broadcasting value chain ranging from, but not limited to, up-linking, multiplexing, encoding and transcoding to playout.

Business Applications

SENTECH will continue to explore enhancing the business television offering with solutions such as digital signage beyond linear DTH. This will provide businesses with flexibility regarding their in-store or in-campus advertising and communication.

Audio Visual OTT/On-Demand Services

The Internet projections paint a picture of Internet usage growth in South Africa. The Cisco Visual Network Index forecasts that, in South Africa:

- IP traffic will grow six-fold from 2014 to 2019, at a CAGR of 44%; and
- IP video traffic will grow eight-fold from 2014 to 2019, at a CAGR of 53%.

SENTECH recognises a growing trend for partnerships between platform providers, broadcasters, media companies and network operators in providing OTT services. As such, SENTECH has developed an OTT business case with the main objective of offering the service as an add-on service to broadcasters and customers. SENTECH will continue to explore how best to support players in enabling them to provide services such as catch-up, streaming and video-on-demand. SENTECH will work to assist broadcasters and other players to fulfill growing demand from consumers.

Audio-Visual Value-Added Services

Hybrid broadcasting and smart TV platforms are proving to be a good opportunity for broadcasters to provide additional engagement for the consumers. In 2015, Digital UK and Freeview co-developed and launched Freeview Play, which is an HbbTV service. Additionally, Freeview Play is planned to launch on LG

smart TVs in 2016. HbbTV and SmartTV platforms allow broadcasters to offer applications such as catch-up TV and streaming video, as well as radio.

Hybrid radio allows broadcasters an opportunity to keep the audience more engaged and offer more interactivity, with services such as voting songs up or down, cover art, the ability to find out more about what's playing and seamless switching between the broadcast signal, e.g. FM and Internet streaming where there is poor to no coverage.

In this MTEF, SENTECH will continue to develop and implement hybrid broadcasting platforms and support technologies to enable the broadcasters to exploit the opportunities introduced by these platforms.

6.1 Infrastructure Management Services

Third Party Facility Management

In-building of equipment hosting and storage services is a new SENTECH service that comprises comprehensive site management and maintenance services. As part of the Facilities Management Network Growth and Diversification Strategy, still to be developed, SENTECH will offer hosting of in-building equipment and storage services for its customers. A business model for facilities management network growth and a diversification strategy will be developed in the 2016/17 financial year.

As part of growing the hosting and storage portfolio, SENTECH will participate in a bid to host and operate a satellite earth station on SENTECH's disaster recovery premises at NASREC. Engagements with prospective customers have commenced and SENTECH will work on feasibility plans to deploy a South African satellite services gateway in the 2016/17 financial year. This service will then be deployed on a permanent basis as an offering for our customers.

Facilities Leasing

SENTECH provides site-sharing facilities to public and private companies on more than 220 of its transmitter high-sites for various communication services through its facilities leasing service. The high-sites are situated at different locations with different heights, to fit customer coverage needs, throughout South Africa. A market study was conducted to revise the existing tariff model. This benchmarking exercise will be conducted annually to ensure competitive and market-related pricing. During the MTEF period, a web portal will be developed that will significantly shorten the application process for facilities leasing customers. Collaborations, which will be finalised in the 2016/2017 financial year, are underway to develop strategies with other SOCs that own wireless networks

Management Network Infrastructure Services

With its vast experience in managing a plurality of different types of networks, from broadcasting to telecommunications, SENTECH has built a strong capability in network design, deployment, operation and maintenance. These skills and technical capabilities are the ideal foundation to offer managed network services to other owners of similar networks.

SENTECH aims to combine its skills, resources and services into a Managed Network Services offering by developing a business model for the open market. The model will encompass tariff structures and a resource plan. Customers will be able to contract SENTECH to manage their networks and passive infrastructure, and on-sell any available capacity on customers' terrestrial sites. This will allow the customer to focus on its core business, whilst relying on a world-class network operator to manage its communications needs.

Managed Network Services will include various capabilities, such as a 24/7 service desk, network monitoring and fault reporting, network performance reporting, maintenance support, preventative inspections, and diagnostics and repair services, to ensure the best levels of network availability.

Consultancy Services

SENTECH will start commercializing consultancy services based on the knowledge gained from operating the signal distribution network over the past decades. The company will use its technical expertise in providing knowledge-based services, focusing on planning and implementation of broadcast services. This will not be based only on BSD but on all the technical services which the company has expertise. Spectrum management will form part of the services which we will provide. This is particularly relevant through focusing on the Company's strategy to expand business to the rest of the African continent. A basket of services will be developed based on market research and analysis of needs of potential clients. During the 2016/17 MTEF, SENTECH will develop a business case and an implementation plan for these consulting services. The company will develop a knowledge base as a result of its focus on research and innovation.

6.2 Connectivity Services

The Cabinet-approved National Broadband Policy, South Africa Connect is to create opportunities, ensuring inclusion with four central strategies of digital readiness, digital development, building the digital future and realising digital opportunity. SENTECH is positioning itself to play a significant role in the implementation of the policy. The Company will be involved in wireless broadband services in support of the SOC-nominated beneficiaries that will lead the broadband rollout.

Wireless Broadband

The satellite hub that provides wireless broadband services will be upgraded. This product will be re-focused to form part of the new SENTECH business model that will enable government communications.

Smart City Services and Internet of Things (IoT)

SENTECH will continue to explore solutions and partnerships that will enable the offering of IoT and Smart City-related services. The company's focus on Smart City Services will be on providing communication channels, broadcasting content and other media platforms. These solutions will make use of various network solutions, from broadband to ultra-narrow band. IoT makes it simple and affordable to connect millions of 'things'.

Public Safety Services

SENTECH will exploit its strong capabilities in operating transmission networks and look into opportunities to assist municipalities, law enforcement and emergency medical service providers in operating their networks, e.g. Tetra networks, Two Way Radio networks and signalling networks.

Capital Expenditure

SENTECH is mandated by the Shareholder to ensure that its ICT infrastructure is accessible, robust, reliable, affordable and secure, to meet the needs of the country and its people. Some of the signal distribution infrastructure solutions have reached their end-of-life, are unsupported and have become unreliable, thereby affecting services availability, quality and the achievement of the mandate. For SENTECH to meet this strategic objective, it has to periodically refresh its network.

In the recent past, the network was neglected due to challenges with the SENTECH's going concern status and SENTECH's main focus of rolling out the network for analogue to digital migration. SENTECH has subsequently managed to increase its cash reserves, as indicated below, and it is in a better position to finance its CAPEX requirements.

In order to ensure reliable services continuity, SENTECH identified some areas of improvements and made financial provision for the MTEF period. These improvements are critical in ensuring that SENTECH delivers on its corporate objectives.

SENTECH CAPEX was planned to:

- Generate revenue;
- Reduce operating costs, improve quality and reliability of services and improve and maintain network availability;
- Improve internal efficiencies; and
- Transform business capability.

Revenue Generation

The strategy of SENTECH in relation to revenue generate includes:

- Increase revenue from existing capabilities

The budget is designed to ensure that SENTECH is able to provision for the community broadcasters and medium wave ITAs customers.

- Existing customers and existing products

The SABC is in the middle of implementing the FM Public Radio Language Network expansion, and SENTECH should be ready to provide its customer with services when required. SENTECH has identified facilities leasing and management as having huge potential for increasing the Company's revenue and, as such, SENTECH has made provision in the MTEF budget to ensure its readiness.

Reduce Operating Costs, Improve Quality and Reliability of Services and Improve and Maintain Network Availability

The current analogue television transmitters' infrastructure is obsolete, inefficient, unreliable and difficult to repair and maintain. Replacement of analogue television with new transmitters will offer greater energy efficiency, reliability and client satisfaction. This will eventually result in reduced time spent on maintenance call-out and assist in achieving the company's efforts to reduce escalating operational costs. The new transmitter can be easily converted to DTT or DAB+ operation, for continued deployment after ASO.

SENTECH will be replacing distribution network solutions systems that are 15 years and older to improve network reliability during the MTEF period. The Company also plans to replace some PIE units and satellite receivers during the MTEF period, to sustain the network.

SENTECH uses a fleet of vehicles to access remote sites for the purpose of maintenance. These vehicle are replaced from time to time to ensure reliable means of accessing network infrastructure when a need arises.

SENTECH also uses measurement tools, infrastructure maintenance machinery and spare parts when carrying out maintenance at various sites. There is a need to procure equipment for the highlighted areas above to ensure services continuity and SENTECH-made provision in the MTEF period to replace and procure network support equipment.

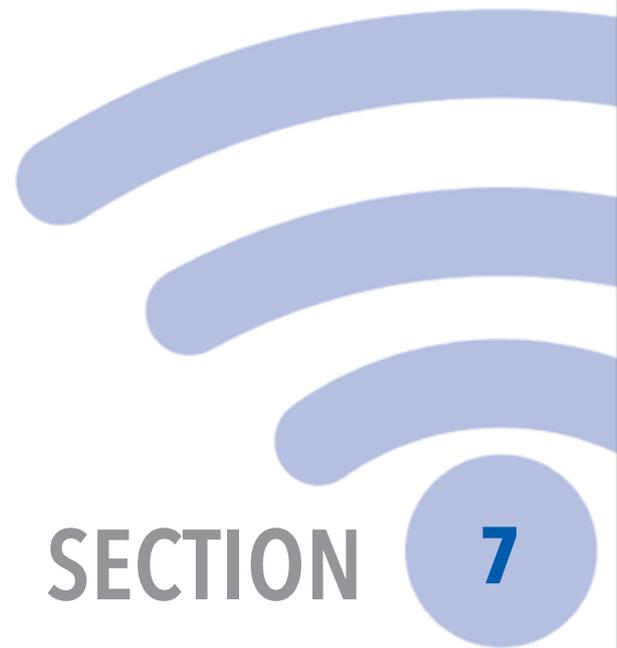
Improve Internal Efficiencies

SENTECH has offices that are located strategically around the country to reach transmission sites within the shortest possible time to ensure delivery of services in line with services level agreements. In some instances SENTECH rents offices. Some OC buildings are very old, unsafe and expensive to maintain. A number of operation centres have been identified and due for upgrade and relocations in the current MTEF period. SENTECH has also budgeted for the completion of the SAP functional upgrade in order to unlock the enhanced and improved functionality. SENTECH is also making provision for an End User Device refresh.

Business Capability Development

SENTECH has to look further into the future, in which rapid technological changes are the only constant determinant of advancement and in which consumer preferences are constantly evolving. As a result, broadcasters, content aggregators and ICT service providers will seek to serve their customers and audiences on all available digital networks.

In order to seize the opportunities presented by this digital environment, the budget makes provision for SENTECH's preparation for the new world and the converged future. This is done in order to fully implement SENTECH's singular business strategy theme of 'providing open access interoperable communications platform services that enable universal access to digital content and communication services for all South Africans'. SENTECH has to be able to satisfy the surging demand for OnDemand and OTT Content distribution and consumption services.



SECTION

7

STRATEGIC PROJECTS



7. STRATEGIC PROJECTS

SENTECH has identified strategic projects in order to ensure that the strategic objectives of the company are achieved. The focus in the past has been on the major capital infrastructure projects that were core to delivery of the Company's public mandate of 'enabling affordable universal action to universal communication'. During this MTEF period SENTECH is taking this forward by also focusing on the operations surrounding the commercialisation of this infrastructure and the development of SENTECH customers, suppliers and employees.

Enterprise and Supplier Development

SENTECH has adopted an ESD Strategy for promoting economic growth and reducing poverty by supporting SMMEs. This strategy consists of monetary and non-monetary, recoverable and non-recoverable contributions actually initiated in favor of a beneficiary entity by SENTECH, with the specific objective of assisting or accelerating the development, sustainability and ultimate financial independence of the beneficiary. This forms part of the Broad-Based Black Economic Empowerment policy to advance economic transformation in South Africa.

As part of the intervention, SENTECH will set aside five percent of net profit after tax to support this strategy. The interventions will include approaching:

- Non-discretionary suppliers and ring fence them until such time that they become discretionary suppliers;
- Key discretionary suppliers to assist them to improve their rating to an acceptable level;
- Dilutive suppliers to improve their ratings;
- Black-owned suppliers to ensure that they have plans to improve targets in line with the new codes; and
- Supplier development by means of an ESD incubation programme for selected suppliers to develop them in line with the ESD Strategy.

SENTECH Foundation

The SENTECH Foundation will become the primary vehicle responsible and accountable for driving the key Economic and Social Development strategies pertaining to SENTECH SOC's public service mandate. The SENTECH Foundation will drive the CSI initiatives with key focus on education and skills development. This will include:

- I-Lab equipment for schools;
- Bursaries and scholarships;
- Mathematics and science school projects support to drive success in increasing technical staff; and
- Learnerships and internships to provide practical, on-the-job training and thereby create a skills pool for job readiness.

Human Capital Strategy Implementation

SENTECH's MTEF Human Capital strategy, to be developed in this MTEF, will take a bold step into the future in preparing for the exciting and dynamic changes in the digital landscape. In developing an agile organisation to ensure a fast-paced response to swiftly changing consumer requirements, SENTECH has

taken a visionary stance on the required organisation required to execute its new operating model and the skills it will require to compete more effectively in this changing landscape.

Our Human Capital strategy will be underpinned by a strong SENTECH employee value proposition aimed at attracting and retaining talent through leadership, learning and development, remuneration and reward, and employee wellness. The implementation of these key initiatives will serve to provide a strong talent pipeline to meet SENTECH's current and future human capital requirements. The following programmes will be implemented as part of our Human Capital strategy.

People Transformation

SENTECH understands the importance of transformation and recognises diversity as a strategic advantage. In pursuit of integrating transformation across the organisation, SENTECH will continue to implement a comprehensive people strategy aligned to the human capital development priorities, workforce skills diversity and demographic representation.

Talent Management

SENTECH will continue to emphasise the strategic application of talent management solutions and practices to ensure that employees are developed and ready for the digital world. Key focus areas for talent management are detailed below.

Strategic Talent Resourcing

SENTECH will evaluate the current resourcing strategies with the objective of introducing and enhancing appropriate strategies to acquire the best talent. The outcome of the organisational design will better enable SENTECH to craft a longer-term workforce demand plan and supply model.

Leadership Development

SENTECH will continue to develop leaders and review leadership initiatives to ensure that leaders are able to respond to the new challenges. To further enhance leadership capabilities, the Company will focus on developing leaders' emotional intelligence.

Learning and Development

SENTECH draws on the expertise, talent and commitment of employees. Sustainability and competitive advantage depends largely on the ability of employees to be productive, innovative and forward thinking. To ensure that every employee is fully developed, targeted learning and development interventions will be provided to enhance employee effectiveness. In the 2017 financial year, SENTECH will reinstate the bursary policy to ensure that employee development is supported.

Succession Management

The implementation of an effective succession management plan will ensure that SENTECH is able to respond to business changes by proactively focusing on developing a strong talent pipeline for critical positions and those requiring scarce skills.

Internship Programmes

One of SENTECH's strategic goals is to contribute towards the development and empowerment of young, unemployed graduates. The Company will continue to provide graduates with an opportunity to participate in our Internship Programme, aimed at enhancing their knowledge and preparing them for the new world of work.

SENTECH Sponsorship Programme

SENTECH has partnered with some South Africa's top universities to sponsor previously disadvantaged undergraduates and postgraduate students. Through this programme, SENTECH will build a strong talent pipeline, including black women and employees with disabilities, in the fields of engineering and technology.

Organisational Development and Design

SENTECH has conducted an organisational design exercise to ensure that the Company is efficiently and effectively organised to deliver on the strategic objectives aligned with SENTECH's new operating model. The project will be rolled out in phases and will entail the development of a macro structure, operational structures and a review of the competency framework to ultimately ensure that the Company has the correct talent, aligned to the new design.

Redefine Organisational Culture

The digital world requires a shared culture, with innovation being core to SENTECH's operations. Not only will SENTECH implement deliberate interventions to define the culture of the organisation, it will also embed the desired culture to ensure its alignment with the vision.

Change Leadership

Change management is at the heart of achieving business outcomes, hence it will be incorporated in all strategic programmes. The implementation of an effective change management strategy will ensure that SENTECH's people are part of this exciting journey. There will be a focus on change management as the organisational realignment is introduced. Managers will be receive leadership training in their respective areas of focus.

Performance Management

Managing performance plays a key role in guiding employee behavior and performance. With the new performance management system having been successfully implemented at all levels, there will be renewed focus on performance management training to encourage all managers to hold regular performance dialogues with their staff. This will enable effective performance management and help build a high-performance culture.

Remuneration and Reward Strategy

Through an integrated remuneration strategy, SENTECH will provide rewards and incentives that are linked to company results and individual performance. To further enhance the ability to attract and retain talent, SENTECH will participate in salary surveys and industry benchmarks to offer competitive remuneration and rewards.

Employee Wellness

SENTECH understands that employees who are engaged and supported are motivated to contribute more positively towards the company's performance and success. In sustaining the wellbeing of employees, the Company will ensure that an integrated and comprehensive Wellness Programme, which provides 24-hour access to professional services, including counselling and psychological support, is readily available to all staff.

Health and Safety

Health and safety remains a key priority. SENTECH is committed to creating a safe working environment by managing and minimising risks across the organisation and, as such, the Company continues to assess operations to minimise exposure to health and safety risks for staff and the broader South African community. SENTECH continues to prioritise OHS training to promote a culture of health and safety, and compliance with regulations.

As a responsible corporate citizen, SENTECH has ensured that, through a comprehensive medical surveillance programme, radio wave frequency exposure levels are managed in accordance with the ICNIRP standards.

Employee Relations and Engagement

Continuous building and maintenance of a sound and collaborative relationship with employees and the CWU, being the sole bargaining agent, is a primary objective and central to the employee relations strategy.

In an effort to sustain and enhance better working relations with organised labour, a number of interventions are planned over the next few years. Included are a review of the Relationship Agreement with CWU, the reconstitution of the Employment Equity and Skills Development Committee and amendments to all internal HR policies, in line with the latest amendments to the LRA, the BCEA and the EEA.

SAP Upgrade

SENTECH, as an infrastructure business operating in the ICT sector, places substantial reliance on the effectiveness of its ERP and IT systems. This will become even more critical as the company moves into the digital age and relies more heavily on remote monitoring and reporting to run the digital networks. It is on the basis that the SAP upgrade has been classified as a strategic project.

There was a critical need for this upgrade, which was started in the previous MTEF, as the version of SAP that SENTECH was running had reached obsolescence. The upgrade is being implemented using a phased approach. Firstly, the technical upgrade, which was completed in February 2014, is currently being followed by the functional upgrade, which is being implemented in the current MTEF period.

The technical upgrade was a major step in laying the foundation for the SAP functional upgrade, enabling the leveraging of the newly improved functionality, leading to improved, streamlined business processes and possible competitive advantage.

The SAP functional upgrade, consisting of two phases, will allow SENTECH to unlock the full benefits of SAP, offering functionality that will improve organisational efficiency. The upgrade will not only benefit the business but also the employees. SENTECH will be able to support new lines of business and business initiatives, extend and improve existing processes, and enhance competitiveness. The key challenge is risk minimisation while achieving the required business benefits. Phase 1 is on track to be implemented in the 2015/16 financial year, whilst phase 2 is expected to be completed by the end of the 2016/17 financial year.

All the current SAP system 'pain points' will be addressed in this phase. Business processes will similarly be streamlined and will lead to a more stable environment and links into the needs of the BCM.

DTT Commercialisation

By the end of the 2015/16 financial year, SENTECH will have completed the DTT build, as part of the DTT mandated project. The first DTT launch will be held in the Northern Cape to kick-start the end-user migration from analogue to digital television. DTT commercialisation is dependent on a number of events being completed on a complementary basis by various stakeholders within the BDM project universe. The future financial viability of SENTECH is based on the successful commercialisation of digital terrestrial television within the MTEF period. On this basis, SENTECH has designated commercialisation as a strategic project.

Business strategies are focusing on operational efficiencies to ensure long-term sustainability and operational efficiencies. This has become a priority for most businesses, particularly signal distributors, to ensure competitiveness in the intricate and evolving broadcasting market.

Thus, SENTECH is under way with operationalisation of DTT services and has adopted a globally integrated operating model to maximise operating efficiencies, reduce operating costs and improve service restoration turnaround time. The operating approach will enable efficient operations, thereby ensuring that the organisation remains economically competitive and relevant to the broadcasting market.

The operating model will ultimately ensure balanced and lean corporate functions and reduced duplication of infrastructure, while maintaining the highest quality of services. This will enable SENTECH to continue offering competitive services at reasonable tariffs. The nationally-integrated operations model will maximise network support and management capabilities to exploit competitive business advantages. Some key deliverables of the integrated model are:

- Reduced human intervention resulting in Opex savings and Improved MTTR;
- Enhanced reporting to customers, management and the Shareholder;
- Reduced travel and maintenance costs;
- Centralised monitoring with a national network visibility; and
- Balanced human resource allocation and management.

The DTT migration introduces a major technology shift and requisite institutional capacity will be key to ensure services continuity and customer satisfaction. Digital broadcasting network management expertise is not readily available in South Africa and SENTECH has established capacity development programmes, through its School of Technology and external partners, to develop and place technical expertise within its operations.

The DTT network is heterogeneous and dynamic, and management functions required to diagnose and analyse the network performance are complex. The existing analogue monitoring system is inadequate to manage the DTT network and this has necessitated SENTECH to design a modern, robust network management system. The traditional approach of managing each segment of the network in isolation, through its own element manager, would not be capable of solving DTT network challenges.

SENTECH is therefore deploying a world-class network management system, which is aligned to the ISO framework, to manage the national network to achieve:

- Integrated network monitoring and control;
- Reduced MTTR and human intervention;
- Enterprise-wide integration and harmonised operations;

- Nationwide network visibility and manageability; and
- Standardisation of network support solutions.

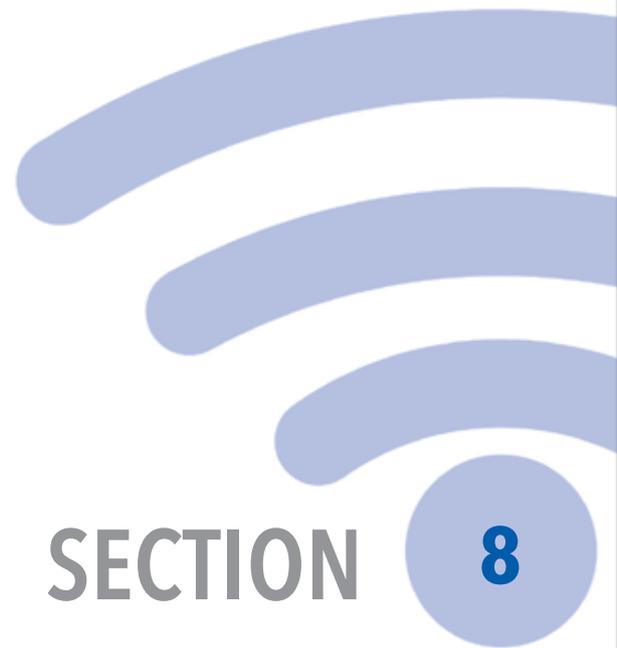
In accordance with the 2006 RRC agreement, South Africa is going through a programme to migrate television broadcasting services from analogue to digital technology. The country has made significant progress in terms setting BDM policy, a regulatory migration framework and implementation of technical solutions. Further to South Africa's strategic migration outline and progress, the Shareholder, broadcasters, signal distributors and other stakeholders are continuing to engage to determine levels of readiness, finalise commercialisation and analogue switch-off approaches.

SENTECH has developed an ASO plan, based on best practices, leveraging on experiences from countries that have already migrated. The final ASO plan will be workshopped and aligned with other industry stakeholder objectives to ensure a cohesive approach to the country's DTT migration process.

Business Continuity Management

SENTECH has recognised the benefits of having an EBCP for the organisation. The premise for EBCP is founded on the need to align technology, business processes, tools and people requirements in ensuring organisational business continuity in the event of a disaster. SENTECH has progressed with the implementation of disaster recovery infrastructure through ensuring replication of vital systems across its network. It is to be noted, however, that with evolution into the digital era, there is an increased dependency on software-centric systems, business process operational efficiency and telecommunications infrastructure in the value chain of delivering signal distribution services.

In the MTEF period, SENTECH will integrate its EBCP developed in the 2015/16 financial year in order to have an integrated roadmap for company-wide disaster management. The roadmap will ensure that there are integrated programme exercises between technology and business line areas to include DR, high availability operations, infrastructure, operational recovery and business line testing.



SECTION

8

KEY PERFORMANCE AREAS

8. KEY PERFORMANCE AREAS

The Board has adopted a set of strategic objectives for the 2015 – 2019 MTEF planning period that will ensure that the Company achieves its public service mandate objectives, and that are aligned to Shareholder priorities and will ensure financial sustainability.

Alignment with Shareholder Priorities

SENTECH has ensured alignment of its business operations with the Shareholder Strategic Goals and Objectives for 2016 - 2020 planning period set out in table 2 below.

Shareholder Strategic Goals and Objectives - MTEF 2016 – 2020		SENTECH Strategic Plan Alignment
Strategic Goals	Strategic Objectives	
SG 1 Broadband connectivity that provides secure and affordable access for all citizens to education, health and other government services, and stimulates socio-economic development	<p>SO 1.1 Implement Digital Development and Digital Future Programmes in line with SA Connect.</p> <p>SO 1.2 Create an effective National Spectrum Framework to ensure citizens realise socio-economic benefits from the use of the spectrum.</p> <p>SO1.3 Establish Cyber Security institutional stability capacity.</p> <p>SO 1.4 Ensure that citizens have access to government services through ICT.</p>	<ul style="list-style-type: none"> • SENTECH will actively participate with the DTPS in relation to the development of the NBN strategy and implementation plan. In addition, internal processes will be amended to accommodate the said initiatives. • SENTECH will participate in the reviewing and updating of the National Radio Frequency Plan. • SENTECH will ensure that its networks are shielded from cyber-attacks.
SG 2: Stable ICT policy and regulatory environment that contribute to socio-economic development in the country	<p>SO 2.1: Implement the policy and legislative programme.</p> <p>SO 2.2: Promote transformation of the ICT sector through ICT SMME development and implementation of the ICT B-BBEE sector code.</p>	<ul style="list-style-type: none"> • Provide input into the development of the policies, regulations and programmes that enhance the viability of the broadcasting and the digital content sector, based on operational insight into various regulatory, technical and business interactions in the communications industry, and strategic insights into the future of digital content systems. • Continue with the implementation of ESD and SED initiatives that supports local ICT SMME procurement and develops the entrepreneurship capabilities for the content industry and, in particular, the digital media content sector.
SG 3 South Africa has a modern, sustainable and competitive postal and telecommunications sector	<p>SO 3.1: Develop and advocate country position papers to advance SA's ICT policies and programmes.</p> <p>SO 3.4: Develop and implement a strategy for satellite communications in accordance with the National Space Policy and the National Space Programme.</p>	<ul style="list-style-type: none"> • SENTECH will actively participate and provide input in the development of the country position papers to advance SA's ICT policies and programmes.

Shareholder Strategic Goals and Objectives - MTEF 2016 - 2020		SENTECH Strategic Plan Alignment
Strategic Goals	Strategic Objectives	
SG 4: Inclusive information society and knowledge economy	SO 4.1: Implement the Information Society and Development Programme, focusing on SA Connect, the Integrated ICT Policy and e-Strategy.	<ul style="list-style-type: none"> SENTECH will actively engage, participate and contribute in the development and implementation of the e-Strategy. SENTECH will use its infrastructure to supports its obligations in relation to the National e-Strategy.
SG 5 Optimally functional Department and SOCs that delivery effectively on their respective mandates	SO 5.1: Conduct proactive and stringent oversight to improve performance and stability of SOCs. SO 5.2: Create a high-performing organisation to enable achievement of the Department's mandate.	<ul style="list-style-type: none"> Ensure that SENTECH has the appropriate corporate governance structures and policies to enable effective shareholder oversight.

Table 2 - Shareholder Strategic Goals and Objectives - MTSF 2016 - 2020

MTEF 2016-2019 Key Performance Indicators

Strategic Goals (What we want to achieve)	Strategic Objectives (How we will achieve it)	KPI (How we will measure performance)	Performance Targets		
			FY16/17	FY17/18	FY18/19
SG 1: Ensure that ICT infrastructure is accessible, robust, reliable, affordable and secure to meet the needs of the country and its people.	Ensure universal access of the digital broadcasting signal distribution network	Disaster recovery (DR) and business continuity centre (BC) established	Build and commission disaster recovery capability sites planned for the 2016/17 financial year	Deployment of the BCP for identified Business Units	No performance required
SG 2: Ensure high levels of customer and stakeholder satisfaction by meeting their needs at all times.	Ensure network availability meets SLA requirements across all platforms	Weighted average availability based on product revenues	Weighted average availability based on product revenues of 99,80%	Weighted average availability based on product revenues of 99,80%	Weighted average availability based on product revenues of 99.80%
	Improve customer satisfaction	Customer service index	Baseline +5%	Baseline +2,5 %	Baseline +2,5 %
SG 3: Drive organisational performance to improve organisational effectiveness.	Achieve a high-performance culture	Performance ratings achieved	Average employee performance score of 3.2	Average employee performance score of 3.5	Average employee performance score of 3.7
	Effective talent management	% Training Plan implemented	80% of the 2016/17 approved Training Plan implemented	85% of the 2017/18 approved Training Plan implemented	90% of the 2018/19 approved Training Plan implemented

Strategic Goals (What we want to achieve)	Strategic Objectives (How we will achieve it)	KPI (How we will measure performance)	Performance Targets		
			FY16/17	FY17/18	FY18/19
SG 4: Ensure that the Company is financially sustainable.	Revenue Diversification into international markets	Develop and implement Pan-African Strategy	Pan-African Business Case completed	Earn 2% of revenue from international customers	Earn 3% of revenue from international customers
	Implement effective internal control system and compliance with applicable legislation	Clean audit achieved	Clean audit achieved	Clean audit achieved	Clean audit achieved
	Implement ESD and SED initiatives	% actual NPAT spent for the 2016/17 financial year	6% of actual NPAT spent for the 2016/17 financial year	6,5% of actual NPAT spent for the 2017/18 financial year	7,5% of actual NPAT spent for the 2018/19 financial year
	Maintain a healthy EBIT	Earnings before Interest and tax	R5,22 million	R5,48 million	R135,47 million

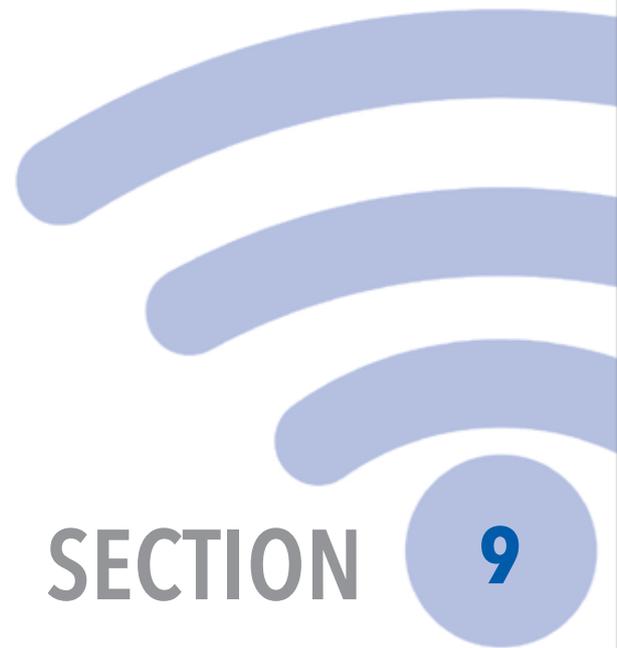
Table 3 - MTEF 2016-2019 Key Performance Indicators

2016-2017 Annual Performance Targets

Strategic Goal (What we want to achieve)	Strategic Objectives (How we will achieve it)	KPI (How we will measure performance)	Annual Target	Performance Targets			
				Quarter 1: April to June 2016	Quarter 2: July to September 2016	Quarter 3: October to December 2016	Quarter 4: January to March 2017
SG 1: Ensure that ICT infrastructure is accessible, robust, reliable, affordable and secure to meet the needs of the country and its people.	Ensure universal access of the digital broadcasting signal distribution network	Disaster recovery (DR) and business continuity (BC) centre established	Build and commission disaster recovery capability sites planned for the 2016/17 financial year	No performance required	No performance required	No performance required	Build and commission all disaster recovery capability sites planned for the 2016/17 financial year
SG 2: Ensure high levels of customer and stakeholder satisfaction by meeting their needs at all times.	Ensure network availability meets SLA requirements across all platforms	Weighted average availability based on product revenues	Weighted average availability based on product revenues of 99,80%	Weighted average availability based on product revenues of 99,80%	Weighted average availability based on product revenues of 99,80%	Weighted average availability based on product revenues of 99,80%	Weighted average availability based on product revenues of 99,80%
	Improve customer satisfaction	Customer service index	Baseline +5%	Complete and issue 2015/16 survey recommendation implementation plan	Complete survey recommendation monitoring tool	Completion of survey for the 2016/17 financial year	Achieve baseline +5% customer satisfaction index based on the survey completed in quarter 3

Strategic Goal	Strategic Objectives	KPI	Annual Target	Performance Targets			
(What we want to achieve)	(How we will achieve It)	(How we will measure performance)		Quarter 1: April to June 2016	Quarter 2: July to September 2016	Quarter 3: October to December 2016	Quarter 4: January to March 2017
SG 3: Drive organisational performance to improve organisational effectiveness.	Achieve a high-performance culture	Performance ratings achieved	Average employee performance score of 3,2	Performance reviews completed for all employees For quarter 1	Performance reviews completed for all employees For quarter 2	Performance reviews completed for all employees for quarter 3	Average employee performance score of 3,2 for the 2016/17 financial year
	Effective talent management	% Training Plan implemented	80% of the 2016/17 approved Training Plan implemented	20% of the 2016/17 approved training plan interventions implemented	40% of the 2016/17 approved training plan interventions implemented	60% of the 2016/17 approved training plan interventions implemented	80% of the 2016/17 approved training plan interventions implemented
SG 4: Ensure that the Company is financially sustainable.	Revenue diversification into international markets	Develop and implement Pan-African Strategy	Pan-African Business Case Completed	EXCO Approved Concept Document	Complete market research	Complete draft Pan-African business Case	Pan-African business case completed and approved by Board
	Implement ESD and SED initiatives	% of actual NPAT spent for the 2016/17 financial year	6% of actual NPAT spent for the 2016/17 financial year	Achieve 20% of budgeted ESD and SED spend	Achieve 50% of budgeted ESD and SED spend	Achieve 70% of budgeted ESD and SED spend.	Achieve 6% of actual NPAT spent for the 2016/17 financial year
	Implement effective internal control system and compliance with applicable legislation	Clean audit achieved	Clean audit achieved	No performance required	Audit action monitoring tool developed	No performance required	Complete and Issue Interim financial statements for the period ended 31 December 2016
	Maintain a healthy EBIT	Earnings before interest and tax	R5,22 million	R1,04 million	R2,08 million, year-to-date	R3,40 million, year-to-date	R5,22 million

Table 4 - 2016-2017 Annual Performance Targets



SECTION

9

FINANCIAL PLAN



9. FINANCIAL PLAN

This financial plan provides insight onto the investment and financing decisions made by SENTECH in building a financially sustainable company within the framework of the overall financial strategy. Significant efforts are being made to streamline business processes and implement initiatives that positively drive shareholder's value.

During the MTEF period, SENTECH will increase the capital expenditure funded by the Company's own funds for the expansion of the radio network and improving existing infrastructure. All capital expenditure for the Company is evaluated, based on extensive business cases that incorporate financial returns that are attractive when compared to competing investment opportunities.

The nature of the budgeted capital expenditure will position SENTECH to be able to respond to the continuously changing broadcasting industry that has been accelerated by the significant investment by government in the Digital Migration project. The Company will see significant changes in its financial position due to the completion of the DTT migration project and the capitalisation of all assets funded by government grants once the DTT is commercialised. Capitalisation of the DTT assets will represent a realistic view of the assets owned by the Company, regardless of the source of funding used for acquisition of those assets.

The company projects continued growth in revenues from ongoing operations over the MTEF period, resulting in forecasted overall profit. The growth in revenues is mainly attributable to SENTECH's Business Model. Dual illumination will continue during the applicable period as SENTECH will be running the DTT and analogue networks simultaneously ¹⁰.

The following metrics are used to monitor the financial performance of the Company.

Performance Indicator	2017	2018	2019
EBIT margin %	0.4%	0.4%	10.3%
RONA (return on net assets) %	0.3%	0.3%	8%
Net profit margin %	2%	0.5%	7%
Assets productivity	5%	5%	5%
Building reserves to fund replacement needs	R72 941	R76 588	R80 418

Table 5: Metrics to measure performance

The projected financial performance is conditional on the elimination of a number of risks that are beyond the Company's ability to mitigate, such as:

- Further delays in the launch of the commercial FTA DTT platform service;
- Uncertainty in the funding of DTT signal distribution costs during the dual-illumination period;
- The licensing of new operators by the Regulatory Authority, within its own prescribed timelines, after issuing an ITA for a Broadcasting Service Licence; and
- Additional licensing and funding of community broadcasters in the DTT dispensation.

Whilst these risks have been provided for, SENTECH will continuously review its operations to assess the level of impact these will have on the financial sustainability of the Company.

¹⁰ SENTECH has not received any allocation for these mandate-related costs for the MTEF period and a final decision on this matter is awaited

COMPREHENSIVE INCOME STATEMENT

Table 6 depicts the statement of profit or loss. SENTECH is projecting revenue of R1,198 billion and total operating expenditure of R1,193 billion from continuing operations for the 2016/17 financial year. The movement equates to an increase of 11% and 18%, year-on-year, when compared to the 2015/16 forecast for both revenue and operating expenses, respectively. Non-funding of dual illumination is contributing significantly to the decrease in profitability, as there is a shortfall of R140 million that is attributable to incremental costs of running two parallel networks.

Statement of Comprehensive Income

	Budget		Forecast			2016 vs 2017		
	2015	2016	2016	2017	2018	2019	R'000	
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	
Revenue	(999 438)	(1 108 348)	(1 077 093)	(1 197 849)	(1 257 741)	(1 320 629)	120 756	11%
Content and Multimedia Services	(937 580)	(1 032 187)	(1 015 833)	(1 131 252)	(1 187 815)	(1 247 205)	(115 419)	11%
Infrastructure Management Services	(51 241)	(54 673)	(55 123)	(60 874)	(63 918)	(67 114)	(5 751)	10%
Connectivity Services	(10 617)	(21 488)	(6 137)	(5 723)	(6 009)	(6 310)	414	(7%)
Cost Of Sales	761 564	871 018	877 003	1 029 651	1 081 134	1 005 477	152 648	17%
Gross Profit	(237 875)	(237 330)	(200 090)	(168 198)	(176 608)	(315 151)	(31 892)	(16%)
Other Income	(2 824)	-	(203)	-	-	-	203	(100%)
Operating Expenses	74 639	86 099	78 690	94 347	99 065	104 018	15 657	20%
Selling expenses	22 856	10 215	12 455	11 183	11 742	12 329	(1 272)	(10%)
Administrative expenses	73 072	43 286	43 608	57 450	60 322	63 338	13 841	32%
Adjust for dual illumination costs	(107 708)	(130 000)	(130 000)	(139 695)	(146 680)	-	(9 695)	7%
Normalised Operating Profit	(177 840)	(227 730)	(195 539)	(144 913)	(152 158)	(135 466)	(50 626)	(26%)
Incremental dual illumination costs	107 708	131 169	131 169	139 695	146 680	-	8 526	7%
Funding for dual illumination	(107 708)	(95 614)	(98 000)	-	-	-	(98 000)	(100%)
Dual illumination shortfall	-	35 555	33 169	139 695	146 680	-	106 526	321%
Total Operating Profit	(177 840)	(192 175)	(162 370)	(5 218)	(5 479)	(135 466)	(157 152)	(97%)
Finance income	(44 573)	(21 340)	(48 473)	(24 000)	(2 500)	(2 000)	(24 473)	(50%)
Finance costs	10 769	500	111	-	-	-	(111)	(100%)
Profit Before Taxation	(211 644)	(213 015)	(210 733)	(29 218)	(7 979)	(137 466)	(181 515)	(86%)
Taxation	37 080	60 640	59 333	8 181	2 234	38 490	(51 152)	(86%)
Profit or Loss for the Year	(174 563)	(152 375)	(151 400)	(21 037)	(5 745)	(98 975)	(130 363)	(86%)
Remeasurement of defined benefit	12 711	-	-	-	-	-	-	-
Income tax	(3 559)	-	-	-	-	-	-	-
Total Comprehensive Income	(165 412)	(152 375)	(151 400)	(21 037)	(5 745)	(98 975)	(130 363)	(86%)

Table 6: Detailed statement of comprehensive income

Overall, SENTECH is projecting an EBIT of R5,2 million and total earnings of R21,04 million for the 2016/2017 financial year, an earnings decrease of 97% and 86% respectively, compared to the year-end forecast for the 2015/16 financial year. The company's core revenue streams are projected to achieve a double digit growth (11%) during the 2016/2017 financial year, however, the significant decline in the ZAR/USD exchange rate has compounded the impact of lack of dual illumination funding on the Company's profitability. The EBIT is projected to increase significantly during the outer year of the MTEF, due to the effect of the ASO, which implies that SENTECH will only be running the DTT network.

The Company's profitability is declining due to a combination of the introduction of the DTT network and the unfunded dual illumination mandate. On the other hand, the Company is continuing to invest in critical technology infrastructure network to position itself to realise maximum potential, which will be introduced upon full implementation of the DTT platform. SENTECH decided not to slow down key infrastructure projects in response to non-funding of the DTT. As these costs cannot be absorbed by SENTECH without risking the long-term sustainability prospects of the Company, there are planned initiatives in order to manage the financial challenge which includes the following.

- Continue engagements with the Shareholder (DTPS) and the National Treasury in order to find funding for the costs of dual illumination,
- The Company will continue to pursue new business opportunities to address the current challenging economic climate and
- SENTECH will work with its stakeholders to explore a variety of financing options for dual illumination costs, such as identifying investments opportunities for affected stakeholders and also through debt.

Revenue

The projected 2016/17 financial year revenues are based on the analysis of the market environment and estimated earnings to be derived from new licensees. Estimates for the 2016/17 and 2017/18 financial years are based on the projected 2015/16 figures, increased by the October 2015 CPI of 4,7%.

- Content and Multimedia Services

Terrestrial broadcasting services include both digital and analogue network services and are divided between television and radio. Overall projected revenue for this service for the 2016/17 financial year is R950 million, which is 11% above the 2015/16 financial year forecast of R865 million. An explanation of the variance of 11% is detailed below.

- Television

The Television revenue projection for 2016/17 financial year is R615 million, with 8% growth, as compared to the 2015/16 financial year forecast of R568 million. This item relates mainly to analogue television, as only a few sites will be switched of in the 2016/17 financial year, when there will be no growth until the full implementation of DTT.

- Radio

The radio services include FM, MW and SW products. The radio services is projecting revenue amounting to R344 million, which represents a 16% growth when compared to the 2015/16 financial year forecast of R297 million. This is mainly attributable to FM and MW expansion programmes and network enhancements for broadcasters.

- Digital Media Services

The digital media services revenue projection of R182million for the 2016/17 financial year is mainly driven by significant demand from the market for DTH-S services. The demand is attributable to the shift in how the public consumes content.

- Infrastructure Management Services

The facility leasing revenue projection for the 2016/17 financial year is R61 million, representing a 10% increase when compared to the 2015/16 forecast, and is driven by CPI adjustments and new pipelines.

- Connectivity Services

A decline of 7%, from R6,1 million in the 2015/16 forecast to R5,6 million for the 2016/17 financial year is expected for data connectivity products, due to the refocusing of the product.

Operating Expenditure

The majority of the expenditure for the 2017 – 2019 MTEF period is based on a 4,7% CPI increase from the projected 2015/16 financial year figures. The major line items driving operating expenses are detailed below.

- Personnel Costs

Personnel costs (R424m) are for personnel remuneration that includes basic salaries, pension and medical fund contributions, the housing subsidy and other personnel costs such as recruitment, a skills development levy and education.

The costs include personnel at the SENTECH Foundation, which will initially be a division of SENTECH before it is subsequently launched as a separate entity after 2018.

- Satellite Capacity

Satellite capacity costs (R290m) are for transponder capacity used for distribution and linking of the current analogue and future digital terrestrial broadcasting services and for the DTH-S open-access platform service. Satellite capacity costs are projected to be primarily driven by exchange rate variations.

- Energy

Energy Costs (R122m) are in respect of electricity, and diesel and oil for generators. In the 2016/17 financial year, costs increased by 16% on the year-end forecast, largely driven by the projected larger-than-CPI annual Eskom tariff increase, an additional two per cent charge by municipalities and the new sites that will be switched on.

- Depreciation

The depreciation charge of R82 million is in regard of the normal depreciation on assets in use and a provision for depreciation on new capital expenditure for product and projects expansion.

- Preventative Maintenance

Preventative maintenance costs (R60m) are to support network continuity to enable delivery of broadcasting signal distribution services at SLA levels. In the 2016/17 financial year, preventative maintenance will increase by 164% on the 2016 forecast to catch up on prior maintenance, in line with the revised infrastructure maintenance plan.

- Corrective Maintenance

The corrective maintenance costs budget of R49m is to perform work required to address potential weaknesses that can impact on the organisation's overall efficiency and effectiveness.

- Travel and Subsistence

Travel and subsistence costs (R33m) have been subjected to internal cost containment measures, in line with the National Treasury instruction¹¹ and the company projects a 23% increase.

- Computer Services

Computer services (R21m) reflects an increase of R6m (40%) when compared to the 2015/16 forecast, due to the SAP system technical upgrade project implementation and the licence costs to support the related SAP products.

- Professional and Consulting Charges

Professional and consulting charges (R14m) reflect a 27% increase on the 2015/16 forecast. The expenditure increases are driven primarily by costs related to the Company's decision to intensify the investment in ESD, consulting services to improve products, and professional and consulting expenditure to develop new organisational redesign, in line with the revised corporate strategy.

Earnings before Interest and Tax (EBIT)

SENTECH is budgeting to realise an EBIT of R5,2 million for the 2016/17 financial year, resulting in a 97% (R157m) decrease on the year-end forecast for the 2015/16 financial year. The decrease in EBIT in the 2015/16 financial year forecast is mainly impacted by inflation price increases on operating expenditure, including satellite rental, energy, maintenance and consulting fees, operating expenditure and the incremental costs relating to dual illumination.

Earnings after Tax

SENTECH is budgeting to achieve R21 million in earnings after tax for the 2016/17 financial year, resulting in an 86% (R132m) decrease on the forecasted 2015/16 financial year. The projected decrease in earnings is impacted mainly by incremental costs during dual illumination and the expenditure in EBIT, as described above.

11 National Treasury Instruction 1 of 2013/14 Cost Containment Measures

STATEMENT OF FINANCIAL POSITION

	Forecast		MTEF		
	2015 R'000	2016 R'000	2017 R'000	2018 R'000	2019 R'000
ASSETS					
Non-current assets	633 461	652 197	1 081 271	1 409 726	1 854 008
Property, plant and equipment	633 461	652 197	1 081 271	1 409 726	1 854 008
Current assets	1 085 125	1 072 863	577 288	256 577	(89 729)
Inventory	62 066	68 339	47 838	47 838	47 838
Tax receivables	72 918	-	-	-	-
Trade and other receivables	60 438	36 854	22 112	22 112	25 112
Cash and cash equivalents	889 704	967 670	507 338	186 627	(162 679)
Total assets	1 718 586	1 725 060	1 658 559	1 666 303	1 764 279
EQUITY AND LIABILITIES					
Capital and reserves	1 331 615	1 492 609	1 513 646	1 519 390	1 618 366
Share capital and premium	586 655	586 655	586 655	586 655	586 655
Retained earnings	744 960	905 954	926 991	932 735	1 031 711
Non-current liabilities	56 489				
Deferred taxation	56 489	56 489	56 489	56 489	56 489
Current liabilities	330 482	175 961	88 424	90 424	89 424
Trade and other payables	154 327	125 961	88 424	90 424	89 424
Government grant	176 154	50 000	-	-	-
Total liabilities	386 971	232 451	144 913	146 913	145 913
Total equity and liabilities	1 718 586	1 725 060	1 658 559	1 666 303	1 764 279

Table 7: Statement of financial position

Notes:

- Due to non-funding of the dual illumination project, SENTECH reserves will be depleted after 2018;
- Deferred income (government grants) will be depleted in the 2016/17 financial year because of the completion of the DTT and disaster recovery projects, thus clearing the cash balance; and
- Property, plant and equipment will increase significantly during the MTEF period as part of the programme to stabilise the network, and investment in technology and infrastructure to improve efficiencies and to meet internal requirements.

CASH FLOW STATEMENT

	Forecast		MTEF		
	2014/15	2015/16	2016/17	2017/18	2018/19
	R'000	R'000	R'000	R'000	R'000
Cash flow from operating activities	131 710	230 032	91 684	84 333	175 393
Cash generated from operations	126 552	168 835	75 865	84 067	211 884
Dividends received	16 530	19 183	6 000	500	500
Finance income received	28 043	29 291	18 000	2 000	1 500
Finance costs	(1 660)	(83)	-	-	-
Taxation paid	(37 755)	12 807	(8 181)	(2 234)	(38 490)
Cash flow from investing activities	(314 285)	(250 757)	(552 016)	(405 043)	(524 699)
Property, plant and equipment acquired	(314 579)	(251 899)	(552 016)	(405 043)	(524 699)
Proceeds from disposal of assets	294	1 142	-	-	-
Cash flow from financing activities	(5 151)	98 691	-	-	-
Government grant received	121 759	95 614	-	53 000	60 000
Repayment of financial liabilities/grants utilised	(15 816)	-	-	(53 000)	(60 000)
Interest on government grant	7 825	3 077	-	-	-
Settlement of post-retirement pension benefit	(118 919)	-	-	-	-
Net increase/(decrease) in cash	(187 726)	77 966	(460 332)	(320 710)	(349 306)
Cash and cash equivalents at beginning of period	1 077 424	889 704	967 670	507 338	186 627
Cash and cash equivalents at end of period	889 698	967 670	507 338	186 627	(162 678)
Notes to the cash flow statement					
1. Cash generated from operations					
Profit per the income statement	177 840	175 240	5 218	5 479	135 466
Adjustments for non-cash flow items					
Depreciation and amortisation	71 297	70 312	72 941	76 588	80 418
Loss on disposal of property, plant and equipment	4 179	2 907	-	-	-
Dual illumination	(107 708)	(95 614)	-	-	-
Post-retirement obligation settlement surplus	(3 234)	-	-	-	-
(Decrease)/increase in provisions	(1 636)	-	-	-	-
Gain on asset revaluation	(42)	-	-	-	-
Cash generated from operations before working capital changes	140 696	152 846	78 159	82 067	215 884
Changes in working capital					
Inventories	9 600	(62 066)	20 501	-	-
Trade and other receivables	(20 900)	(61 579)	14 742	-	(3 000)
Trade and other payables	(2 844)	139 634	(37 537)	2 000	(1 000)
	126 552	168 835	75 865	84 067	211 884

Table 8 - Cash Flow Statement

Capital Expenditure Plan

SENTECH is mandated by the Shareholder and various statutes and regulations to ensure that its BSD and related ICT infrastructure is accessible, robust, reliable, affordable and secure, to meet the needs of the country and its people. SENTECH is required to retain sufficient financial resources to ensure that it can independently, and without recourse to the National Treasury, meet the demands of new and existing customers in respect of new services and expansion of existing services.

Table 9 depicts the budget for capital expenditure for the 2017-2019 MTEF period, with a significant bias towards revenue-generating projects. SENTECH has budgeted a total of R502m for capital expenditure in the 2016/17 financial year, from internal funding. The SENTECH CAPEX budget is informed by the strategic direction set out in Section 6.

Source of funding	2015/16 (R'000)	2016/17 (R'000)	2017/18 (R'000)	2018/19 (R'000)
Internal funds	300 000	502 016	405 043	524 699
External funds	80 822	-	53 000	60 000
Total	380 822	502 016	458 043	584 699

Table 9: Capital expenditure budget

SENTECH will experience a significant decline in cash resources due to the investment in CAPEX, as indicated below.

	2015/16 (R' 000)2016	2016/17 (R' 000)	2017/18 (R' 000)	2018/19 (R'000)
Cash and cash equivalents (own)	967 670	507 338	186 628	(162 678)

Table 10: Capital expenditure: own funds

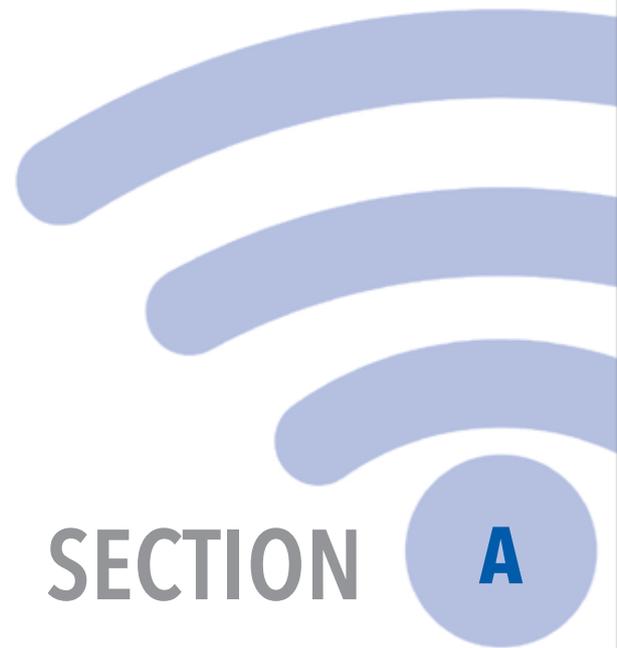
CAPEX was planned to:

- Increase the scope of operations and, as a result, improve the base of profitable revenues;
- Improve internal efficiencies; and
- Transform business capabilities.

Borrowing Plans

SENTECH's financial strategy highlights the appropriateness of a suitable capital structure that incorporates a reasonable amount of borrowing, without placing a significant burden on the financial performance of the Company. The Company has provided for a reasonable amount of short-term borrowings, which will increase to an amount of R163 million during the 2017 – 2019 MTEF period, as the financing requirements identified are beyond the capacity of internally-generated resources. The borrowing is primarily of a short-term nature and a reflection of the lack of funding for the dual illumination incremental costs that will be borne by SENTECH until the government sources the required finances.

The Company will engage the Shareholder (DTPS) and the National Treasury to find most suitable and affordable mechanisms to raise the required capital for the Company during the MTEF period.



SECTION

A

GOVERNANCE STRUCTURES



SUPPORTING PLANS - ANNEXURES

ANNEXURE A

A. GOVERNANCE STRUCTURES

1. OVERVIEW

In order to achieve its national strategic objectives, SENTECH has built sound corporate governance structures and processes in compliance with the SENTECH Act, the PFMA and Treasury Regulations, the Companies Act, the MOI and the Government Protocol on Corporate Governance, which are regularly reviewed in line with changes in the regulatory and business environment. SENTECH further supports and endorses the guiding principles of the South African Code of Corporate Practices and Conduct as included in the King Report (King III).

2. OWNERSHIP

As an SOC, SENTECH is required to comply with the PFMA and Treasury Regulations. In terms of the PFMA, SENTECH is classified as a Schedule 3B National Public Enterprise, reporting to the Minister of Telecommunications and Postal Services.

The Minister, who is the shareholder representative of SENTECH on behalf of the State, is defined as the 'Executive Authority' and the Board of Directors is defined as the 'Accounting Authority'.

3. ROLE AND COMPOSITION OF THE BOARD

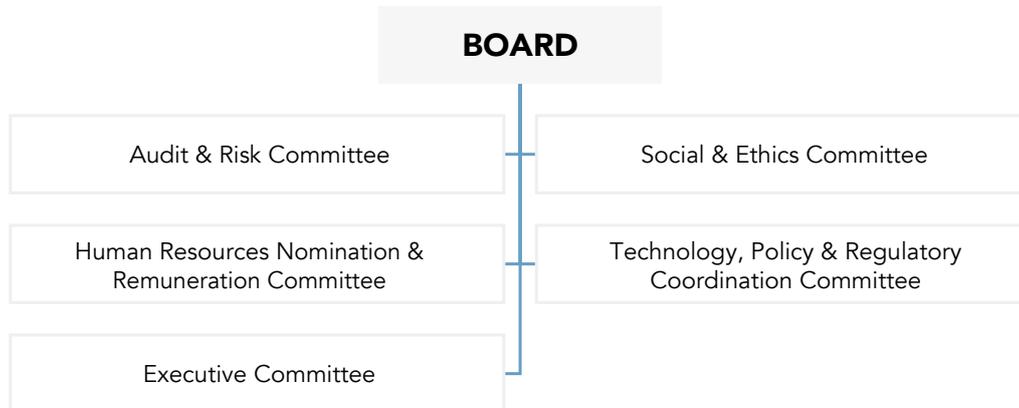
3.1 Role of the Board

The Board has adopted a charter that 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 MOI, Shareholder's Compact and applicable legislation, its main functions and responsibilities are as follows:

- Give strategic direction to the Company, in line with the government's objectives, and ensure that SENTECH remains a sustainable and viable business. The strategic objectives are set out in the three-year Corporate Plan submitted to the Department of Telecommunications and Postal Services, 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, the SENTECH Amendment, the Shareholder's Compact, the Companies Act, the PFMA and other applicable legislation;
- Monitor and evaluate the implementation by executive management of the Board's strategies and performance objectives, as set out in the Corporate Plan and Shareholder's Compact;
- Ensure that the Group is managed effectively, in accordance with corporate governance best practice and the highest ethical standards;
- Own responsibility for the risk management process, including the system of internal controls, and ensure 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 the Chief Executive Officer, the committees of the Board and the chairpersons of the committees.

3.2 Structure of the Board

In terms of the SENTECH Amendment Act, the Board shall consist of three executive directors and at least four non-executive directors.



The three executive directors shall be the persons performing the functions of Chief Executive Officer, Chief Operations Officer and Chief Financial Officer. The Minister, on recommendation by the Board, appoints the executive directors.

The Board has five standing committees and one ad hoc committee:

- Audit and Risk;
- Social and Ethics;
- Human Resources Nomination and Remunerations;
- Technology, Policy and Regulatory Coordination;
- DTT ad hoc Committee; and
- Executive Committee.

All committees have adopted terms of references that are reviewed annually and as and when necessary to ensure that they continue to be relevant and are also in compliance with applicable legislation.

3.2.1 Audit and Risk Committee

The ARC is constituted in terms of Sections 76 and 77 of the PFMA and Treasury Regulations 27.1.1. The purpose of the committee is, amongst others, to:

- Oversee integrated reporting;
- Review the effectiveness of the systems for internal control;
- Review and approve the annual internal audit plan;
- Review the effectiveness of the internal audit process;
- Oversee the risk management, including but not limited to oversight on the development of the Company's risk framework and strategy;
- Recommend the appointment of the external auditor and oversee the external audit process;
- Review and recommend the annual financial statements and accompanying reports to the Board for approval;

- Ensure compliance with PFMA and Treasury Regulations, and other legislation with respect to matters relating to the overall management of risk within the Company; and
- 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.

3.2.2 Social and Ethics Committee

The committee has been created to fulfill the obligations of the Company with respect to section 72 (4) of the Companies Act. The role of the committee is to assist the Board:

- To monitor and assess SENTECH's compliance with regards 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 five elements of the ICTB-BBEE 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, processes relative to the business imperative and other best practices concerning sustainability;
- To monitor the quality of stakeholder relations with particular emphasis on customers, employees, suppliers, communities and government relationships;
- To monitor and review SENTECH's corporate social investment activities relative to the business imperative and brand, and the social upliftment and developments that these provide;
- To monitor SENTECH's policies and procedures with regard to equality and prevention of unfair discrimination; and
- To review reports, surveys, media coverage and similar information concerning SENTECH's reputation and standing concerning sustainability practices, and employee and customer relationships.

3.2.3 Human Resources Nomination and Remunerations Committee

The committee is responsible for assisting the Board in:

- 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 and the extent to which the candidate would be a desirable addition to the Board and any Board committee;
- Reviewing the CEO, CFO, COO and executive managers' succession and development plans, to maintain an appropriate balance of skills, experience and expertise;
- Identifying 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;

- Reviewing and recommending to the Board the relevant criteria necessary to measure the performance of executive management in discharging their functions and responsibilities;
- Establishing 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;
- Ensuring that the performance of members of the Board is reviewed annually; and
- Ensuring that fair competitive reward strategies and programmes are in place to facilitate recruitment, motivation and retention of high-performance staff at all levels, in support of realising corporate objectives and to safeguard stakeholder interests.

3.2.4 Technology, Policy and Regulatory Coordination Committee

The committee has been created to broaden the scope of the functions of the Technology Committee and to ensure coordination between policy, regulation and technology in the development and implementation of the Company's overall strategy. The committee's responsibilities are to:

- Ensure that SENTECH's Technology strategy and its development and implementation are aligned with the business objectives;
- Ensure that the IT strategy contributes to good corporate governance;
- Understand global developmental trends in policy and regulatory environments and to ensure that SENTECH's development strategy takes these into consideration;
- Ensure that SENTECH's technology strategies are aligned with trends in the communication industry;
- Ensure that strategic scanning of technology and service trends and developments within the communication industry are carried out on a regular basis; and
- Oversee the technology and partner selection processes to ensure that good governance is embodied in such processes.

3.2.5 DTT ad hoc Committee

The National Digital Migration project, which incorporates SENTECH's DTT mandate, is complex and requires contributions from a number of stakeholders. There is currently no single committee of the Board that deals with all the issues at once, in respect of the broader internal and external implications of the DTT project. The Board recognises the significance of the risks faced by the company in DTT and, as a result, the Board has created this ad hoc committee to consolidate the issues relevant to the successful project delivery and operational commercialisation of the DTT project. It is noted, however, that the mandate of this committee does not take over any responsibilities from other committees of the Board, so that, whilst it will have a direct reporting line to the Board, it will also feed relevant matters to other, appropriate committees.

3.2.6 Executive Committee

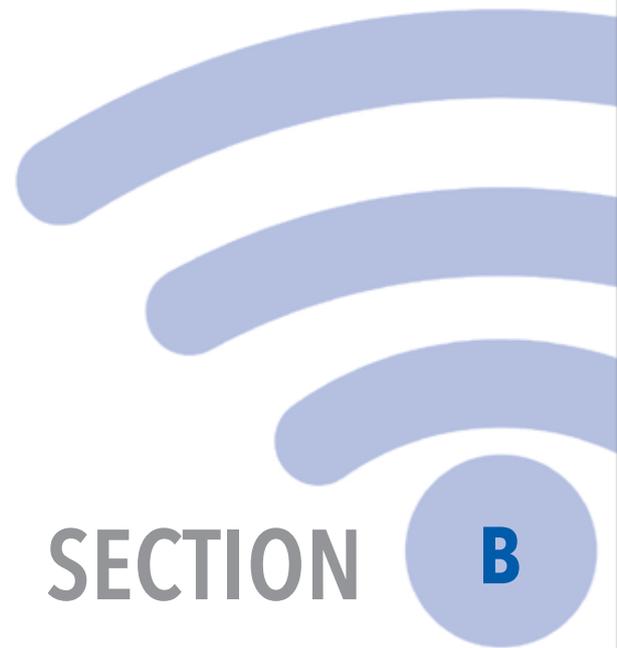
The Executive Committee is constituted in terms of the SENTECH Amendment Act and its Articles of Association, which provide that the day-to-day affairs of the Company shall be managed by the Executive Committee, which consists of the executive directors of the Board, consisting of:

- The Chief Executive Officer;
- The Chief Operating Officer; and
- The Chief Financial Officer.

The CEO chairs the committee. All executives attend Executive Committee meetings by permanent invitation.

4. DIRECTORS' INFORMATION

Name	Position	Age	Race	Gender	Qualifications	Technical experience	Years of service	Industry experience	Occupation	Experience	Nationality
Mr Magatho Mello	Chairperson	46	Black	Male	MSc, BSc Electrical Engineering	ICT, renewable energy, finance, business development	10 Months	Yes	Executive, Enterprise Unit	Over 17 years' experience	SA
Mr Mlamli Booi	Chief Executive Officer	52	Black	Male	MSc Electrical Engineering	ICT	2 Months	Yes	CEO	Over 25 years	SA
Mr Kganki Matabane	Chief Operations Officer	44	Black	Male	BTech Cost and Management Accounting, Post Graduate Diploma in Business Administration and Leadership Development Programme	Operations and finance	3 years, 7 Months	Yes	COO	Over 20 years' experience	SA
Ms J Huntley	Non-executive Director	52	Black	Female	LLB, BProc, attorney	Law: mining banking, commercial, corporate, telecommunications and housing policy development	2 years, 1 month	Yes	Attorney & MD at MHA Inc	Over 20 years' experience	SA
Ms Xoliswa Daku	Non-executive Director	40	Black	Female	LLM, BProc, MBA, Dip Legal Practice, MDP Post Grad, Project Management	Communications, investments, business development & empowerment, enterprise development and property development	2 years, 1 month	Yes			SA
Ms Ntombizodwa Mbele	Non-executive Director	43	Black	Female	CA (SA), MAP (WBS), EDP (Stellenbosch Business School), International Certificate in Treasury Management (ACT,UK)	Project, finance, treasury and risk management, Financial management, auditing strategy development and implementation	2 years, 1 month	Yes	Chartered accountant, consultant	Over 17 years professional and commercial experience	SA
Mr Lumko Mtimde	Non-executive Director	47	Black	Male	BSc (Chem & Physio), PG Dip in Telecoms & Info Policy	Finance, policy making and regulation, communication, media and broadcasting, ICT	10 months	Yes	Consultant: media, broadcasting, ICT policy and regulatory Expert	Over 25 years' experience	SA
Mr Seth Radebe	Non-executive Director	41	Black	Male	CA (SA), PG Dip in Accountancy, BComm (Hons) BComm	Accounting, internal audit, business advisory, training and development, taxation	10 months	Yes	Chartered accountant, consultant	19 years' experience	SA



SECTION

B

RISK MANAGEMENT PLAN



ANNEXURE B

B. RISK MANAGEMENT PLAN

1. INTRODUCTION

The Board has delegated the task of monitoring the risk management process to the ARC. EXCO is responsible for ensuring that all significant risks facing the Company are managed in accordance with the Risk Management Policy and Framework.

Risk Management is an important business driver; there is an imperative for management to understand risks taken in the pursuit of business objectives and the increase in stakeholder value. Management endeavours to understand the strategic risks associated with every strategic choice and decision it makes, as well as the overall risks embedded in the key business processes and activities. Management then comes up with appropriate risk mitigation responses.

The Board believes that business risks should be managed on an enterprise-wide basis. This approach will enable the Company to consider the potential impact of all types of risks, including their interactions with key business processes, activities, products, services and stakeholders, in an integrated manner.

The Board will also ensure that risk management is at the centre of the executive agenda and embedded in the everyday management of the business. This governance process requires effective review and monitoring mechanisms to be in place at all times. To this end, the Board has formally delegated the risk management to the Executive Committee and the executive team. The Company's risk profile is reported formally to the Board and discussed at the Board's quarterly meetings. This allows the Board and executive to review the key potential risks facing the Company, and the effectiveness of the risk mitigation actions advanced by management.

The implementation of risk management by the Company is considered a core strategic initiative and an enabler to achieve business objectives and improve organisational performance and effectiveness. It will also enable the Company to enhance shareholder value and gain competitive advantage, while concurrently creating a risk-aware culture across the organisation. The Company faces a plethora of inherent risks common to the ICT industry, within which it falls. Seven elements of uncertainty have been identified, as per the graphic below.

Critical 5 Year Uncertainties impacting SENTECH business	1. The depth and length of the economic downturn and its implications
	2. Receiving funding support from the shareholder
	3. Government regulatory policy changes and emphasis
	4. Consolidation within the radio industry
	5. Launch of DTT and implications thereof
	6. Skills availability to meet technology evolution
	7. Technology breakthroughs and implications for SENTECH

Uncertainties from number five to seven were already in the strategic risk register for 2015/16. Risk response strategies for two uncertainties highlighted on the slide were determined and are summarised in the table below.

Non-regret strategic actions	Extent covered in strategy	Comments
Strengthen stakeholder management (critical)		Stakeholder management is included in the current strategy but requires strengthening with advocacy and lobbying capability to secure critical SENTECH positions in the industry.
Strengthened and aggressive sales force		This is an area of concern and needs attention in the SENTECH strategy. This should be rolled out ensuring that the capability to deliver is in place to meet customer requirements.
Talent management		This area has been identified in the strategy and has been on the agenda for some time, but the impact is yet to be felt. In addition, a clear value proposition has to be incorporated into the talent management efforts.
Cost optimisation and cost management		This area is considered a 'business as usual' requirement at the moment. It should be raised to be a strategic imperative.
New markets and products (underpinned by innovation)		This area is covered well in current strategic thinking at SENTECH.
Customer retention actions		This area has been considered in SENTECH's strategy but requires strengthening. May consider variations in contracting approach, etc.

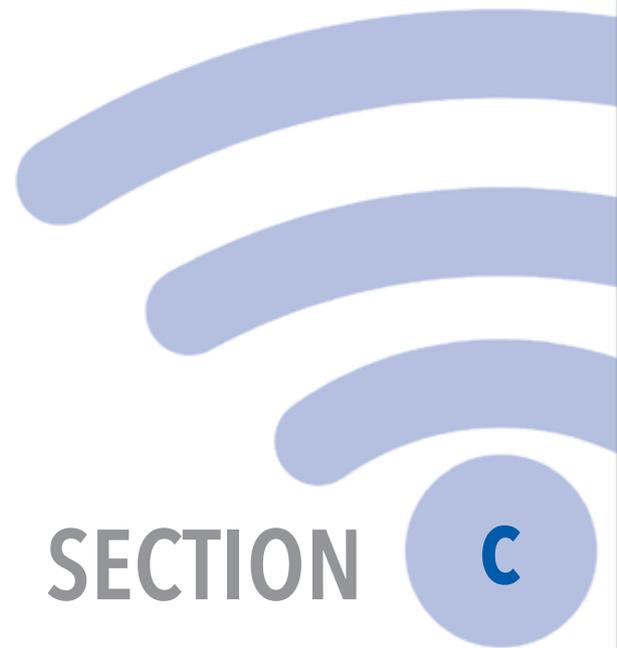
Having taken this key step in risk management planning, there remained the strategic risks identified in the previous financial year as part of the MTEF planning process. Some of these risks have been reduced to a level below 'critical' or 'red'. Others (six risks) still remain residually high and they are included in the revised risk register. As a way forward to managing all the strategic risks, the risk response strategies from the scenario planning will be managed, together with other corporate plan activities. The revised strategic risk register will also be managed and reported on during risk reporting processes. The revised risk register was considered by executive management and actions thereto will be tracked and monitored. The significant strategic risks embedded in the strategy detailed in this corporate plan are listed in the table below.

Top Strategic Risks

NO	Risk description	Explanation of risk and factors contributing to the risk	Current risk control	Residual Risk Level	Risk Mitigation Strategy	Timeline
1	Ageing infrastructure	Delayed analogue television network switch-off.	SENTECH has deployed a national DTT network to replace analogue infrastructure and has also developed an ASO plan to spearhead the migration process.	High	SENTECH to engage DoC, DTPS and other key stakeholders to expedite commercialisation of DTT services and ASO.	End of Q1
		Technology obsolescence.	Solution replacement programmes are in place for ATV, FM, MW and VSAT.		Develop technology refresh/replacement plan for Short Wave technology	End of Q3
2	Unavailability of reliable energy to run efficient operations	Power supply interruptions due to Eskom system failures and load shedding.	Standby power plants deployed at critical infrastructure sites. Monitoring of load shedding schedules.		Engage broadcasters regarding backup power expansion strategy to get buy-in. Implement power backup and a new energy management strategy.	End of Q2
3	Lack of a dynamic workforce that can take SENTECH into the future	The current skills are appropriate for the current environment, yet may not be completely appropriate and suitable for the future.	Talent management policy in place		In addition to the talent management policy, a clear value proposition has to be incorporated into the talent management efforts.	End May 2016
4		Unsuitable policy and regulatory framework that threatens SENTECH's business sustainability, including ICASA Final Radio Frequency Spectrum Assignment Plan	SENTECH participated in the interventions established by the Shareholder, such as the ICT Policy Review and the National Broadband Network strategy and implementation plan. The SENTECH CEO was a member of the ICT policy review.		SENTECH will continue to participate in any interventions established by the Shareholder. SENTECH continues to engage ICASA with regards to ensuring that the Regulator notes the impact of the final frequency plan on broadcasters and signal distribution.	End June 2016
5	Complexity of the DTT migration	Complexity of the DTT commercialisation.	Sourced external expert to advise on SENTECH approach and plan for the DTT migration		SENTECH to engage the stakeholders on DTT migration and collaborate with external experts with experience in ASO & DSO.	Ongoing
		Alignment of the DTT migration plans to SKA legislation.	ASO plan developed and approved by the Board		Communicate and Implement the ASO plan	As per ASO plan
		Management of cross-border interference.	The Company has conducted cross-border interference analysis as part of the DTT national task team initiatives to assist the ministry in crafting bilateral agreements with neighbouring countries.		Bilateral agreements to be signed between the Minister of Communications and with neighbouring countries' counterparts in order to agree on the process of managing cross-border interference. The bilateral engagements are currently being led by the DoC and SENTECH is part of the technical team.	Ongoing

NO	Risk description	Explanation of risk and factors contributing to the risk	Current risk control	Residual Risk Level	Risk Mitigation Strategy	Timeline
5	Complexity of the DTT migration	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.	Agreements on new tariffs signed with three broadcasters. Diversification strategies, e.g. introduction on OTT. Quantified that the DTTS that are fully depleted and submitted to committees for further engagement with the Shareholder.		SENTECH to continue to participate in the interventions established by the Shareholder to expedite the launch of commercial DTT.	Ongoing
		SENTECH is running both digital and analogue networks, resulting in dual illumination costs that cannot be recovered from the customers and there is significant discomfort from the National Treasury to continue funding these costs. Further delays in ASO may result in reduced profitability for the Company if these costs are not recovered through the national budget process.	Dual illumination costs obtained for 2015/16		SENTECH to engage with the Shareholder decisions pertaining to ASO. SENTECH to engage the National Treasury to highlight the necessity for government to fund these costs until ASO in order to protect its investment, highlighting various alternatives to ASO to minimise the costs to the national budget.	Ongoing
6	Sustainability of suppliers and service providers of mission-critical equipment and services	SENTECH relies on external solution manufacturers and service providers operating in a volatile global economic environment and this could impact the long-term sustainability of technology partners and the ability to remain in business.	Enforcing the contract terms and conditions and use of alternative suppliers, where viable. Ongoing monitoring of supplier performance.		Annual risk assessments of technology partners will be conducted to assess their long-term sustainability and to manage risk exposure to service delivery.	Annually
7	Potential for cyber-attacks	Cyber-attacks are on the rise globally.	IT General Controls assessed and a plan developed for closing gaps, e.g. back-ups done, access control and password procedures implemented, etc. Approved cyber security strategy in place (linked to existing Security Strategy).		Implement the approved Cyber Security strategy	End June 2016
8	Inadequate physical security	Inadequate physical security measures in some areas.	Approved Physical Security strategy that is linked with the Cyber Security strategy is in place		Scope and implement the security plan.	As per security plan

NO	Risk description	Explanation of risk and factors contributing to the risk	Current risk control	Residual Risk Level	Risk Mitigation Strategy	Timeline
9	Foreign exchange	SENTECH is exposed to foreign exchange rates fluctuations as a significant amount of the Company's operational (e.g. satellite leasing cost) and capital costs are denominated in foreign currencies. Revenue generated in foreign currency is not significant enough to constitute a natural hedge.	SENTECH takes forward contracts as part of standard practice on foreign currency-dominated supplies to control the risk of unfavourable exchange volatility. Natural hedging is aggressively pursued to apply SENTECH's own foreign currency reserves to discharge foreign supplier commitments.		SENTECH will closely monitor the foreign-denominated cash resources (receivables, foreign currency accounts and FECs) to ensure that they cover a minimum set threshold of monthly-budgeted foreign expenditures. The foreign debtors will be limited to a maximum of two months' foreign currency-denominated revenues. The Company is continuously seeking to grow foreign currency-denominated revenues to improve the natural hedge position.	Ongoing



SECTION

C

FRAUD PREVENTION PLAN



ANNEXURE C

C. FRAUD PREVENTION PLAN

I. Abbreviations

Throughout this document, unless otherwise stated, the terms below shall bear the following meanings:

AFACC	Anti-Fraud and Anti-Corruption Committee
Board	Board of Directors of SENTECH SOC Ltd
EXCO	Chief Executive Officer, Chief Operating Officer and Chief Financial Officer
Code	Code of Ethics and Business Conduct Policy of June 2009 (BS-HR-POL 11)
HR	Human Resources
PRECCA	Prevention and Combating of Corruption Activities Act No. 12 of 2004
PDA	Protected Disclosure Act No. 26 of 2000
PFMA	Public Finance Management Act No 1 of 1999
Plan	Fraud and Corruption Prevention Plan
SAPS	South African Police Service

Fraud and Corruption includes, but is not limited to the following:

II. Definition of terms

- Offences in respect of corrupt activities, as defined in the Prevention and Combating of Corrupt Activities Act, 2004, include the general offence of corruption that could be summarised as directly or indirectly accepting or agreeing to accept any gratification from another person, giving or agreeing to give any other person any gratification to influence that person directly or indirectly to exercise his powers, duties or legal obligations in a manner that is or amounts to:
 - Illegal, dishonest, unauthorised, incomplete or biased;
 - Misuse or selling of information or material acquired;
 - Abuse of a position of authority;
 - Breach of trust;
 - Violation of a legal duty or set of rules;
 - Designed to achieve an unjustified result;
 - Any other unauthorised or improper inducement to do or not to do anything, conflicts of interests and other unethical conduct, e.g.
 - o Interfering with witnesses in relation to an official issue, whether it be a civil, criminal or disciplinary matter;
 - o Intentional interference with, hindering or obstruction of, investigation of an offence;
- Other offences relating to corrupt activities, namely:
 - o Accessory to or after an offence;
 - o Attempt, conspiracy and inducing another person to commit an offence; and
 - o Failure to report corrupt activities.

The following terms shall be understood to carry the meanings as defined below:

- Fraud is an unlawful and intentional making of a misrepresentation, resulting in actual or potential prejudice to another;
- Corruption is an abuse of entrusted power for private gain;
- Theft is an unlawful and intentional misappropriation of another's property, or property that is in his/her lawful possession, with the intention to permanently deprive the owner of its rights;
- Embezzlement is an act of dishonestly withholding assets for the purpose of conversion (theft) of such assets, by one or more persons to whom the assets were entrusted, either to be held or to be used for specific purposes;
- Bribery is an act of giving money, goods or other forms of recompense to a recipient in exchange for an alteration of their behaviour (to the benefit or interest of the giver) that the recipient would otherwise not alter;
- Harassment covers a wide range of behaviours of an offensive nature. It is commonly understood as behaviour intended to disturb or upset, and it is characteristically repetitive;
- Sexual harassment refers to persistent and unwanted sexual advances, typically in the workplace, where the consequences of refusing are potentially disadvantageous to the victim;
- Intimidation is intentional behaviour that 'would cause a person of ordinary sensibilities' fear of injury or harm. It is not necessary to prove that the behaviour was so violent as to cause terror or that the victim was actually frightened. It is behaviour that frightens someone into doing or not doing something, by means of threats or creating a feeling of fear and inadequacy in another person; and
- Blackmail is an act, often a crime, involving unjustified threats to make a gain or cause loss to another unless a demand is met. Essentially, it is coercion involving threats of physical harm, threat of criminal prosecution, or threats for the purposes of taking the person's money or property and includes threats made unless a certain demand is met accordingly.

III. eTOM Process Fraud Management

An extended description, as per eTOM, is as follows:

Fraud Management processes define fraud management corporate policies, guidelines, best practices and control procedures to be deployed to ensure fraud minimisation within the enterprise. Fraud management deals with enterprise exposure to loss of value or reputation through fraudulent activity, and covers financial, intellectual property, identity theft and other aspects.

Proactive fraud management processes identify areas of fraud risk within the enterprise (including internal and external sources of risk), and monitor industry trends and best practice approaches to ensure that the enterprise remains at the forefront of fraud management minimisation. The processes support the categorisation and prioritisation of areas of fraud risk.

These processes define the policies, guidelines, practices and procedures to be followed and provide assistance to the enterprise operational areas to deploy appropriate procedures and monitoring capabilities. Reactive fraud management processes deal with the establishment of tools and data collection capabilities to capture details of operational activity, analysis of monitored activity to detect potential fraudulent concerns, forensic investigations to determine whether fraud has occurred and the perpetrators of the fraud. These processes strongly interact with security management and have common elements of information services and communications.

Fraud processes are implemented at many levels of the enterprise and at the user, system/network and other levels. The actual fraud monitoring, control and management procedures and facilities are embedded in the operational processes defined and deployed within the operations process area. The audit management processes provide assurance that the necessary control structures are in place, and provide an estimate of the extent to which the procedures are followed and are effective.

1. INTRODUCTION

In recent years, fraud risk governance has become recognised as a key component of good corporate governance. It is thus good business practice to implement anti-fraud and anti-corruption measures. The advantages of working in an ethical environment free of fraud and corruption are many and include:

- Enhanced staff morale;
- Job satisfaction;
- The ability to meet commitments; and
- Improved profitability.

Furthermore, SENTECH, as a State-owned company, is obliged by Treasury Regulation 27.2.1 to develop and implement a Fraud Prevention Plan as part of the entity's enterprise risk management strategy.

2. POLICY STANCE AND STRATEGIC APPROACH

SENTECH assumes a zero-tolerance stance towards all forms of fraudulent and corrupt activities and is committed to discouraging and preventing such behavior in the performance of its business operations.

SENTECH will implement systems and processes that give assurance that the potential for fraud and corruption across all business areas is minimised. Systems and processes that provide the assurance that those actual incidences of fraud and corruption are detected and responded to shall also be implemented. This plan will be reviewed on an annual basis.

3. LEGISLATIVE FRAMEWORK

In addition to the aforementioned legislated requirement for a Fraud Prevention Plan, the following three specific pieces of legislation also govern aspects of fraud and corruption for South African entities.

3.1 The Protection of Personal Information Act, 2013

3.2 The Prevention and Combating of Corrupt Activities Act, Section 34, obliges people who hold positions of authority to report any offence of theft, fraud, extortion, forgery or uttering a forged document, involving an amount of R100 000 or more, to any police official.

3.3 The Protected Disclosure Act was enacted to protect employees who make protected disclosure, which is defined by the act as any disclosure of information regarding any conduct of an employer, or an employee of that employer, made by any employee who has reason to believe that the information concerned shows or tends to show one or more of the following:

- That a criminal offence has been committed, is being committed or is likely to be committed;
- That a person has failed, is failing or is likely to fail to comply with any legal obligation to which that person is subject;
- That a miscarriage of justice has occurred, is occurring or is likely to occur;

- That the health or safety of an individual has been, is being or is likely to be endangered;
- That the environment has been, is being or is likely to be damaged;
- Unfair discrimination, as contemplated in the Promotion of Equality and Prevention of Unfair Discrimination Act, 2000 (Act No, 4 of 2000); and
- That any matter referred to in the above points has been, is being or is likely to be deliberately concealed.

4. FRAUD SCHEMES

Fraud manifests itself in the following areas, amongst others:

- Systems and Control issues: where a process or system exists that is prone to abuse by employees, the public or other stakeholders, e.g.
 - o Biased evaluation of bids;
 - o Procurement fraud, e.g. collusion between employees and suppliers;
 - o Contractors 'fronting';
 - o Leaking of confidential information to third parties;
 - o Abuse of an expense claim system;
 - o Overstated leave entitlement;
 - o Appointment of candidates without pre-employment checks such as qualifications, credit history and criminal records; and
 - o 'Ghost' employees.
- Financial issues: i.e. where individuals or entities have fraudulently obtained money from SENTECH, e.g.
 - o Overpayment of salaries, e.g. in cases of unprocessed, unpaid leave;
 - o Suppliers invoicing for work not done or for poor quality services;
 - o Duplicate payment of invoices, e.g. an invoice paid more than once;
 - o Payment made to an incorrect bank account; and
 - o Payment made for invalid claims or claiming for invalid expenses.
- Equipment and resource issues: i.e. where SENTECH's equipment is utilised for personal benefit or stolen, e.g.
 - o Theft of assets;
 - o Deliberate destruction of property;
 - o Employees leaving SENTECH without returning company assets; and
 - o Abuse of assets.
- Other issues: i.e. activities undertaken by employees of SENTECH that may be against policies or fall below established ethical standards, e.g.
 - o Conflict of interest; and
 - o Favouritism.

5. FRAMEWORK FOR FRAUD AND CORRUPTION RESPONSE FRAMEWORK

SENTECH's framework for fraud and corruption prevention and response is depicted in the diagram below.

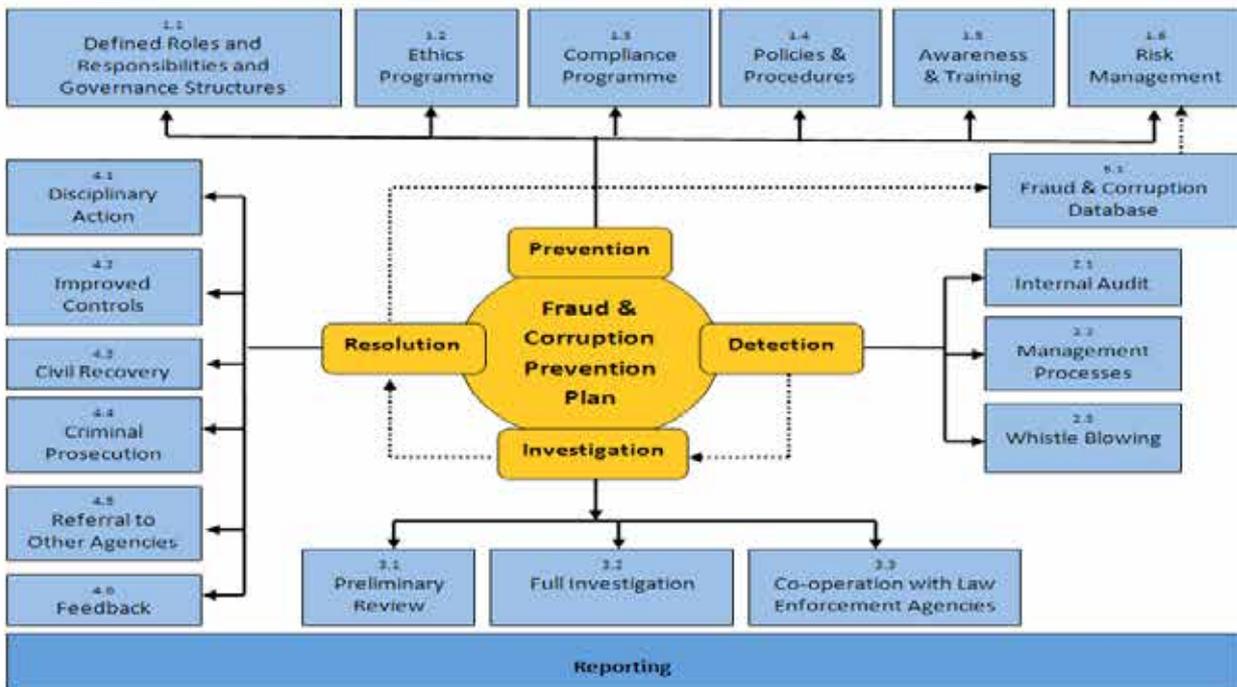


Diagram 1

The components of the framework are discussed below:

5.1 Prevention

5.1.1 Defined Roles and Responsibilities, and Governance Structures

5.1.1.1 Board

The Board is ultimately accountable for the performance and affairs of SENTECH. The Board must therefore retain full and effective control over SENTECH and must give strategic direction to the management of SENTECH. The Board is also responsible for ensuring compliance with all relevant laws, regulations and codes.

5.1.1.2 Audit and Risk Committee

The ARC is delegated oversight, by the Board, over the Fraud Prevention Plan. Further, this committee assists management in discharging its responsibilities of safeguarding SENTECH's assets, maintaining adequate accounting records and effective systems of internal control, overseeing the financial reporting process and monitoring compliance with SENTECH's policies and legal requirements.

5.1.1.3 Social and Ethics Committee

The Social and Ethics Committee provides oversight on those matters that have implications for social and ethics issues. To this end, the Fraud Prevention plan is of interest to the Committee.

5.1.1.4 Anti-Fraud and Anti-Corruption Committee (AFACC)

A management-level structure, known as the AFACC (comprised of managers from across the various business functions), has been established to oversee the implementation of this plan. In the interest of synergy and cohesion between the different management structures, the role and the function of the AFACC are fulfilled by the ERMCO, which is a management structure constituted along similar lines as the AFACC. The ERMCO is governed by formal and approved terms of reference and members of the committee are appointed formally in writing.

The responsibilities of the ERMCO in respect to fraud and corruption prevention are to:

- Facilitate and coordinate implementation of tasks and responsibilities detailed in the Fraud and Corruption Prevention Plan;
- Evaluate business policies and processes with the aim of ensuring that fraud and corruption risks are identified and mitigated;
- Develop implementation plans for developed policies;
- Set targets and reporting dates;
- Review the fraud risk register;
- Evaluate the effectiveness of the fraud prevention awareness programme in promoting fraud awareness and monitor implementation;
- Monitor that fraud prevention and compliance with the plan are included in performance agreements for all managers and senior managers; and
- Review the quarterly progress report on the implementation of the plan to be submitted to the Executive Committee and Audit and Risk Committee.

5.1.1.5 Risk Management Unit

The Executive: Risk Management is the custodian of this plan and is responsible for its implementation.

The Risk Management Unit is responsible for:

- Developing the Company's framework for the management of fraud and corruption;
- Facilitating the identification and assessment of fraud and corruption risks, and advising on effective strategies in mitigation;
- Developing and implementing an awareness and education programme to support the implementation of this plan;
- Monitoring the implementation of this plan and ensuring that the plan is reviewed on an annual basis; and
- Coordinating the operations of the ERMCO.

5.1.1.6 Internal Audit Unit

The Executive: Internal Audit coordinates investigation of all reported fraud and corruption cases and is responsible for:

- Coordinating fraud and corruption investigative and resolution processes; and
- Coordinating all reporting related to these cases.

5.1.1.7 Executive Management

Managers, in the fulfilment of their joint responsibility as AFACC (ERMCO) members and in their individual management capacities, will play an integral role in the implementation of control to monitor day-to-day operations of SENTECH.

The managers will be responsible for:

- Ensuring that appropriate internal controls are in place to minimise fraud and other corruption risks;
- Ensuring that those internal controls are operating effectively;
- Actively promoting an ethical working environment and providing ethical advice and support to staff;
- Providing input for developing fraud and corruption control strategies and implementation timetables, as required, to address fraud and corruption risks identified in their area of responsibility during risk assessments; and
- Providing progress reports on the implementation of fraud and corruption mitigation strategies in their areas of responsibility.

5.1.1.8 All other Employees

Employees of SENTECH play a pivotal role to the success of the plan. Employees should:

- Report any suspicions or knowledge of any possible fraud or corruption;
- Comply with all prevention measures as stated in this plan; and
- Perform their duties with skill, care, diligence, honesty, integrity and impartiality.

5.1.1.9 Contractors and suppliers

SENTECH expects all contractors and suppliers with which it has dealing to act with complete honesty and integrity in all dealings with SENTECH.

SENTECH requires contractors and suppliers to:

- Comply with the Code of Ethics; and
- Report any suspicions or knowledge they may have in relation to fraud and/or corruption against or by SENTECH.

Summary of the responsibility structure for fraud and corruption prevention

The Board, Social and Ethics Committee and Audit and Risk Committee	<ul style="list-style-type: none"> • Fraud and corruption control environment • Monitor and review the effectiveness of mechanisms implemented to minimise and detect fraud and corruption • Review policies and processes for identifying and assessing business risks • Review and monitor corporate governance practices 	
	Executive: Risk Management	<ul style="list-style-type: none"> • Custodians of the Fraud Prevention and Corruption Plan • Facilitate and support the implementation of the Fraud Prevention and Corruption Plan
	Anti-Fraud and Anti-Corruption Committee	<ul style="list-style-type: none"> • Develop implementation plans and set targets for anti-fraud activities • Evaluate policies to ensure that fraud and corruption risks are identified and prevented • Ensure that the fraud risk register is updated annually • Develop fraud and awareness campaigns • Monitor all reported cases of fraud and corruption • Drive the Fraud and Corruption Prevention Plan
	Executive Management	<ul style="list-style-type: none"> • Ensure that appropriate internal controls are in place to minimise fraud and corruption • Provide input to policies, procedures and instructions that relate to areas of risk • Oversight to ensure that controls are complied with • Provide input into developing fraud and corruption control strategies • Provide ethical advice and support to staff
	All other Employees	<ul style="list-style-type: none"> • Report any suspicions or knowledge of any possible fraud or corruption • Comply with legal requirements, policies and directives
	Contractors and Suppliers	<ul style="list-style-type: none"> • Act with complete honesty and integrity in dealings with SENTECH • Report suspicions or knowledge of any possible fraud or corruption

5.1.2 Ethics Programme

SENTECH has a Code of Ethics and a Business Conduct Policy in place and they are intended to promote and enforce ethical business practices and standards within SENTECH. They strive to ensure that:

- Everyone involved with SENTECH conducts business with the highest standards of ethics, desired business conduct and professional behaviour; and
- The integrity of both SENTECH and its employees is not compromised. The code contains anti-fraud and anti-corruption provisions. The code applies to all directors, employees, representatives, agents, consultants, independent contractors and suppliers of SENTECH.

5.1.3 Compliance Programme

The Compliance and Secretariat function has the responsibility of providing assurance that SENTECH complies with all applicable public and private sector applicable laws and regulations, as well as internal policies and procedures. To this end, the Compliance and Secretariat will implement a compliance strategy and programme that will give assurance that SENTECH complies with all necessary laws, regulations, policies and procedures.

5.1.4 Policies & Procedures

The approved policies and procedures, especially those relating to the recruitment of human resources, procurement and financial management processes, have embedded controls that enable the detection of actual or the potential for fraudulent activities. Controls embedded in policies and procedures include:

- Delegation of authority;
- Segregation of duties;
- Supervisory review;
- Performance reporting;
- Audit trails; and
- Safekeeping of documents and records.

5.1.5 Awareness and Training

In order for the plan to be effective it must be supported by a structured education, communication and awareness programme.

This will be achieved through:

- Training and orientation of members of the Risk Management Committee on, among other aspects, fraud prevention;
- A communication and awareness programme; and
- Other initiatives and efforts from the Compliance and Ethics programmes.

5.1.6 Risk Management

The risk management process supports the fraud prevention processes. To this end, the established risk management framework and processes will be applied to fraud risk identification and the assessment and management of fraud risk exposures.

5.1.6.1 Assessment of fraud

An assessment of fraud and corruption risks will be performed, at least on an annual basis.

The risk assessment will consider the following factors when assessing the state of SENTECH's fraud and corruption control environment:

- Areas where controls are non-existent and need to be implemented;
- Instances where controls have failed to prevent and/or detect fraud and corruption;
- Areas where the breakdown in control may increase the opportunity for fraud and corruption; and
- An evaluation of the culture and management practices.

5.2 Detection

The framework for the Fraud and Corruption Plan identifies three main sources from which fraud and corruption can be detected.

5.2.1 Management Processes

Line management is expected to exercise oversight of the control environment within their areas of responsibility. Management is required to be vigilant of indicators of potential fraud (red flags) in the discharge of their duties and is duty bound to report actual and/or potential fraud and corruption.

5.2.2 Internal Audit

Internal auditors are there to provide assurance that management has sound systems of governance, risk management and internal control in place. Internal audits are performed on a risk basis. This means that internal audit will focus on those areas of business that management asserts:

- To be of high risk priority; and
- That adequate and effective internal controls are in place to mitigate the identified risks.

As a matter of course, internal auditors need to consider the risk of fraud and corruption during the performance of planned audits and need to identify fraud 'red flags'.

Furthermore, internal audit will perform data analytics assessments on specific business processes on a population of transactions for a specific period in time. The exceptions identified will aid in highlighting, among others, potential or actual incidences of fraud and corruption to be investigated.

5.2.3 Whistle Blowing

Employees are duty bound to report any known or potential fraudulent and corrupt activities committed:

- By officials of the company; and
- Against the Company by contractors, suppliers and other parties.

A Whistle Blowing Policy, governing the reporting of fraud information and protection of those reporting fraud and corruption, has been developed (Annexure A). Concerns expressed anonymously are difficult to investigate, nevertheless, they will be followed up at the discretion of the EXCO, the Chairperson of the Audit and Risk Committee and/or the Chairperson of the Board. This discretion will be applied by taking into account the following:

- The seriousness of the issue raised;
- The credibility of the concern; and
- The likelihood of confirming the allegation.

5.3 Investigation

5.3.1 Preliminary

Upon receipt of the allegation, consideration will be given to the substance, merits and gravity of allegations to decide on the course of action to be followed.

5.3.2 Full Investigation

Cooperation with Law Enforcement Agencies

After careful consideration of the facts presented, management may subsequently decide that the matter be referred to the following parties for investigation:

- Internal Audit
- An external, specialist forensic investigation service provider; or
- An appropriate law enforcement agency.

All information relating to fraud that is received and investigated will be treated confidentially. The progression of all investigations will be handled in a confidential manner and will not be disclosed or discussed with any person(s) other than those who have a legitimate right to such information on a 'need to know' basis. This is important in order to avoid harming the reputations of suspected persons who are subsequently found innocent of wrongful conduct, and to protect the whistle-blower.

Immediate precautionary and corrective measures may be implemented at any point before, during or after the allegations of fraud have been made. These include:

- Suspending the alleged perpetrator to limit further financial losses, destruction of evidence and interference with witness; and
- Addressing control breakdown to stop the fraud from continuing or to prevent recurrence.

5.4 Resolution

There are various remedies and sanctions, which can be pursued in response to the investigation process. The resolution avenue to be pursued will be informed by the specific facts of the case, the severity of the transgression and findings and recommendations of the investigation process. These are:

5.4.1 Disciplinary Action

In case of employees, taking disciplinary action within a reasonable period of time after the conclusion of the investigation

5.4.2 Improved Controls

Effecting, through the appropriate process owners, the necessary corrective action and/or improvement measures to relevant controls

5.4.3 Civil Recovery

Instituting civil action to recover losses. The decision to recover, which much takes cognisance of cost, shall be taken based on appropriate legal counsel.

5.4.4 Criminal Prosecution

Initiating criminal prosecution by reporting the matter to the SAPS or any other relevant law enforcement agency.

5.4.5 Referring to Other

Any other appropriate and legal remedy available.

5.4.6 Feedback

The resolution to the reported concern/allegation shall be communicated to the part that brought the allegations to light. If the allegation was received through the anonymous tip-off line, feedback shall be given to the facility in writing.

The extent of detail given in the feedback should take in to account:

- the sensitivity of due legal processes that still need to be followed; and
- protection of witnesses and other classified information.

5.5. Fraud and Corruption Database

A database of all allegations and incidences of fraud and corruption that have been detected throughout the financial year shall be maintained. The database shall highlight all aspects related to each incident including:

- Classification of incidences;
- the outcome of investigative processes; and
- resolution and corrective action

The Minimum Anti-Corruption Capacity (MACC) Requirements issued by the Department of Public Service and Administration requires all governments and public entities to report on an annual basis certain information with regard to fraud and corruption. Information to be reported is the following:

- Number of reported allegations of corruption;
- number of disciplinary procedures instituted as a result of allegations reported above;
- number of fraud and corruption allegations referred to law enforce agencies or any other bodies;
- number of fraud and corruption allegations that were neither referred to law enforcement agencies nor did to lead disciplinary action;
- names and relevant particulars of employees and non-employees found guilty of fraud and corruption; and
- description of fraud and corruption risk areas.

6. REPORTING

The reporting structure for the Plan is documented below:

Category No.	Element	What will be reported?	How	By Whom	To Whom	When
1	N/A	Progress of implementation of the Fraud and Corruption Plan	Written Report	Executive: Risk Management	<ul style="list-style-type: none"> Executive Risk Management Committee EXCO Social & Ethics Committee Audit & Risk Committee 	Quarterly
2	Prevention	Fraud Risk Assessment Awareness campaigns	Fraud Risk Register	Executive: Risk Management	<ul style="list-style-type: none"> Executive Risk Management Committee EXCO Social & Ethics Committee Audit & Risk Committee 	Quarterly
3	Detection	Hotline reports	From hotline	Hotline	Designated recipients	As and when reports are received on hotline
		Monthly summary reports of activity on the Tip-Offs Anonymous line	Electronically mailed reports	Hotline	Chair of Audit & Risk Committee	Monthly
4	Investigation	Progress of investigation process	Written and verbal	<ul style="list-style-type: none"> Investigating Officer and/or Executive Internal Audit 	<ul style="list-style-type: none"> Executive Risk Management Committee EXCO Audit & Risk Committee 	Quarterly
		Reports of all investigations undertaken	Written report			
5	Incidents' database	Feedback to whistle-blower	Written feedback to Tip-Offs Anonymous <ul style="list-style-type: none"> Verbal feedback to whistle-blower and/or Written feedback to whistle-blower 	Hotline	Feedback to whistle-blower	As and when investigation is completed
		Database of reported incidences, allegations or concerns of fraud and corruption	Incidents' database	Executive: Risk Management;	<ul style="list-style-type: none"> Executive Risk Management Committee EXCO Social & Ethics Committee Audit & Risk Committee 	Quarterly

Whistle Blowing Policy

1. INTRODUCTION

1.1 SENTECH recognizes the fact that

- unethical conduct and fraud within SENTECH is detrimental to good, effective, accountable and transparent governance within SENTECH;
- there is a need for procedures in terms of which employees may, without fear of reprisals, disclose information relating to suspected or alleged unethical conduct and fraud affecting SENTECH;
- every employer and employee has a responsibility to disclose unethical conduct and fraud in the workplace; and
- every employer (manager) has a responsibility to take all necessary steps to ensure that employees who disclose such information are protected from any reprisals as a result of such disclosure.

The purpose of this document is to provide the employees of SENTECH (both management and staff) with protection in terms of the PDA in the event that employees make disclosures regarding unlawful or irregular conduct.

2. OBJECTIVES OF THE POLICY

- 2.1 SENTECH undertakes to support and comply with the PDA, which makes provision for the protection of employees who make disclosures in good faith.
- 2.2 Any disclosure made in good faith and substantially in accordance with any reporting procedure prescribed by SENTECH is considered to be a protected disclosure under this Act. An employee making such disclosure is protected, inter alia, from being subjected to any occupational detriment as a result of the protected disclosure.
- 2.3 This policy is intended to encourage and enable employees to raise concerns within SENTECH rather than overlooking a problem or blowing the whistle to inappropriate channels.
- 2.4 Furthermore the policy aims to –
 - Provide avenues for employees to raise concerns and receive feedback on any action taken;
 - Inform employees on how to take the matter further if they are dissatisfied with the response; and
 - Reassure employees that they will be protected from reprisals or victimization for whistle blowing in good faith.

3. SCOPE OF THE POLICY

- 3.1 The disclosure as defined by the PDA means “any disclosure of information regarding any conduct of an employer, or an employee of that employer, made by any employee who has reason to believe that the information concerned shows or tends to show one or more of the following:
 - That a criminal offence has been committed, is being committed or is likely to be committed;
 - that a person has failed, is failing or is likely to fail to comply with any legal obligation to which that person is subject;
 - that a miscarriage of justice has occurred, is occurring or is likely to occur;
 - that the health or safety of an individual has been, is being or is likely to be endangered;

- that the environment has been, is being or is likely to be damaged;
- unfair discrimination as contemplated in the Promotion of Equality and
- Prevention of Unfair Discrimination Act 2000 (Act No.4 of 2000); or that any matter referred to in paragraphs (a) to (f) has been, is being or is likely to be deliberately concealed”.

4. THE POLICY

- 4.1 Employees and suppliers are encouraged to report allegations anonymously. Allegations, concerns can however be reported anonymously. Concerns expressed anonymously are difficult to investigate; nevertheless they will be followed up at the discretion of SENTECH. This discretion will be applied by taking into account the following:
- the seriousness of the issue raised;
 - the credibility of the concern; and
 - the likelihood of confirming the allegation.
- 4.2 All managers should discourage employees or other parties from making allegations, which are false and made with malicious intent. Where such malicious, vexatious, or false allegations are discovered, the person who made the allegations will be subjected to disciplinary action, or other appropriate action in the case of external parties.

5. REPORTING OF CONCERNS

- 5.1 Concerns are better raised in writing. The background and history of the concern, giving names, dates and places where possible should be set out and the reason why the individual is particularly concerned about the situation. The earlier the concern is reported, the easier it is to take action.
- 5.2 Employees are not expected to prove the truth of an allegation; they will need to demonstrate to the person contacted that there are sufficient grounds for concern.
- 5.3 SENTECH encourages its employees to report fraud to the following parties, in order of preference:
- Immediate Manager
 - Any Manager
 - Executive: Risk Management
 - Executive: Internal Audit & Compliance
 - EXCO
 - Chairperson of the Audit and Risk Committee
 - The Chairperson of the Board
- 5.4 Clients, suppliers/service providers, members of the public and other stakeholders may use any of the above avenues (as deemed appropriate) to make a report.
- 5.5 Should direct reporting to any of the above individuals be inappropriate or undesirable (as the case may be), reporting can be made anonymously to the company’s fraud and corruption reporting hotline. The hotline is outsourced to a specialized service provider (Tip-Offs Anonymous). Individuals wishing to make use of the hotline may choose one of two options for reporting.

Telephone facility - by telephoning 0800 213 144 (toll free from a land line)

Fax - 0800 007 788

E-Mail facility – report a matter using an email to SENTECH@ethics-line.com

For details of the operations of the Hotline and the procedures of the different means of reporting, refer to Annexure B of the Fraud & Corruption Plan.

6. HOW THE ALLEGATION/COMPLAINT/MATTER WILL BE HANDLED

6.1 The action taken by SENTECH will depend on the nature of the concern. The matters raised may, among other possible actions:

- be investigated internally;
- investigated by an appointed external investigator; and
- be referred to the SAPS or other relevant law enforcement agency.

6.2 In order to protect individuals and SENTECH, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. Concerns or allegations, which fall within the scope of other procedures, will normally be referred for consideration under those procedures.

6.3 Some concerns may be resolved by agreed action without the need for investigation.

6.4 SENTECH will write to the complainant:

- Acknowledging that the concern has been received;
- Indicating how he proposes to deal with the matter and whether any initial enquiries have been made;
- Giving an estimate of how long it will take to provide a final response; and
- Informing them whether any further investigations will take place, and if not, why not.

6.5 The amount of contact between the body investigating the issues and the persons raising the concern will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary, further information will be sought from the individual.

6.6 SENTECH accepts that employees need to be assured that the matter has been properly addressed. However, the progression of investigations will be handled in a confidential manner and will not be disclosed or discussed with any persons other than those who have a legitimate right to such information. This is important in order to avoid damaging the reputation of suspected persons who are subsequently found innocent of wrongful conduct.

7. MEDIA

7.1 No employee of SENTECH is authorised to supply any information with regard to allegations or incidents of fraud and corruption to the media without express permission of the EXCO.

8. PROTECTION OF WHISTLE-BLOWERS

8.1 No person will suffer any penalty or retribution for reporting in good faith any suspected or actual incident of fraud, which occurred within SENTECH.

- 8.2 Harassment or victimization: SENTECH acknowledges that the decision to report a concern can be a difficult one to make, not least because of fear of reprisal from those responsible for the irregularity. SENTECH will not tolerate harassment or victimization and will take action to protect employees when they raise a concern in good faith. This protection is guaranteed by the Protected Disclosures Act No. 26 of 2000 that protects employees from occupational detriment. This does not mean that if an employee is already the subject of disciplinary or other action, that action will be halted as a result of their whistle blowing.
- 8.3 Confidentiality of identity: SENTECH will endeavor to protect an individual's identity when he/she raises a concern and does not want his/her identity to be disclosed. It must be appreciated, however, that the investigation process may reveal the source of the information and a statement by the employee may be required as part of the evidence.

Anonymous Hotline

1. ABOUT TIP-OFFS ANONYMOUS

Tip-Offs Anonymous is completely independent, confidential whistle blowing hotline service operating 24-hours a day, 365 days a year. The service allows employees, customers, service providers and other stakeholders to report fraud and inappropriate activities in the company in a safe, confidential and secure way.

The following are examples of matters that can be reported:

- Any wrongdoing (theft, fraud, shrinkage, etc.)
- Not obeying the law or company procedure
- Abuse of company property
- Theft of time
- Bribery and/or Corruption
- Highly sensitive issues (blackmail, sexual harassment, racism etc.)
- Leak of confidential company information

Tip-off information can be given in one of three ways, in order of preference:

- Calling the toll-free number 0800 213 144
- Sending a Fax to 0800 007 788
- Sending an e-mail to SENTECH@ethics-line.com

2. REPORTING PROCESS

2.1 Telephonic Facility (0800 213 144)

- This is the preferred means of reporting as it allows the Contact Center agent to gather as much detail as possible compared to the e-mail facility.
- The Tip-offs contact center is open 365/24/7 day week with live answering.
- The call is toll free when calling from a Telkom line or public phone. It is not free from a cell phone
- Contact Centre agents are available in all of the eleven official languages during working hours, and Zulu, English and Xhosa are available after hours, the other languages are available depending on availability of the contact center agent.

- A voice prompt will welcome the caller to Tip-offs Anonymous. The caller will then be requested to select their language preference.
- A contact center agent of the caller's language choice will then greet the caller and welcome you to the SENTECH specific number that has been dialed for Tip-offs Anonymous
- The contact center agent will then inform the caller that the call is recorded for quality purpose, this is done mainly to ensure that the correct procedures are followed by the contact center agent and this will provide ease of reference when compiling a report.
- The recordings remain the property of Tip-offs Anonymous, as this has been stated in the contractual agreement
- The contact center agent will ask the caller from SENTECH specific questions and prompts. This is done to ensure that as much detail about the tip-off is obtained as possible.
- The contact center agent will then compile a report from the tip-off.
- The contact center agent advise you on the three options with regards to your anonymity:
- To remain totally anonymous; not divulging any of your personal information
- To give your personal information to the contact center agent and remain anonymous to your company
- To give your information to both the contact center agent and your company
- The contact center agent will give the caller a tracking or reference number which you can use in one of two ways:
 - o to provide the contact center with additional information on your tip-off in future; or
 - o if you need our contact center to provide you with feedback on your tip-off.
- The report will be forwarded to the duty evaluators in the contact center, where it will be sanitized of any information pertaining to the whistle blowers identity, of information that may cause the whistle blower's identity to be known
- The report analysts then send the tip-off report through to Broadband SENTECH within 24 hours. If it is an emergency, it will be sent through immediately, for further investigation on the tip-off.
- The report is then sent to the relevant persons on the reporting structure within SENTECH for action.
- Should anyone on the reporting structure be implicated, the report will then be escalated to the next person in line on the reporting structure bypassing the person who is implicated in the report.
- Tip-offs Anonymous does not get involved in the investigation of the tip-off report, as they ensure that the caller's identity is protected and the tip-off is confidential.

Questions to be asked by the Tip-Offs Anonymous Agent may include the following:

Are you a SENTECH employee?

Location of region/business unit/department where the irregularities took place

With regards to the incident/concern:

1. On what date and time did the incident occur?
2. Please provide a detailed description of the incident.
3. How did you become aware of the irregularity?

4. Provide the designation(s) and name(s) of the people involved.
5. Registration numbers of fleet vehicles (if any) involved.
6. How long has this been going on?
7. Is the irregularity still taking place?
8. Who else knows about it?
9. Have you reported it to anyone else within the company and to whom?
10. When was the issue reported?
11. Who investigated the allegations?
12. What actions were followed?
13. Was there any exchange of money, and how much?
14. Was there any gifts or entertainment exchanged?

Evidence/witnesses

Do you have any proof to support the allegations made? (Invoices, bank statements, purchase orders)

Can you send this to Tip-offs Anonymous?

What other evidence is there and where can the evidence be found?

What are the details of other possible witnesses?

Do you have any further information that could assist with the investigation?

Other background:

Why did you choose to report this incident via the ethics line? Have you tried to report it internally?

Do you believe that you will be victimised as a result providing this information?

If so, by whom?

Do you feel in any physical danger?

If so, by whom?

Future reference

Feedback would be available after three months following the date of the tip-off. SENTECH may provide a list of questions to the contact centre for your response. You are therefore requested to contact the ethics line on a monthly basis in order to enquire whether additional information is required. Keep your reference number in a safe place as you would be required to quote this number to obtain feedback. Or when you call in again to provide further information or for any other reason.

Are you willing to provide your details to Tip-offs Anonymous in the event of additional information required? Your identity would not be disclosed to SENTECH without your consent.

Awareness information

How did you hear about the hotline?

2.2 E-Mail Facility

The use of the e-mail entails sending an e-mail to SENTECH@ethics-line.com

The whistle blower is advised to use a personal email account because emails sent from SENTECH's e-mail system can be traced via the company server. Free web-based, private e-mail accounts, such as Google Mail (g-mail) can easily be set up for this purpose.

As much detail as possible should be provided in order to allow for an investigation to be done properly.

The Contact center may contact the sender in the event that further details or clarity is required in order to compile a report.

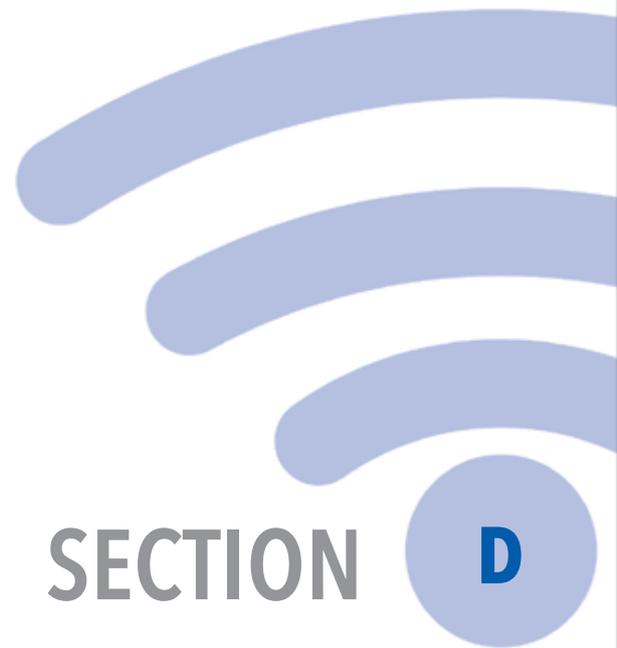
3. DISTRIBUTION OF REPORTS FROM TIP-OFF REPORTS

The information contained in tip-off reports is highly sensitive and the strictest level of confidentiality is observed when handling such reports.

SENTECH SOC Ltd Octave Street Honeydew 2040 Private Bag X 06 Honeydew 2040 Reports & Stats: 1 & 2 Escalation: Should 1 and 2 be implicated the reports to be escalated to 3 and the one nominee not implicated.	1. Mr. Mlamli Booï(Chief Executive Officer)	082 559 4098 BooiM@SENTECH.co.za
	2. Ms. Zodwa Mbele (Chairperson of the Audit and Risk Committee)	082 786 5074 zodwa@ulalo.net
	3. Mr. Magatho Mello (SENTECH Board Chairperson)	083 288 0258 Magatho@gmail.com

4. PLAN REVIEW

This fraud prevention plan shall be reviewed annually and form Annexure to the corporate plan



SECTION

D

MATERIALITY AND SIGNIFICANCE FRAMEWORK



ANNEXURE D

D. MATERIALITY AND SIGNIFICANCE FRAMEWORK

1. LEGISLATIVE BACKGROUND

- 1.1 SENTECH which is classified as a schedule 3B public entity, is governed by the PFMA the Treasury Regulations issued by the National Treasury and by the Companies Act.
- 1.2 Treasury Regulation 28.3.1 – “For purposes of material [sections 55(2) of the PFMA] and significant [section 54(2) of the PFMA] transactions, the SENTECH Board of Directors must develop and agree a framework of acceptable levels of materiality and significance with the relevant executive authority.”
- 1.3 Section 55(2) (b) (i) of the PFMA – “The annual report and financial statements referred to in subsection (1) (d) must include particulars of any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year.
- 1.4 Section 54(2) of the PFMA – “Before a public entity concludes any of the following transactions, the accounting authority for the public entity must promptly and in writing inform the relevant treasury of the transaction and submit relevant particulars of the transactions to its executive authority for approval of the transaction:
 - establishment or participation in the establishment of a company;
 - participation in a significant partnership, trust, unincorporated joint venture or similar arrangement;
 - acquisition or disposal of a significant shareholding in a company;
 - acquisition or disposal of a significant asset;
 - commencement or cessation of a significant business activity; and
 - a significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement
- 1.5 National Treasury Practice Note dated 13/07/2006 dealing with applications under Section 54

2. DEFINITION OF MATERIALITY AND SIGNIFICANCE

- 2.1 The ASB defines materiality as “the magnitude of an omission or misstatement in the financial statements, which individually or collectively, makes it probable that a reasonable person relying on those statements would have been influenced by the information or made a different judgement if the correct information had been known”.
- 2.2 From an external audit point of view, ISA 320 defines materiality as follows: “Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point (quantitative), rather than being a primary qualitative characteristic which information must have if it is to be useful.”
- 2.3 The Concise Oxford Dictionary defines significant as “extensive or important enough to merit attention” and may therefore be interpreted as of relative importance to the public entity as a whole. Transactions may be significant based on the monetary value of the transactions or due to the nature of the transactions. Thus, a transaction will be significant if conducting the transaction is vitally important in order to fulfill the public entity’s mandate and for it to operate effectively.

- 2.4 "Significant" may also be interpreted as those transactions that in the case of SENTECH Limited, would require approval from the executive authority or National Treasury or Parliament and would include, but are not limited to the participation in a significant partnership, trust, unincorporated joint venture or similar arrangement, the acquisition or disposal of a significant shareholding in an organization, the acquisition or disposal of a significant asset and commencement or cessation of a significant business activity.
- 2.5 From the interpretations above, it can be seen that there is a difference between "material" and "significant". Significant is larger than material as a significant transaction impacts the public entity as a whole. An occurrence may be material but not necessary significant, whereas any occurrence that is significant will be material.
- 2.6 As Treasury Regulation 28.3.1 also has an expectation of qualitative reporting, this framework will be dealt with in two main categories, namely quantitative and qualitative aspects. The policy set out hereunder should be appropriately presented in the Annual Report as required.

3. QUANTITATIVE FINANCIAL STATEMENT REPORTING

3.1 Quantitative Aspects

3.1.1 Material Losses (Section 55)

Guidelines for setting materiality levels

BASIS	Maximum Percentage	2017 Budget R'000s	High
Gross Expenditure	1.0%	1 192 631	11 926
Gross Revenue	1.0%	1 197 849	11 978
Net Income	10.0%	21 037	2 104
Total Assets	2.0%	1 658 559	33 171

Flowing from the above description of quantitative materiality, and also taking into account the percentage guidelines listed in the table above, management is of the opinion that the most appropriate basis for calculating the quantitative material loss limit for SENTECH should be based on the annual budgeted gross operating expenditure.

- The annual budgeted gross operating expenditure for the year is R1 192 million.
- Based on the above and the guideline table above, the quantitative materiality level for SENTECH is R11.9 million, being 1% (rounded off) of the annual budgeted gross expenditure.
- Accordingly, all fruitless and wasteful expenditure and/ or irregular expenditure that exceed the quantitative materiality level of R11.9 million will be reported in the Annual Report and the Financial Statements.

3.1.2 Significance Framework (Section 54)

Flowing from the above description of significance, and also taking into account the percentage guidelines which is listed in the table in 5.1.1 above, SENTECH is of the opinion that the most appropriate basis for calculating the significant limit for purposes of Section 54 of the PFMA should be based as a percentage of total assets, in view of the fact that SENTECH is an infrastructure company and is currently engaged in various major projects which will also translate into assets in the future years.

Total assets on R1.658 billion include the following:

- Property, Plant and Equipment forecasted for 31 March 2017 of R1,081 million.
- Other assets R 577 million.

Based on the above and the guideline table above, the quantitative significance level for SENTECH is R33.3 million (excluding VAT), being 2% of budgeted total assets. The cost of the total assets has increased from prior years because SENTECH record assets funded through Government Grants on a net basis. SENTECH expects to change its accounting policy to reflect the gross method and therefore the cost of total assets for the materiality calculation has been adjusted to reflect this.

3.1.3 Qualitative Aspects

Materiality is not merely related to the size of SENTECH and/or the elements of its financial statements. Obviously, misstatements that are large either individually or in the aggregate may affect a “reasonable” user’s judgment. However, misstatements may also be material on qualitative grounds. These qualitative grounds include amongst other:

- Unusual transactions entered into that are not of a repetitive nature and are disclosable purely due to the nature thereof (due to knowledge thereof affecting the decision making of the user of the financial statements);
- transactions entered into that could result in reputational risk to SENTECH;
- any fraudulent or dishonest behavior of an officer or staff of SENTECH. For example, losses resulting from criminal conduct may be seen as material, based on the public accountability of SENTECH, regardless of the monetary value of the amount; and
- procedures/processes required by legislation or regulation.

3.1.4 Application and Reporting

The materiality matrix is developed and communicated to relevant management before the start of the financial year. This will enable SENTECH to make decisions as to what should be reported as losses or irregular, fruitless or wasteful expenditure. SENTECH will then be able to ensure that the correct information is included in the Annual Report and Financial Statements.

All transactions that result in a loss (including irregular, unauthorized and fruitless and wasteful expenditure, and losses resulting from criminal conduct) to SENTECH should be recorded in a register. The PFMA defines “irregular expenditure” as expenditure incurred in contravention of the PFMA or any applicable legislation or incurring expenditure not in accordance with the mandate of SENTECH. “Fruitless and wasteful expenditure” refers to expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All material losses must be reported to the CFO who should ensure that the transaction is appropriately allocated in the general ledger and recorded in a central loss register.

An explanation detailing all information and reasons surrounding the transaction as well as amounts recovered and strategies developed to prevent similar losses in the future must be included.

No officer may condone any material loss incurred directly by him or through instructions issued by him.

All amounts referred to in paragraph 5.1 and 5.2 must be reported to the Board.

When developing the three year rolling audit plan and the annual audit coverage plan, the Internal Audit Function must ensure that sufficient attention is given to the audit of material items which may fall through the gaps in the existing control systems.

Material and significant events will be reported to the following parties:

- External: Minister of Telecommunication and Postal Services; and
- Internal: SENTECH Board and EXCO.

The public entity must include the materiality and significance framework in the following documents to be submitted to the entity’s executive authority:

- Annual Report [TR 28.2.1]
- Corporate Business Plan [TR 29.1.1(f)]
- Strategic plan [TR30.1.3(e)]

4. ACCEPTABLE LEVELS OF MATERIALITY AND SIGNIFICANCE

Definition	Framework	Underlying Principles
<p>Material for Section 55 – Disclosure, in the Annual Report, of:</p> <ul style="list-style-type: none"> ▪ Losses due to criminal conduct ▪ Irregular expenditure ▪ Fruitless and wasteful expenditure ▪ 2% of total Assets, which is currently calculated at R33.2 million. 	<p><u>Quantitative:</u></p> <p>Capital Expenditure:</p> <ul style="list-style-type: none"> ▪ 10% of the capital expenditure budget line item <p>Other expenditure:</p> <ul style="list-style-type: none"> ▪ 10% of the related operating expenditure budget line item <p>The materiality levels above are subject to a <u>minimum of R11.9 million</u></p> <p><u>Qualitative:</u></p> <p>Over and above the financial considerations of materiality, any losses due to criminal conduct are considered to be material by nature, irrespective of the quantum thereof.</p> <p>It is, therefore important to note that the quantitative measures of materiality will only apply to irregular expenditure and fruitless and wasteful expenditure, whereas the qualitative measure will apply to losses due to criminal conduct.</p>	<ul style="list-style-type: none"> ▪ Each loss due to criminal conduct, irregular expenditure or fruitless and wasteful expenditure, as identified, will be evaluated in context of the expense category to which it relates to determine whether it qualifies for disclosure in the Annual Report as required by Section 55. ▪ In line with good business practice, as well as the requirements of the Act, SENTECH is committed to the prevention, detection of and taking appropriate action on all irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct and expenditure not complying with the operational policies of SENTECH (Sec 51(1)(b)(ii)). <p>To this end SENTECH's systems and processes are designed and continually reviewed to ensure the prevention and detection of all such expenditure, irrespective the size thereof.</p>

Definition	Framework	Underlying Principles
<p>Significant for Section 54 – Information and approval by the Minister of “Qualifying transactions”, i.e.:</p> <ul style="list-style-type: none"> ▪ participation in a significant partnership, trust, unincorporated joint venture or similar arrangement; ▪ acquisition or disposal of a significant shareholding in an organization; ▪ acquisition or disposal of a significant asset; ▪ commencement or cessation of a significant business activity; and ▪ a significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement. 	<p><u>Quantitative:</u></p> <p>Qualifying transactions of an operational nature,</p> <p>Qualifying transactions of a strategic nature.</p> <ul style="list-style-type: none"> ▪ 10% of equity <p>Regardless of the monetary value thereof, all direct equity investments:</p> <ul style="list-style-type: none"> ▪ greater than 20% require formal information to the Executive Authority; or ▪ greater than 50% require approval by the Executive Authority. <p><u>Qualitative:</u></p> <p>A qualifying transaction may also be considered significant based on considerations other than financial when, in the opinion of the Board, it is considered to be significant for the application of Section 54. The decision on which non-financial issues may be considered at any time requires careful judgment at a strategic level, and should therefore rest with the Board as the representative body of the stakeholders. As an example, the Board may consider a qualifying transaction as significant when it could impact significantly on a decision or action by the Minister.</p>	<ul style="list-style-type: none"> ▪ The PFMA is not intended to affect the autonomy of SENTECH, but its stated objectives are to ensure transparency, accountability and sound management of revenue, expenditure, assets and liabilities of the institutions to which the Act applies. Therefore, the legislature could not have intended for the public entities to report and seek approval on matters of a daily basis; ▪ The operations of SENTECH is conducted within the framework of the mandate, objects and powers of the SENTECH Act, as well as the operational and financial direction set out in the strategic plan; ▪ SENTECH also has defined accountability and approval structures from the Board, as the stakeholder representative, to the CEO and management; ▪ The responsibility for day-to-day management of SENTECH vests in line management through a clearly defined organizational structure and through formally delegated authorities.