



3RD QUARTER REPORT: FY2012/2013

Portfolio Committee On Communications

26 March 2013



SENTECH
connecting You

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- SENTECH presents this 3rd Quarter Report in line with the Company's Corporate Plan for the 2012 – 2015 MTEF period, which focused on the following interventions:
 - Universal Access to Communications Network Infrastructure services;
 - Enabling Open Access and Inter-operable Communications Network Infrastructure; and
 - Enabling Diverse and Affordable Communications Network Infrastructure services
- For the period under review, SENTECH has made significant strides in delivering on the Company's Strategic Objectives, notably, the DTT network rollout programme, within which SENTECH will achieve the 80% population tted to.
- Accordingly, SENTECH is committed to operate within the existing Policy and Regulatory framework, whilst exploring market opportunities within this framework to further enhance the Company's Public Service mandate.

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- The quarterly-based pre-determined objectives that provide a measure of the success of these business objectives were established during the approval processes of the corporate plan and should be incorporated into the Shareholder Compact.
- At the end of the second quarter, the company undertook a review of the key performance indicators (KPIs) and related targets. As a result of this review, a need was identified to modify some of the KPIs and certain targets, based on the performance and the dependencies associated with them at the time.
- The revised KPIs and targets were submitted to the Shareholder for approval as required by the Shareholder Compact 2012-2013.
- Accordingly, this report is based on the revised KPI's approved by the Shareholder.

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|---|---|--|---------------------|-----------------|----------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Ensure universal access to Communications Infrastructure Network services | Low Power/Low Cost and Self-Help Transmitter rollout to underserved areas | Number of LP/LC sites installed and activated | Low Power 21 | Low power 4 | Delayed |
| | | Number of SH sites installed and activated | Self-Help 12 | Self-Help 13 | Achieved |
| | Digital Terrestrial Broadcasting infrastructure rollout | Percentage of population covered by DTT Network | 64.6% | 64.6% | Achieved |

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|---|--|--|---------------------|-----------------|--------------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Ensure network quality of service | Network performance at customer SLA | Average percentage service uptime and availability at SLA | FM 99.80% | FM 99.92% | Achieved |
| | | | MW 99.50% | MW 99.35% | Not Achieved |
| | | | SW 99.50% | SW 99.75% | Achieved |
| | | | TV 99.80% | TV 99.90% | Achieved |
| | | | DTH-S 99.80% | DTH-S 99.94% | Achieved |
| | | | VSAT 99.80% | VSAT 99.99% | Achieved |

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|--|--|--|---------------------|--------|-------------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Ensure infrastructure-build projects contribute economic development | Preferential procurement | % of total infrastructure spend spent on BEE (Level 4 and above) | 50% | 75.7% | Achieved |
| | | Complete the development of an audit-committee approved Enterprise Development Support System by 31 March 2013 | n/a | - | In progress |

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|--|--|--|---------------------|-----------|----------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Ensure infrastructure-build projects contribute economic development | Preferential procurement | BBBEE Rating | 65 points | 65 points | Achieved |
| | | | Level 4 | Level 4 | Achieved |

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|---|---|---|-----------------------------|---|---|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Ensure that communications infrastructure services are affordable | Implement a broadcasting signal distribution tariff in line with current Policy and Regulatory regime | Timeframe for signed-off differentiated tariff model cognisant of the different classes of broadcasting service licensees | Signed off DTT tariff model | DTT tariff model – Customer engagements | Delayed to Q2 by the asset revaluation exercise |

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|---|--|---|---|---|--------------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Provide a multimedia content delivery platform that will enable distribution and accessibility of content on all known and future platforms | Establish open access and interoperable Multimedia Content distribution platform | Timeframe for commercial availability of open access content distribution platforms | Establish DTH-S 'gap-filler' platform for DTT services – Q3 | DTH-S technical specification signed off | Achieved |
| | | | Pilot a Mobile TV platform in Q3 | Mobile TV strategy document complete and signed off | Not Achieved |
| | | | Mobile TV trial license approval | Mobile TV trial license granted | Achieved |

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|---|--|---|---|--|-------------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Provide a multimedia content delivery platform that will enable distribution and accessibility of content on all known and future platforms | Establish open access and interoperable Multimedia Content distribution platform | Timeframe for commercial availability of open access content distribution platforms | Pilot converged content distribution platform (CDP) in Q4 | CDP technical specification signed off | In Progress |

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|--|--|---|---|------------------------------------|--------------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Consolidate the Company's analogue radio and television signal distribution business | Establish open access and interoperable Multimedia Content distribution platform | Ensure that product/ solutions portfolios achieve profitability targets | All products to achieve greater than 5% profitability | SW and MW failed to achieve target | Not Achieved |

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|--|--|--|---------------------|--------|----------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Identity and support community projects that will | Enable broadband connectivity to public institutions outside of the Dinaledi Schools programme | Number of Schools connected | 2 | 1 | Delayed |
| Consolidate the Company's analogue radio and television signal distribution business | Support ICT related CSI programmes | Number of ICT CSI programmes supported | 2 | 2 | Achieved |

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|---|---|--|---|--------|-------------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Implement a comprehensive management and leadership development programme to ensure personal growth, succession planning and skills retention | Leadership Assessments Intervention and development plans | Number of senior managers assessed | 100% by Q3 | 70% | Delayed |
| | | Develop leadership programme including leadership plans | 100% by Q4 | n/a | In progress |
| | Succession plans | Number of critical positions with proper succession plans | Succession planning policy developed – Q4 | n/a | In progress |

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|---|--|--|---------------------|----------|-------------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Develop employee skills to manage, participate and support SENTECH business model | Job profiling and evaluation | Number of jobs profiled and graded | 100% by Q4 | 30% done | In progress |
| | Skills Audit | Skills Matrix | 100% by Q4 | n/a | In progress |
| | Individual development Plans | Number of employees with plans | 70% by Q4 | n/a | In progress |
| | Entrench performance culture | Number of completed divisional scorecards | 100% by Q4 | 80% | In progress |

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|--|---|--|---------------------|--------|--------------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Maintenance of going-concern status of the Company | Effective and efficient financial management and budgetary controls | Percentage of minimum EBITDA-to-revenue to be achieved | 16% | 20% | Achieved |
| PFMA compliant SCM for the acquisition of goods and services | Effective and efficient SCM policies and procedures | Irregular expenditure as a percentage of revenue | ≤1.0% | <1% | Achieved |
| Achievement of approved revenue targets | Effective and efficient revenue management | Minimum actual revenue to be achieved as a percentage of approved revenue budget | 97% | 93% | Not Achieved |

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|--|---|---|---------------------|--------|---------------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Fair presentation of financial performance, financial position and cash-flow | Effective system of internal controls, record keeping and reporting systems | Nature of audit opinion issued by external auditors | n/a | n/a | Annual target |
| Maintenance of positive free cash-flow from operations | Effective management of working capital | Number of times available unrestricted cash (cash from operations) covers the monthly payroll costs | 3.0X | 29X | Achieved |

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|---|---|---|---------------------|--------|----------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Define and enable SENTECH medium term strategy and performance measurements | Define strategic objectives and initiatives of the organisation | Timeframe for the EXCO Strategic Planning Session | October 2012 | n/a | |
| | Define strategic Plans for key initiatives and programmes | Timeframe for finalized strategic plans for key initiative, including business cases where relevant | December 2012 | n/a | |

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|--|---|--|---|--|----------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Develop risk management capability and ensure that risk management is embedded in all of the Company's activities – Enterprise Risk Management (ERM) | Develop policies, procedures and guidelines for ERM | Existence of policies, procedures and guidelines for risk management developed and approved by Board | Company capable of performing risk assessment as a matter of course and normal management process | ERM policy and strategy approved | Achieved |
| | Training and performance of best practice risk assessment & mitigation response and plans | Evidence and demonstration of company's ability to make risk informed decisions | Risk management training session held. | Three training workshops held in the 2 nd quarter | Achieved |

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|--|--|--|--|--|--------------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Develop risk management capability and ensure that risk management is embedded in all of the Company's activities – Enterprise Risk Management (ERM) | Review and monitor key company risks | Improvement in the level of risk maturity | All departments reporting on risk assessment Quarterly | Most of the Divisions (except Finance). | Not Achieved |

| STRATEGIC GOAL (What We Want To Achieve) | STRATEGIC OBJECTIVES (How We Will Achieve It) | KEY PERFORMANCE INDICATOR (How We Will Measure Performance) | PERFORMANCE TARGETS | | |
|---|--|--|--|--|----------|
| | | | QUARTERLY TARGET | ACTUAL | VARIANCE |
| Ensure that the Company's internal control and assurance procedures are in line with the statutory and good governance provisions | Review and redesign key processes and procedures | Approved List of processes and procedures that do not comply with statutory and good governance provisions | List of all company processes and procedures developed | All company processes and precedures developed | Achieved |
| | | Approved redesigned processes and procedures | End of Q3 | RA processes not completed by end of Q3 – accelerate | Achieved |

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| | Qtr. 3 | | | | YTD | | | | Full Year 2013 | | | 2012 | |
|---|------------------|------------------|----------------|--------------|------------------|------------------|-----------------|--------------|------------------|------------------|-----------------|--------------|------------------|
| | Actual | Budget | Variance | % | Actual | Budget | Variance | % | Forecast | Budget | Variance | % | Actual |
| Revenue | 255 931 | 248 694 | 7 237 | 3% | 668 059 | 712 492 | (44 432) | (6%) | 890 746 | 971 765 | (81 020) | (8%) | 812 585 |
| Cost Of sales | (180 343) | (178 575) | (1 768) | 1% | (399 771) | (443 697) | 43 926 | (10%) | (524 763) | (596 429) | 71 666 | (12%) | (468 976) |
| Depreciation | (15 111) | (22 954) | 7 843 | (34%) | (41 506) | (56 886) | 15 380 | (27%) | (55 342) | (79 840) | 24 498 | (31%) | (58 528) |
| Energy Costs | (18 776) | (19 830) | 1 054 | (5%) | (53 387) | (57 933) | 4 546 | (8%) | (71 182) | (77 734) | 6 552 | (8%) | (58 423) |
| Licences | (40 207) | (11 705) | (28 501) | 243% | (62 944) | (35 116) | (27 828) | 79% | (72 035) | (46 821) | (25 214) | 54% | (12 269) |
| Line Rental | (2 373) | (3 435) | 1 062 | (31%) | (6 736) | (10 304) | 3 568 | (35%) | (8 981) | (13 739) | 4 758 | (35%) | (10 425) |
| Operations Maintenance | (3 393) | (19 513) | 16 120 | (83%) | (22 015) | (57 899) | 35 884 | (62%) | (29 353) | (72 292) | 42 939 | (59%) | (62 370) |
| Direct Personnel Costs | (68 920) | (73 511) | 4 592 | (6%) | (134 487) | (140 360) | 5 874 | (4%) | (179 316) | (188 029) | 8 713 | (5%) | (169 323) |
| Satellite Rental | (31 481) | (25 207) | (6 274) | 25% | (78 548) | (75 622) | (2 926) | 4% | (108 356) | (101 325) | (7 030) | 7% | (95 022) |
| Cost of goods sold | (83) | (2 420) | 2 337 | (97%) | (149) | (9 577) | 9 428 | (98%) | (199) | (16 649) | 16 450 | (99%) | (2 616) |
| Gross Margin | 75 588 | 70 119 | 5 469 | 8% | 268 288 | 268 795 | (507) | (0%) | 365 983 | 375 337 | (9 354) | (2%) | 343 609 |
| Less Overheads | (43 063) | (45 386) | 2 324 | (5%) | (164 798) | (219 913) | 55 114 | (25%) | (220 345) | (280 548) | 60 203 | (21%) | (195 011) |
| Operating expenses | (21 480) | (20 190) | (1 290) | 6% | (57 912) | (67 474) | 9 562 | (14%) | (77 216) | (86 023) | 8 807 | (10%) | (71 254) |
| Hiring Charges | (2 450) | (3 433) | 983 | (29%) | (12 574) | (17 307) | 4 733 | (27%) | (16 765) | (20 742) | 3 976 | (19%) | (12 192) |
| Legal fees | (836) | (1 150) | 314 | (27%) | (941) | (2 650) | 1 709 | (65%) | (1 254) | (3 500) | 2 246 | (64%) | (11 814) |
| Professional & Consulting Charges | (7 686) | (6 133) | (1 553) | 25% | (16 567) | (19 145) | 2 579 | (13%) | (22 089) | (24 034) | 1 945 | (8%) | (16 936) |
| Transport Costs | (5 349) | (5 178) | (170) | 3% | (14 536) | (15 594) | 1 058 | (7%) | (19 382) | (20 773) | 1 391 | (7%) | (17 816) |
| Travel & Subsistence | (5 159) | (4 295) | (864) | 20% | (13 294) | (12 777) | (517) | 4% | (17 725) | (16 974) | (751) | 4% | (12 495) |
| Selling expenses | (2 926) | (2 821) | (105) | 4% | (8 140) | (8 463) | 322 | (4%) | (10 854) | (11 284) | 430 | (4%) | (6 750) |
| Administrative expenses | (18 657) | (22 376) | 3 719 | (17%) | (98 746) | (143 976) | 45 230 | (31%) | (132 275) | (183 241) | 50 966 | (28%) | (117 008) |
| Communication Costs | (1 584) | (1 933) | 349 | (18%) | (4 560) | (5 797) | 1 237 | (21%) | (6 080) | (7 730) | 1 649 | (21%) | (5 260) |
| Computer Services | (1 388) | (1 220) | (169) | 14% | (3 056) | (3 659) | 603 | (16%) | (4 688) | (4 878) | 190 | (4%) | (4 602) |
| Financial & Write-off Charges | (804) | (504) | (299) | 59% | 555 | (1 513) | 2 067 | (137%) | 740 | (2 017) | 2 757 | (137%) | 5 511 |
| Insurance & Security costs | (2 064) | (2 620) | 555 | (21%) | (6 665) | (7 882) | 1 217 | (15%) | (8 887) | (10 501) | 1 615 | (15%) | (6 183) |
| Other Office costs | (58) | (155) | 97 | (63%) | (210) | (489) | 279 | (57%) | (279) | (638) | 358 | (56%) | (469) |
| Other Personnel costs | (2 596) | (4 053) | 1 457 | (36%) | (5 699) | (12 189) | 6 490 | (53%) | (7 599) | (16 224) | 8 625 | (53%) | (7 309) |
| Service and Levies | (275) | (417) | 142 | (34%) | (702) | (1 282) | 580 | (45%) | (936) | (1 699) | 763 | (45%) | (1 810) |
| Indirect Personnel Costs | (9 697) | (11 091) | 1 393 | (13%) | (77 810) | (110 012) | 32 202 | (29%) | (103 747) | (138 020) | 34 274 | (25%) | (96 154) |
| Stationery & Printing | (191) | (385) | 194 | (50%) | (599) | (1 154) | 555 | (48%) | (798) | (1 533) | 735 | (48%) | (731) |
| Earnings before interest & tax | 32 525 | 24 732 | 7 793 | 32% | 103 490 | 48 882 | 54 608 | 112% | 145 638 | 94 789 | 50 849 | 54% | 148 598 |
| Finance Income | 10 499 | 6 750 | 3 749 | 56% | 29 947 | 20 250 | 9 697 | 48% | 39 930 | 27 000 | 12 930 | 48% | 62 127 |
| Finance Expenses | (986) | (1 117) | 131 | (12%) | (3 592) | (3 351) | (241) | 7% | (5 492) | (4 469) | (1 023) | 23% | (18 466) |
| | 9 513 | 5 633 | 3 880 | 69% | 26 355 | 16 899 | 9 457 | 56% | 34 438 | 22 531 | 11 907 | 53% | 43 661 |
| Earnings before tax | 42 038 | 30 365 | 11 673 | 38% | 129 845 | 65 780 | 64 064 | 97% | 180 075 | 117 320 | 62 755 | 53% | 192 259 |
| Income tax expense | (15 666) | (15 194) | (471) | 3% | (47 642) | (47 074) | (568) | 1% | (61 885) | (58 564) | (3 321) | 6% | (57 984) |
| Earnings after tax | 26 372 | 15 171 | 11 201 | 74% | 82 202 | 18 706 | 63 496 | 339% | 118 191 | 58 756 | 59 435 | 101% | 134 275 |

| | | 31-Dec-12 | 31-Mar-12 | Movement |
|--|-------|------------------|------------------|---------------|
| Assets | | | | |
| | | R'000 | | |
| Non-current assets | Notes | 486 509 | 508 430 | (21 921) |
| Property, Plant and Equipment | 1 | 484 887 | 506 808 | (21 921) |
| Deferred Taxation | | 322 | 322 | - |
| Employee Benefit Obligations (Pension) | | 1 300 | 1 300 | - |
| Current assets | | 1 708 652 | 1 654 663 | 53 989 |
| Inventory | 2 | 14 049 | 7 491 | 6 558 |
| Trade and other receivables | 3 | 88 317 | 41 235 | 47 082 |
| Cash and cash equivalents | 4 | 1 606 285 | 1 605 937 | 348 |
| Sentech funds | | 778 574 | 565 516 | 213 058 |
| Grant funds | | 859 717 | 1 040 421 | (180 704) |
| Total assets | | 2 195 160 | 2 163 093 | 32 067 |
| Equity and Liabilities | | | | |
| Capital and reserves | | 991 294 | 909 075 | 82 220 |
| Equity | | 558 445 | 558 446 | - |
| Retained Earnings | | 432 849 | 350 629 | 82 220 |
| Non-current liabilities | | 195 717 | 196 557 | (840) |
| Long term Liabilities | 5 | 12 295 | 23 935 | (11 640) |
| Retirement Benefit Obligations (Medical Aid) | 6 | 183 422 | 172 622 | 10 800 |
| Current liabilities | | 1 008 149 | 1 057 461 | (49 313) |
| Trade and Other payables | 7 | 108 805 | 105 014 | 3 791 |
| Deferred Income - Government grant | 8 | 768 475 | 889 294 | (120 819) |
| Short term Portion of LTL | | 22 683 | 21 494 | 1 189 |
| Provisions | 9 | 74 548 | 39 006 | 35 542 |
| Taxation | 10 | 33 637 | 2 653 | 30 984 |
| Total liabilities | | 1 203 866 | 1 254 018 | (50 152) |
| Total equity and liabilities | | 2 195 160 | 2 163 093 | 32 067 |

| | 31-Dec-12 | 31-Mar-12 |
|---|-----------|-----------|
| | R'000 | |
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Cash generated from Operations | 114 551 | 267 228 |
| Finance income received | 106 874 | 277 380 |
| Interest paid | 29 947 | 62 127 |
| Taxation paid | 3 592 | (7 203) |
| | (25 862) | (65 076) |
| CASH FLOW FROM INVESTING ACTIVITIES | (231 236) | (82 946) |
| Property, Plant and Equipment acquired | (231 276) | (82 956) |
| Proceeds from sale of plant and equipment | 40 | 10 |
| CASH FLOW FROM FINANCING ACTIVITIES | 116 175 | 285 854 |
| Government Grant received | 145 468 | 341 140 |
| Government grant utilised for capital expenditure | (54 895) | (40 449) |
| Loans Repaid (DBSA) | (10 451) | (19 302) |
| Interest received capitalised | 36 053 | 4 465 |
| NET INCREASE/(DECREASE) IN CASH | (510) | 470 136 |
| Cash and cash equivalents at beginning of period | 1 605 936 | 1 135 800 |
| Cash and cash equivalents at end of period | 1 605 426 | 1 605 936 |

THANK YOU