

SABC FY2013/14 THIRD QUARTER REPORT

(1 October to 31 December 2013)

*Presented by
Tian Olivier
Group Chief Executive Officer (Acting)*

16 September 2014



EXECUTIVE SUMMARY



SABC 3rd Quarter Report (1 October to 31 December 2013) as approved by the SABC Board on 30 January 2014 and submitted to the Shareholder on 31 January 2014.

During the 3rd Quarter of FY2013/14 the SABC succeeded in achieving excellent results in some areas, but was also faced with a number of challenges. Total revenue of R2 099.6bn for the period under review was R143m (7%) higher than budget. Total expenditure of R1 688.5bn were R153m (10%) higher than budget. The Quarter's surplus of R371m was R26m (7.5%) higher than budget.

Year-on-year total revenue has increased by R494m or 10%. This is higher than the previous year's growth of 4%. The highest increases in value was from Television sales – R240m (9%), Radio advertising – R108m (10%) and from Sponsorship Trade Exchanges – R94m (32%).



The SABC embraced its public service role fully in covering the death and funeral of former President Nelson Mandela in December 2013. The Television Division broadcast 19.5 hours of hour-long live tribute shows between 8 December and 15 December on SABC1 and SABC3. SABC2 was set aside for use by News for the latest breaking news around the announcement of Madiba's death, his memorial service, the lying in state and the funeral at Qunu.

On the Radio platforms presenters expertly supported grieving listeners and the public, music playlist made way for music befitting of the mood, tributes poured in and were shared with the nation and even the world via live-streaming. In days leading up to the funeral all PCS and PBS Radio stations continued to share every new development with audiences. Transversal partnerships with TV and a smooth and constant flow of information from News aided Radio stations to also create loyalty beyond main media and digital and social media platforms became hugely successful extensions of these stations.



The SABC received formal and informal accolades for the excellent content during the broadcast of the former President Nelson Mandela's funeral. The compliments ranged from local viewers, including SABC's opposition broadcaster to the many international clients, TV, Radio, and Digital media. During the event SABC News had to fulfil two functions. These functions were that of the Host Broadcaster service provider and the public service. The role of the host broadcaster required the SABC to manage TV Production for all of the public events associated with the funeral for the benefit of international broadcasters and Sentech distribution to the rest of the World. A public service agreement for this purpose was entered into between the SABC and the Government Communications and Information System (GCIS).

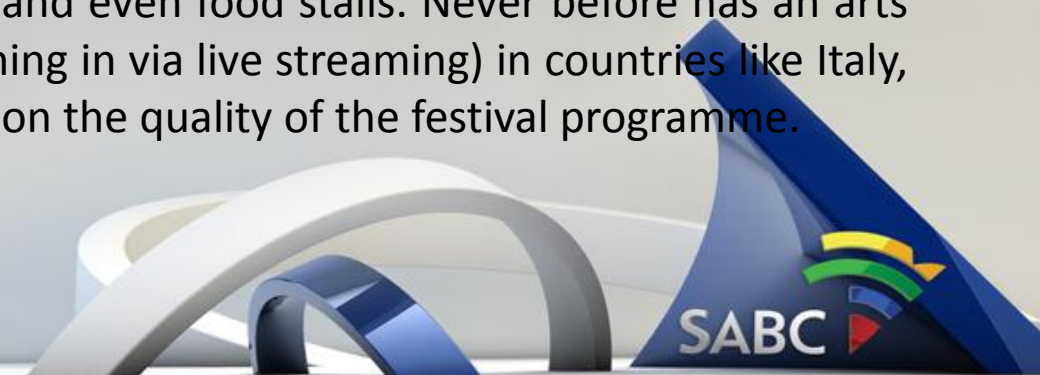
The SABC produced a worthy farewell to the Father of the Nation, Tata Nelson Mandela.



For *Performance Period: All Adults*, Television has delivered an audience share of 48% against a target of 53% for the period under review. This is attributable to increased competition for South African audiences on television.

Radio achieved a national all adult audience share of 68.6% against a target of 67%. This represents a growth of 1.2% from the previous year's level of 67.4%. SABC Radio also delivers a share of 53.4% in the advertiser attractive LSM 7-10 audience segment and has experienced firm growth of 1.7% from the previous year's level of 51.7%

A first-ever for Radio, RSG (*RadioSonderGrense*) conducted a special arts festival where listeners could attend a national arts festival FREE of charge. The festival offered – over a period of four days – a variety of plays, musical theatre productions, debates, story-telling features, comedy slots, satire, poetry readings and even food stalls. Never before has an arts festival been offered on radio and listeners (tuning in via live streaming) in countries like Italy, Britain and the Netherlands congratulated RSG on the quality of the festival programme.





FINANCIAL PERFORMANCE

OVERVIEW – 3RD QUARTER

During the period under review revenues of R2.1bn were R143m (7%) higher than budget. Expenses of R1.7bn was R153m (10%) higher than budget. The Quarter's surplus of R371m was R26m (7.5%) higher than budget.

Income Statement	R'million			
	Cur Quarter Actual	Cur Quarter Budget	Cur Quarter Variance	Cur Quarter Variance %
Revenue & Other Income	-2 099.6	-1 957.1	142.5	7.3
Expenses	1 688.5	1 535.9	-152.6	-9.9
Depreciation & Amortisation	59.1	76.0	16.9	22.2
Net Financing (Income)/Loss	-19.2	-0.1	19.1	0.0
Income Tax Expenses	0.0	0.0	0.0	0.0
Other Compreh. Income	0.0	0.0	0.0	0.0
(Surplus)/Loss	-371.2	-345.4	25.9	7.5

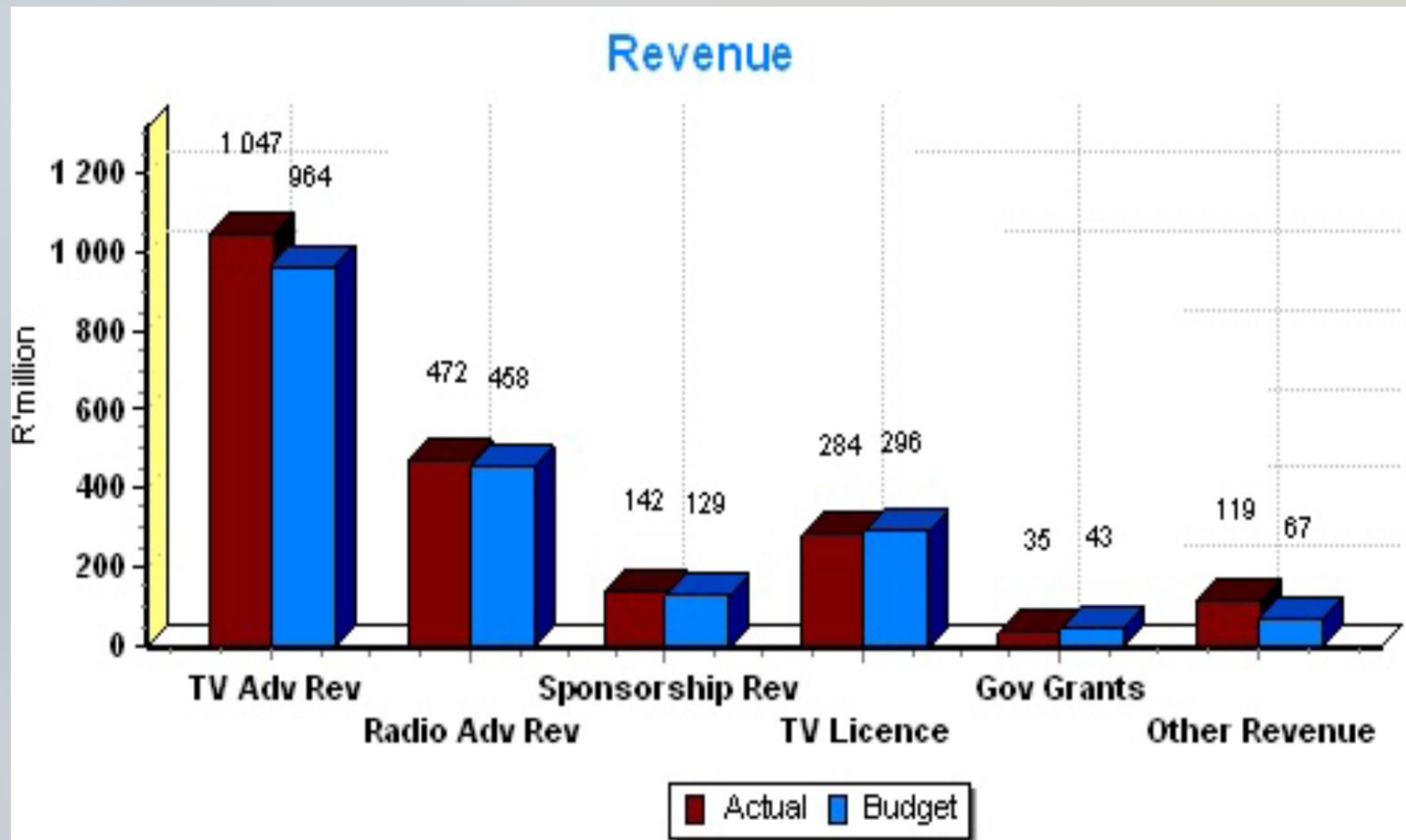
REVENUE – 3RD QUARTER

Total revenue for the 3rd Quarter was R143m (7%) higher than budget.

Revenue	R'million			
	Cur Quarter Actual	Cur Quarter Budget	Cur Quarter Variance	Cur Quarter Variance %
TV Advertising Revenue	-1 047.2	-964.2	83.1	8.6
Radio Advertising Revenue	-472.0	-457.8	14.2	3.1
Sponsorship Revenue	-142.1	-129.2	12.9	9.9
Trade Exchange	-51.9	-28.2	23.8	84.5
TV Licence fees	-284.2	-295.7	-11.5	-3.9
Government Grants	-34.9	-42.8	-7.9	-18.4
Other Revenue	-40.7	-10.0	30.8	309.2
Content & Commercial Explo	2.4	-8.8	-11.2	-127.7
Revenue Websites	-2.3	-0.4	1.9	428.3
Other Income	-26.6	-19.9	6.6	33.3
Total Revenue	-2 099.6	-1 957.1	142.5	7.3



REVENUE – 3RD QUARTER



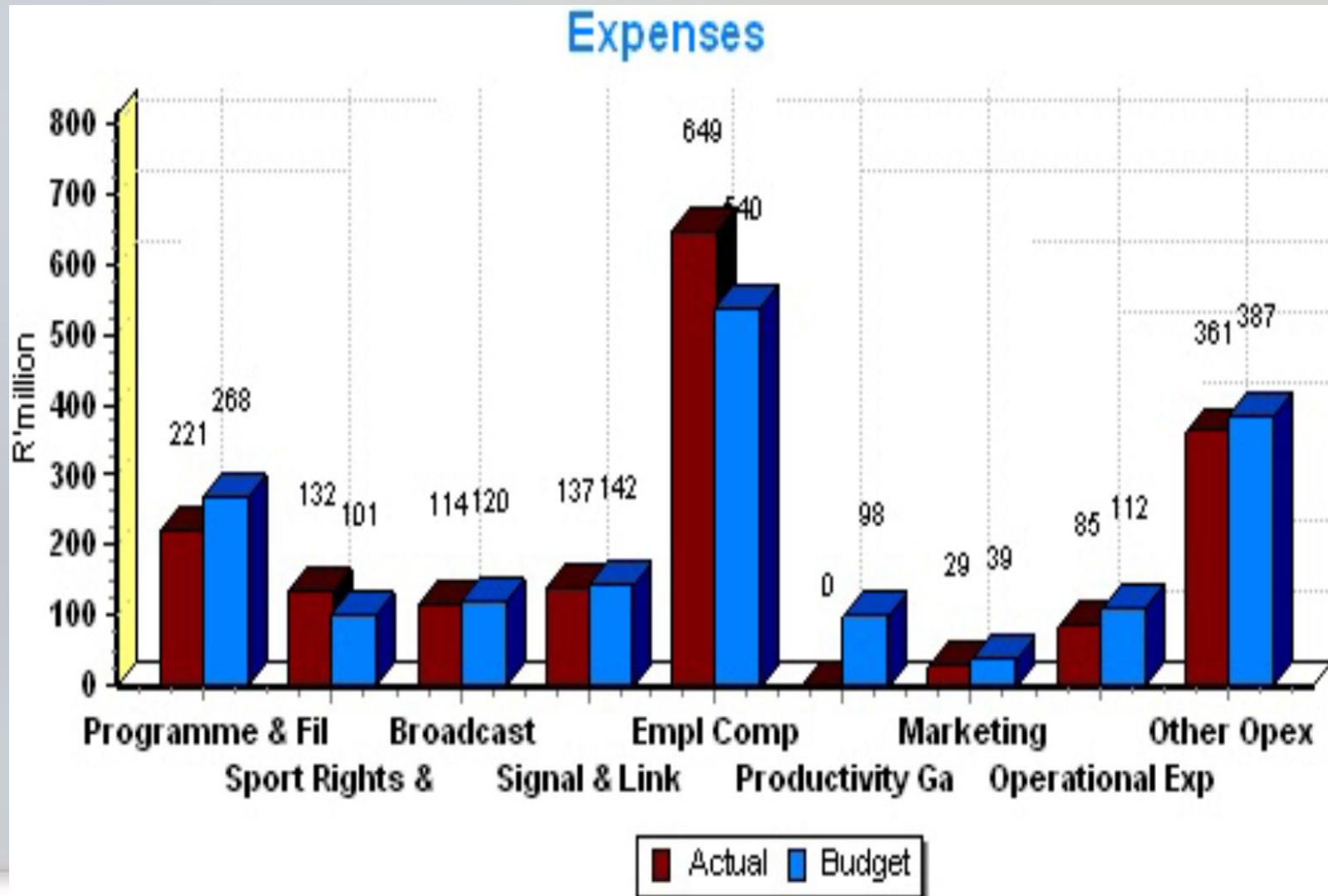
EXPENDITURE – 3RD QUARTER

Total expenses were R153m (10%) higher than budget during the period under review.

Expenses	R'million			
	Cur Quarter Actual	Cur Quarter Budget	Cur Quarter Variance	Cur Quarter Variance %
Programme & Film costs	220.6	267.6	47.0	17.6
Sport Rights & Production	131.9	101.3	-30.6	-30.2
Broadcast Costs	113.9	120.2	6.3	5.2
Signal Distribution and Linkin	137.3	142.2	4.9	3.4
Non-Permanent Employees	80.8	74.2	-6.6	-8.9
Permanent Employees	568.4	466.2	-102.2	-21.9
Productivity Gains	0.0	-97.9	-97.9	100.0
Marketing Costs	29.0	39.0	10.1	25.8
Revenue Collection Costs	283.8	248.1	-35.8	-14.4
Professional and Consulting	7.9	24.4	16.5	67.8
Other Expenses - Operational	85.4	111.7	26.4	23.6
Other Expenses - Personnel	16.1	21.3	5.2	24.5
Other Expenses - Administrative	13.4	17.7	4.2	23.8
Other (Profits)/Loss	0.1	0.0	-0.1	0.0
Other Comprh (Income)/Loss	0.0	0.0	0.0	0.0
Total Expenses	1 688.5	1 535.9	-152.6	-9.9



EXPENDITURE – 3RD QUARTER



REVENUE YEAR TO DATE

Year-on-year total revenue has increased by R494m or 10%. This is higher than the previous year's growth of 4%.

Revenue	R'million							
	YTD Actual	YTD Budget	YTD Variance	YTD Var %	Cur Month Variance	Last YTD Actual	Last YTD Variance	Last YTD Var %
TV Advertising Revenue	-2 901.1	-2 661.4	239.8	9.0	-11.8	-2 660.9	240.2	9.0
Radio Advertising Revenue	-1 231.8	-1 232.5	-0.7	-0.1	-10.4	-1 123.9	108.0	9.6
Sponsorship Revenue	-384.5	-353.6	30.9	8.8	6.2	-291.0	93.5	32.1
Trade Exchange	-111.5	-89.6	21.9	24.4	-4.7	-57.2	54.3	95.0
TV Licence fees	-705.3	-720.8	-15.4	-2.1	-2.0	-704.4	0.9	0.1
Government Grants	-105.7	-128.5	-22.8	-17.7	-4.4	-118.4	-12.7	-10.7
Other Revenue	-69.7	-29.9	39.8	133.4	3.9	-70.2	-0.5	-0.7
Content & Commercial Expl	-26.6	-27.6	-1.0	-3.7	0.5	-26.4	0.1	0.5
Revenue Websites	-7.2	-1.3	5.9	444.4	0.0	-1.9	5.3	285.1
Other Income	-50.2	-59.8	-9.7	-16.2	-0.9	-45.8	4.4	9.5
Total Revenue	-5 593.6	-5 304.9	288.7	5.4	-23.7	-5 100.0	493.6	9.7

EXPENDITURE YEAR TO DATE

Year-on-year expenses have increased by R371m (8%), lower than the growth in income. The biggest increase was in Permanent employee costs (R375m, 29%) in view of accruing for Pension fund service costs on a monthly basis and not at year-end as in previous years.

Expenses	R'million							
	YTD Actual	YTD Budget	YTD Variance	YTD Var %	Cur Month Variance	Last YTD Actual	Last YTD Variance	Last YTD Var %
Programme & Film costs	684.9	822.6	137.8	16.7	18.0	707.6	22.7	3.2
Sport Rights & Production	405.5	302.2	-103.3	-34.2	28.0	523.4	117.9	22.5
Broadcast Costs	338.1	361.5	23.4	6.5	9.0	296.5	-41.7	-14.0
Signal Distribution and Link	412.7	426.6	13.9	3.3	2.2	385.0	-27.7	-7.2
Non-Permanent Employees	214.2	222.7	8.5	3.8	-3.2	188.0	-26.2	-14.0
Permanent Employees	1 684.0	1 420.2	-263.7	-18.6	-39.6	1 309.4	-374.5	-28.6
Productivity Gains	0.0	-293.8	-293.8	100.0	-32.6	0.0	0.0	0.0
Marketing Costs	68.1	124.4	56.2	45.2	3.1	70.0	1.9	2.7
Revenue Collection Costs	782.2	695.7	-86.5	-12.4	1.7	710.4	-71.8	-10.1
Professional and Consulting	44.5	73.6	29.1	39.5	4.6	67.1	22.6	33.7
Other Expenses - Operatio	274.5	346.0	71.5	20.7	7.0	268.9	-5.5	-2.1
Other Expenses - Personne	44.1	62.1	18.0	29.0	2.4	52.4	8.3	15.8
Other Expenses - Administr	39.4	52.4	13.0	24.9	1.6	41.1	1.7	4.1
Other (Profits)/Loss	-1.1	0.1	1.2	0.0	0.0	0.5	1.6	0.0
Other Comprh (Income)/Los	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenses	4 991.1	4 616.4	-374.7	-8.1	2.4	4 620.3	-370.9	-8.0

CASH FLOW PERFORMANCE

Bank Balances		R'million			
		Open Balance	YTD Movement	Month Movement	Close Balance
Cash and Cash Equivalents	Call Deposits	15.0	4.0	-13.5	19.0
	Cash Held on Foreign	0.0	0.0	0.0	0.0
	Cash on Hand and Bar	118.0	-61.9	-35.2	56.1
	Negotiable Certificates	0.0	0.0	0.0	0.0
	Outstanding Cheques	-1.6	-0.3	0.2	-1.9
	Total	131.4	-58.3	-48.5	73.1
Current Loans and Receivab	Current Loans and Rec	0.0	0.0	0.0	0.0
	Total	0.0	0.0	0.0	0.0
Held to Maturity Investmen	Short Term Deposits	851.0	250.5	38.5	1 101.5
	Total	851.0	250.5	38.5	1 101.5
Total Bank balances (incl. bank guarantees)		982.4	192.2	-10.0	1 174.6

Capex underspending (R68m to date vs. annual cash budget of R300m).

Lower local and foreign TV stock levels (228 days vs. 297 days expected)

Faster total debtor days (57 days vs. 60 days expected).

Sport rights levels were 157 days vs. 270 days

Creditor days were faster and used cash (53 days vs. 90 days).

At the end of December 2013 the SABC had operational bank balances to the value of R1.17bn (including bank guarantees but *before* month-end bank reconciliations are performed).

CAPITAL EXPENDITURE

Funded By	Business Unit	R'000								
		Budget	Prior Year Actuals	Cur Year Actuals	Total Actuals	Authorised to Date	Authorised not Paid	Auth still to be made	Projected Final Cost	Variance
Government	HENLEY TV FACILITIES	26 469	14 485	8 351	22 836	22 905	69	3 191	26 096	373
	Total	26 469	14 485	8 351	22 836	22 905	69	3 191	26 096	373
Own Cash	ENGINEERING SERVICES	163 945	10 738	3 499	14 237	25 179	10 942	135 794	160 973	2 972
	HENLEY TV FACILITIES	713 598	74 707	15 453	90 160	108 448	18 288	581 084	689 532	24 066
	INFORMATION TECHNOLOGY	113 031	13 091	9 362	22 453	36 783	14 330	71 991	108 774	4 256
	INSURANCE REPLACEMENTS	0	688	374	1 062	1 382	319	59	1 441	-1 441
	LOGISTICAL SERVICES	87 324	259	3 040	3 299	5 616	2 317	79 857	85 473	1 851
	OTHER DIVISIONS	15 499	1 453	2 581	4 034	4 704	669	7 112	11 815	3 684
	PROVINCES	139 573	18 745	2 963	21 708	25 066	3 357	37 451	62 517	77 056
	RADIO BROADCAST FACILITIES	187 984	15 782	12 264	28 046	57 288	29 242	128 225	185 514	2 470
	SABC TVOB FACILITIES	515 067	344 103	10 317	354 420	367 067	12 647	120 010	487 080	27 988
	TECHNOLOGY MANAGEMENT	200	3	77	80	80	0	51	131	69
	Total	1 936 221	479 569	59 931	539 500	631 612	92 112	1 161 634	1 793 250	142 971
Grand Total		1 962 690	494 054	68 282	562 336	654 517	92 181	1 164 825	1 819 346	143 344

GOING CONCERN

The current cash reserves of R1.17bn are adequate to meet the current needs of the SABC. The Nedbank loan has been paid in full. Cash and cash equivalents were enough to pay all current liabilities. With sound management and keeping within the pre-determined financial parameters the SABC will be in a position to deliver on its public mandate. Any major and long term deviation from these parameters would increase pressure on cash balances. A number of risks that would have an impact are listed in the next section below.

Risks to the SABC's cash flow sustainability

- Continued low levels of programme stock;
- The decline in TV audience share;
- Lower than required spending on Capex would create a “bubble” of projects that need to be paid in one year;
- Sports of mandate that cannot be funded from the revenue generated by the event and that require funds from other sources;
- Constant requests to increase head count.



**PERFORMANCE
AGAINST NON-
FINANCIAL
TARGETS**



Managing the attrition of the SABC audience share against set targets.

For Performance Period: All Adults, **Television** has delivered an audience share of 48% against a target of 53%.

PERFORMANCE PERIOD	ACTUAL
SABC1	24%
SABC2	14.4%
SABC3	9.6%
TOTAL	48%

Radio achieved a national all adult audience share of 68.6% against a target of 67%. This represents a growth of 1.2% from the previous year's level of 67.4%. PBS Radio contributes the lion's share of 59% to the total SABC Radio audience market share of 68.6%. PCS Radio's 9% contribution has been under severe threat from a rapid increase in new commercial radio stations being launched in South Africa and this figure remained stable from year-previous levels.

Motivate and drive key policy reviews that affect the SABC's ability to complete within the changing broadcasting landscape.

The SABC is in the process of reviewing its current Editorial Policies, with the new policies scheduled for implementation during the 2nd Quarter of FY2014/15. The decision to embark on the process of an Editorial Policy Review was driven by legislative and regulatory requirements.

South Africa's Information and Communications Technology (ICT) Policy Process, led by the Department of Communications (DoC), has advanced to the level of developing an outline for a Green Paper. This follows the previously published Framing Paper that was aimed at soliciting views from the public on principles that should guide the ICT policy process. The SABC is represented by the GCEO and the Acting Head of Strategy on the ICT Policy Review Panel, with a focus on the Broadcasting Committee in particular.



To create a positive link between the SABC, stakeholders, audiences and communities at large.

SABC Education continues to drive SABC education and life skills programming both on air as well as in communities, in the 3rd Quarter SABC Education:

Cemented its relationship with Baby Indaba through its participation in the expo;
It partnered with the National Youth Skills Development Programme through attending Macufe Mangaung African Careers Festival.

The Growth of social media has necessitated the Channels to expand their communication beyond just the screen, and become active in the social space. SABC TV brands are being extended onto digital media platforms. In this way (rights permitting) a selection of full-length episodes is available on YouTube. In December the SABC's YouTube portal had 3,3 million video views and people spent 22,4 million minutes watching the SABC's content.



National and Local Government Elections.

The National elections broadcasting plans are being rolled out in five phases:

Phase 1 - will entail ongoing coverage of political events with particular attention to the IEC and party political preparations for the elections.

Phase 2 - will focus on the registration period and ongoing coverage as above, plus special attention and gradual introduction of special election slots in current affairs programmes.

Phase 3 - focus will shift to the campaign period including special election coverage in existing programmes as well as the introduction of special slots and formats to provide national and provincial platforms for parties participating in the national and provincial elections.

Phase 4 - will be the election week – expected to be in the second quarter of 2014. This will include extensive coverage on all platforms, anchored from national and provincial election centres.

Phase 5 - emphasis will shift to the opening of Parliament, Presidential inauguration and Cabinet announcement.



Reduce organisational costs

Headcount management:

The SABC employee compensation and headcount for permanent positions as at the end of December 2013 is reflected in the table below. The SABC headcount was reduced by 28 (0.8%) during the current financial year.

SABC	March 2009	March 2010	March 2011	March 2012	March 2013	September 2013	December 2013
Headcount	4 098	3 889	3 690	3 631	3 638	3 579	3 610

Overtime reduction from expenditure incurred in FY2012/2013.

Year-to-date figures indicate an increase of 1.7% in overtime. Overtime expenditure is R24.7m versus R24.3m at the same time during the previous fiscal. Overtime cost increased during December 2013 owing to the SABC's lengthy coverage of the passing and funeral of Mr Nelson Mandela.

Reduce organisational costs

Leave liability reduction by reducing the number of leave days accumulated across the organisation.

The SABC succeeded in reducing the leave liability during March/April and July 2013 due to leave encashment and the automatic approval of leave. Unfortunately the value increased during September 2013 due to the annual increase of 8.5%. Leave liability reduced to R178m at the end of December 2013 due to annual leave as well as the moratorium on the encashment of leave being lifted. The SABC reduced the number of leave days from 127,485 at the end of March 2013 to 124,471 days at the end of December 2013. This is a 2.4% reduction.

It is foreseen that the leave liability will decrease from now on due to the following:

- December/January Holidays leave not being reflected on Payroll yet;
- Encashment of all old leave;
- Capping of the accrual of new leave to 45 days.



Universal Access – increase roll-out of service delivery through cost-effective modern digital technologies (Funding Dependent).

SABC broadcast infrastructure ready to carry full complement of DTT services.

The new Line Record room is complete and operational. The DTT Head End expansion is operational. The MCR monitoring Equipment replacement project is completed. Compliance recorders have been delivered and installed (SABC technical team will complete configurations).

The business case for the high definition upgrade of Henley studios 1 and 2 was submitted and approved by the GCEO as well as the Finance Investment Procurement Technology committee. Currently the RFP has closed and technical evaluation will commence. Negotiations and contracting has been concluded for the Henley Fire Suppression and detection initiative. Access control and CCTV business case has been approved.



Embedding Risk Management in the Corporation's day-to-day operations.

The following strategic deliverables for the quarter were achieved:

The **Risk Management Instruments** were reviewed and approved by SABC Board in Quarter 3 of the financial year. The approved risk instruments awareness program will commence in February 2014 across the organisation. The risk management instruments are as follows:

- Risk Management Policy
- Risk Management Framework,
- Fraud and Corruption Policy,
- Fraud and Corruption Strategy
- Whistle Blowing Policy



Embedding Risk Management in the Corporation's day-to-day operations.

The enterprise wide **Divisional Risk Assessments** were concluded in the 3rd Quarter of the financial year and the risk registers are readily available in CURA (Risk Management Software). Divisions are always encouraged to maintain the registers and update them as and when necessary. The annual assessments for the year 2015/2016 will again be concluded in December 2014

The **fraud and corruption awareness program** commenced during the world fraud and corruption week and continues at the SABC in line with the available resources and placements.



Embedding Risk Management in the Corporation's day-to-day operations.

The following Board and Group Executive meetings were held during the period under review:

BOARD AND SPECIAL BOARD

4 October 2013

7 October 2013

5 November 2013

8 November 2013

11 November 2013

12 November 2013

5 December 2013

6 December 2013

HRGN* COMMITTEE

28 October 2013

8 November 2013

SOCIAL & ETHICS COMMITTEE

1 December 2013

AUDIT COMMITTEE MEETINGS

28 October 2013

21 November 2013

PBS / PCS COMMITTEE MEETINGS

1 November 2013

5 November 2013

GROUP EXECUTIVE MEETINGS

14 October 2013

25 October 2013

4 November 2013 (Strategic Session)

5 November 2013 (Strategic Session)

6 November 2013 (Strategic Session)

10 November 2013

Progress on Auditor General's Audit Findings

Please refer to the Annexure containing the SABC's Audit Action Plan.



THANK YOU

