

FINANCIAL AND AUDIT RESULTS OF THE SABC, FY - 2014

**PRESENTATION TO THE P.C.C
21 October 2014**



Presentation Outline

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1. Analysis of financial results



1.1 Profit & Loss



Comprehensive Income

Statement of Comprehensive Income	2014		2013	
	R'million	% Change	R'million	
Revenue and Other Income	7,241	8%	6,710	
Expenses	(5,157)	7%	(4,824)	
Profit/loss before net financing costs, income tax, depreciation of PPE, amortisation of computer software and impairment of trade and other receivables	2,084	11%	1,886	
Depreciation of PPE, Amortisation of Computer Software & Impairment of Trade and Other Receivables	(1,693)	-4%	(1,771)	
Net financing income	78	112%	37	
Income tax	183	-163%	(291)	
Profit/(loss) for the year	652	-570%	(139)	
Other comprehensive income/(loss) for the year, net of tax	200	-419%	(63)	
Total comprehensive income/(loss) for the year	852	-523%	(202)	

- Profit for the year and total comprehensive income for the year improved by over 523% mainly due to the increasing revenues outstripping the higher expenses. This was driven by both Radio and Television advertising revenue
- The 7% growth in expenses is driven mainly by the growth in employee compensation and benefits



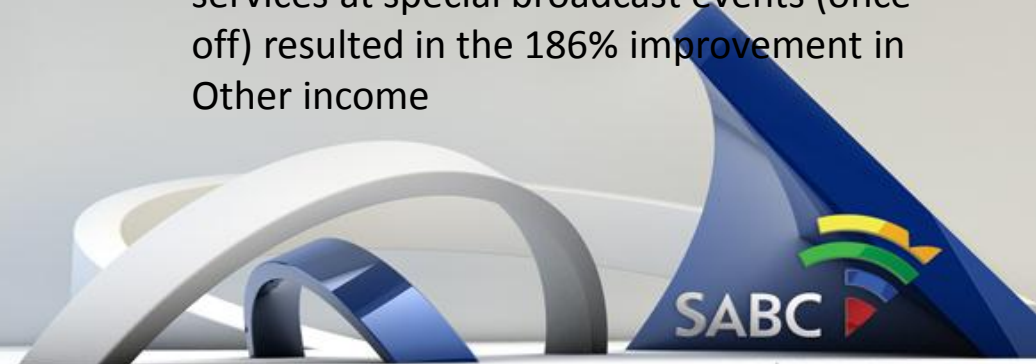
Revenue Analysis



Revenue & Other Income – year on year analysis

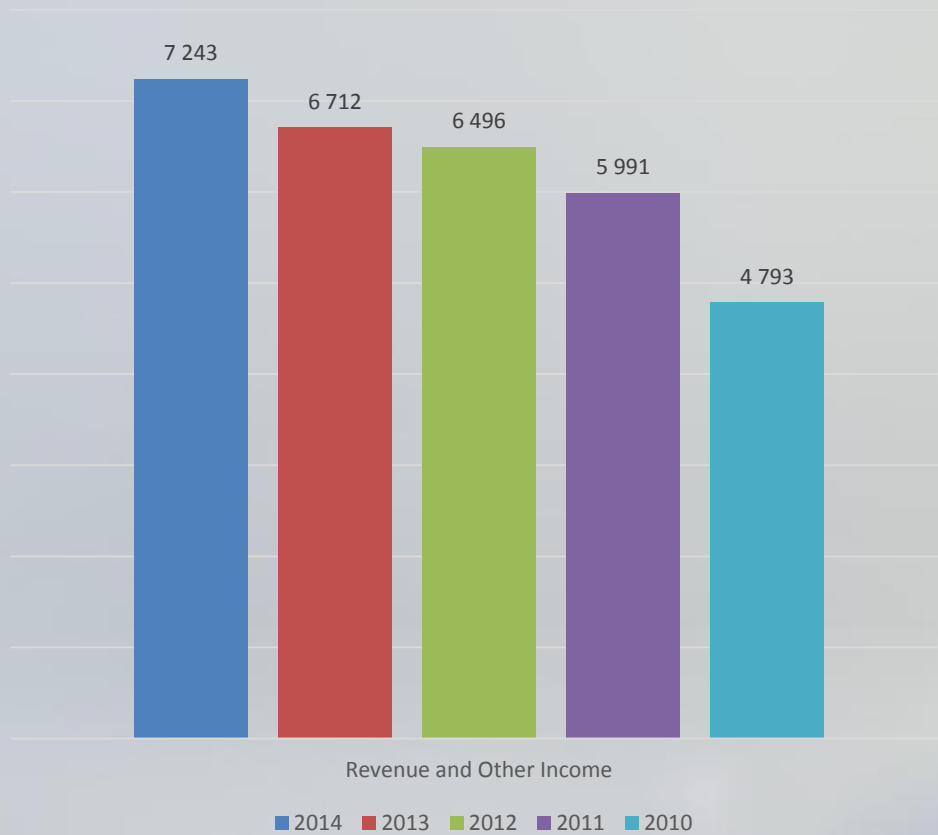
Revenue and Other Income	2014		2013
	R'million	% Change	R'million
Advertising Revenue	5 185	8%	4 803
Sponsorship Revenue	499	22%	410
Trade Exchanges	111	-20%	139
Licence Fees	928	2%	914
Government Grants	196	-25%	262
Revenue: Content & Commercial Exploitation	36	13%	32
Revenue Websites	6	102%	3
Other Revenue	109	25%	87
Other Income	172	186%	60
Revenue & Other Income	7 241	8%	6 710

- Advertising revenues improved despite declining audiences by 8% due to successful initiatives to regain advertiser confidence, innovative trading mechanisms in Television and strong audiences in Radio
- Sponsorship Revenues improved by 22% due to more flexible sponsorship policy and improved performance by the sales teams
- TV Licence revenue was under pressure due to reduced sales of television sets as consumers are under financial strain
- Other income mainly from the supply of services at special broadcast events (once off) resulted in the 186% improvement in Other income



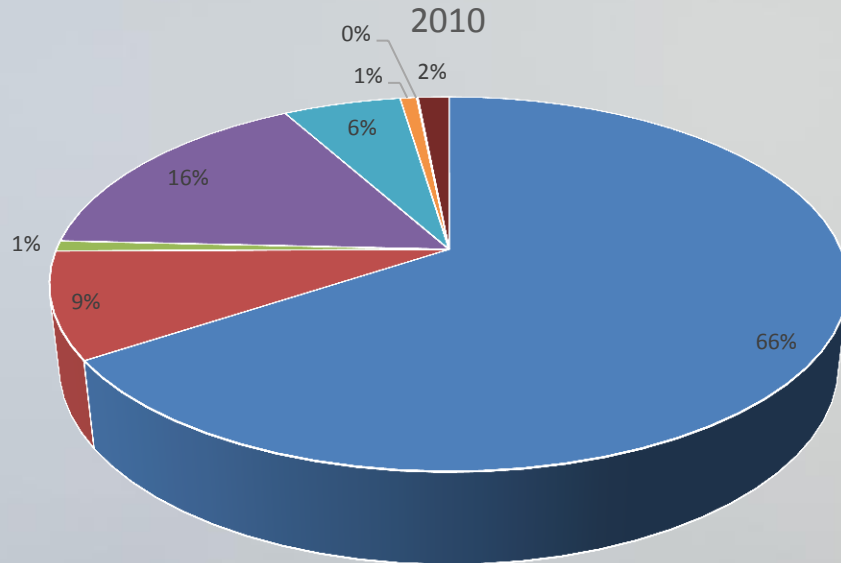
Revenue- 5 year trend

Revenue and Other Income- 5 year (R' million)

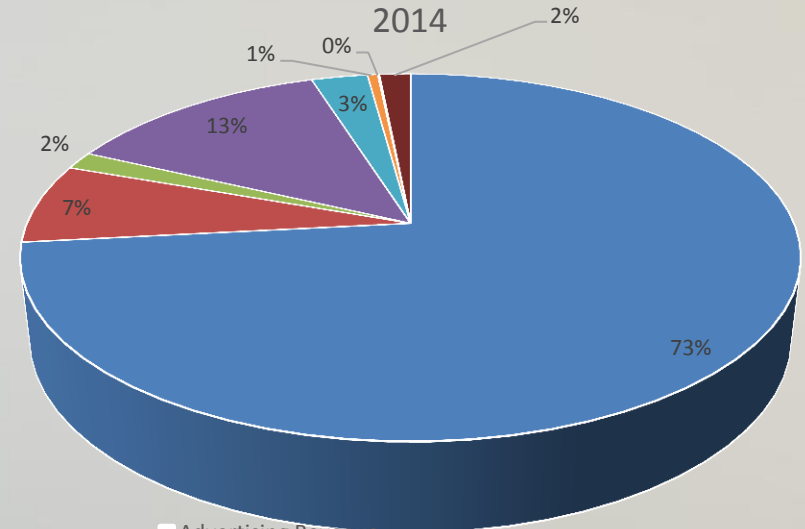


- There has been impressive revenue growth from 2010 to 2014 mainly due to sustained growth in classic advertising revenue relative to the other revenue streams.
- This is evidenced by the graph on the following slide which shows Advertising Revenues now making up 73% of the Total revenue in 2014 compared to 66% in 2010.
- Licence Fee Revenue only makes up 7% of the Revenue compared to 9% in 2010. This is particularly given SABC's mandate on content delivery.

Revenue- Proportion analysis



- Advertising Revenue
- Sponsorship Revenue
- Trade Exchanges
- Licence Fees
- Government Grants
- Revenue: Content & Commercial Exploitation
- Revenue Websites
- Other Revenue



- Advertising Revenue
- Sponsorship Revenue
- Trade Exchanges
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Expenses



Expenses- year on year analysis

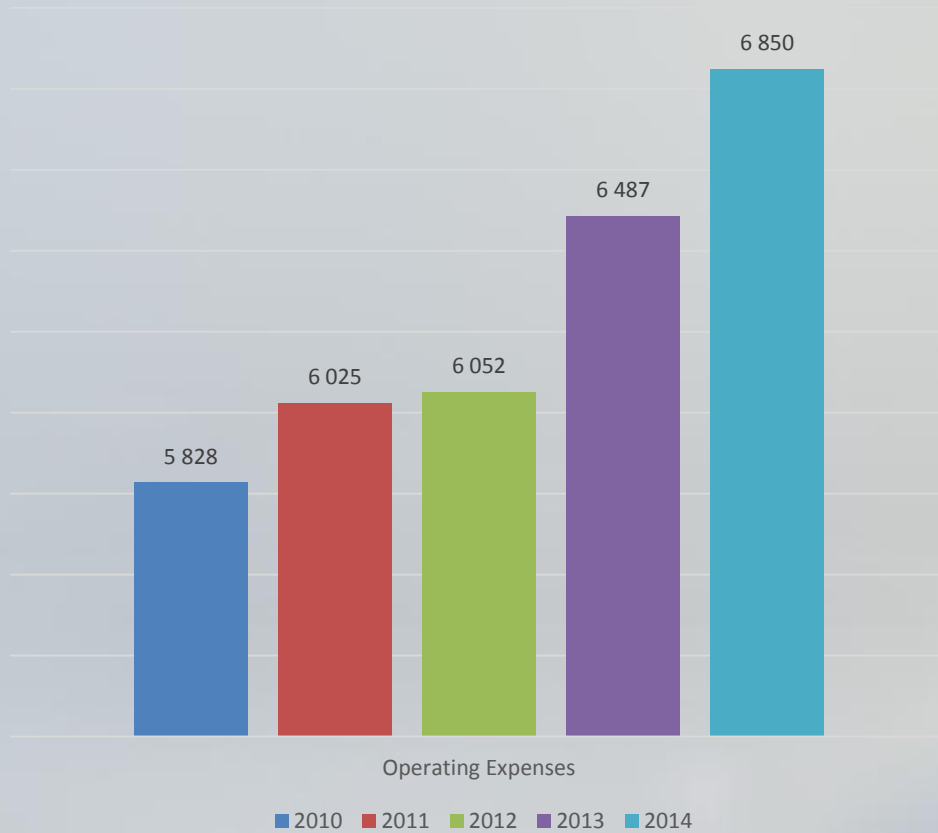
Expenses	2014		2013
	R'million	% change	R'million
Amortisation of programme, film and sports rights	(1 328)	-6%	(1 419)
Net impairment (raised)/reversed of programme, film and sports rights	(10)	22%	(8)
Amortisation of computer software	(77)	65%	(46)
Net impairment reversed/(raised) of trade and other receivables	30	-1492%	(2)
Broadcast costs	(340)	-36%	(533)
Signal distribution and linking costs	(554)	8%	(515)
Employee compensation and benefit expenses	(2 514)	17%	(2 153)
Depreciation and impairment of property, plant and equipment	(309)	5%	(295)
Marketing costs	(135)	10%	(123)
Direct revenue collection costs	(972)	6%	(913)
Mobile revenue collection costs	(23)		-
Professional and consulting fees	(69)	11%	(62)
Other expenses	(551)	5%	(525)
Other profits/(losses)	0	-163%	(0)
Total Expenses	(6 850)	4%	(6 596)

- Operating Expenses have increased by 4% year on year.
- The 17% increase in employee compensation and benefit expenses was largely off-set by reductions in broadcast costs and amortization of Programme, film and sports rights



Expenses- 5 Year analysis (R' million)

Operating Expenses- 5 year

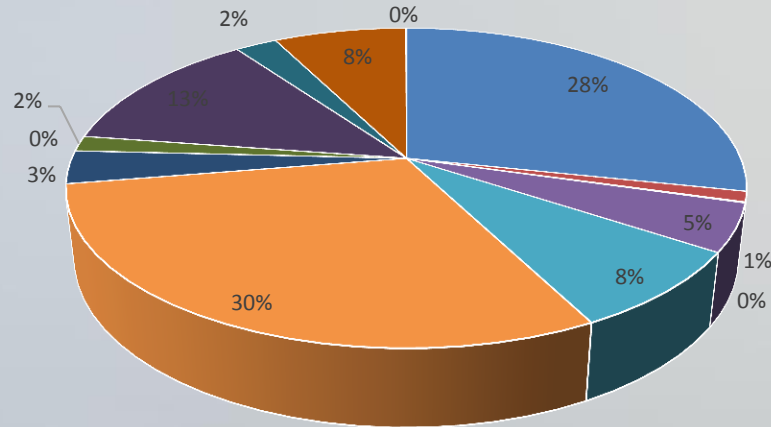


- Operating Expenses have had a dramatic upward trajectory in the past 5 years.
- This has been driven largely by rising employee compensation and benefits relative to other expenditure particularly Amortisation of Content.
- Refer to the graph on the following slide



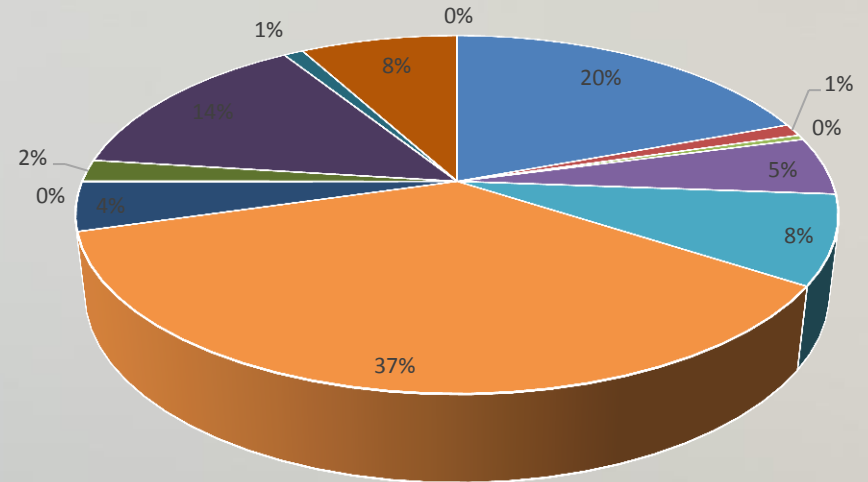
Expenses- Proportion Analysis

2010



- Amort. & Imp. Prog, Film & Sports Rights
- Amortisation of Computer Software
- Impairm/(Reversal)Trade & OtherRec Cred notes
- Broadcast Costs
- Signal Distribution and Linking Costs
- Employee Compensation and Benefit Expenses
- Depreciation and Impairment
- Impairment of Property, Plant & Equipment
- Marketing Costs
- Direct Revenue Collection Costs
- Professional and Consulting Fees
- Other Expenses - Operational
- Other (Profits)/Loss

2014



- Amort. & Imp. Prog, Film & Sports Rights
- Amortisation of Computer Software
- Impairm/(Reversal)Trade & OtherRec Cred notes
- Broadcast Costs
- Signal Distribution and Linking Costs
- Employee Compensation and Benefit Expenses
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- Marketing Costs
- Direct Revenue Collection Costs
- Professional and Consulting Fees
- Other Expenses - Operational
- Other (Profits)/Loss



1.2 Financial Position



Working Capital

Working Capital	2014	2013	2012	2011	2010
	R'million	R'million	R'million	R'million	R'million
Current Ratio					
Current Assets	3 424	2 660	2 974	2 754	2 387
Current Liabilities	1 751	1 358	1 708	1 687	1 333
Current Ratio	1,96	1,96	1,74	1,63	1,79
Quick Ratio (acid test)					
<i>Quick assets = (current assets - inventories- prog/film & sports rights - prepayments)</i>					
Quick assets	2 499	1 943	2 112	1 702	1 263
Current Liabilities	1 751	1 358	1 708	1 687	1 333
Quick Working Capital	748	585	404	15	(69)
Quick Ratio	1,43	1,43	1,24	1,01	0,95

- The current ratio and quick ratio on the adjacent table show that the SABC is able to meet its short term obligations comfortably.
- This is subsequent to repaying the Nedbank Loan which was obtained with the Government Guarantee in 2010 over the past 5 financial periods.



1.3 Cash Flows

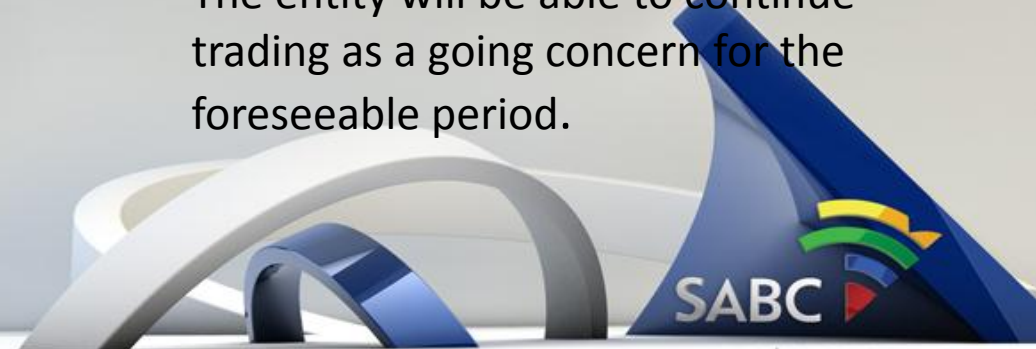


Cash Flow Statement- abridged

Cash Flow Statement

	2,014	% Change	2,013
	R'million		R' million
Net cash inflows from operating activities	529	-3%	548
Net cash outflows from investing activities	(102)	-18%	(124)
Net cash inflows from financing activities	(80)	-86%	(580)
Net increase/(decrease) in cash and cash equivalents	348	-321%	(157)
Cash and cash equivalents at end of the year	1,425	32%	1,077

- The SABC has R1.4bn in cash and cash equivalents which is a 32% improvement on the prior period where the entity had repaid the government guaranteed loan.
- The entity has been able to generate in access of R500m from its operations in the past 2 financial periods in order to fund its investing activities. These are expected to rise in the upcoming financial periods.
- The entity will be able to continue trading as a going concern for the foreseeable period.



2 Audit Opinion



2.1 Analysis of SABC audit opinions- 5 years

	2010	2011	2012	2013	2014
Audit opinion	Unqualified	Qualified	Qualified	Disclaimer	Qualified
Movement	↑	↓	↔	↓	↑
	Improved	Regression	Constant	Regression	Improved

- The 2014 Audit Report reflects SABC as having obtained a qualified audit report. This is an improvement on the 2013 financial period.
- The positive aspect however is that Programme, Film and Sports Rights which resulted in the qualified audit opinions of 2011 and 2012 is no longer on the audit qualifications.
- A detailed analysis will follow.



2.2 Table and analysis of qualifications paragraphs



Audit Qualifications- year on year improvement

AUDIT QUALIFICATION	2013	2014
Property, plant and equipment	✓	✓
Intangible assets- Programme, film and Sports Rights	✓	✗
Licence fees and receivables	✓	✓
Programme, film and sports rights	✓	✗
Trade and other receivables	✓	✗
Irregular, fruitless and wasteful expenditure	✓	✓
Deferred Taxation, tax payable and Income tax	✓	✓
Expenditure	✓	✗
Post retirement valuation	✓	✗
Deferred Government grant	✗	✓
Other payables	✗	✓
Mobile income	✗	✓
IFRS disclosure- Receivables Ageing	✗	✓

Explanation to symbols	Symbol
New paragraph – not in previous year's report	✓
Previous year's qualification successfully resolved	✗
Previous year's qualification in process of being cleared	✓
Paragraph not reported on in audit report of the year	✗



Audit Qualifications- improvement

	2012	2013	2014
Qualification Paragraphs	1	9	8
New paragraphs from previous year	0	+8	+4
Resolved paragraphs from previous year	0	0	(5)

2.3 Summary of action plan to deal with audit findings



Summary of action plan to resolve matters

Qualification areas	Implemented	In progress
License fees and related receivables -2017	Implementation of inspectorate service to validate the data base and aid recovery of fees due is completed	<ul style="list-style-type: none"> •RFP to source service providers for GIS and Inspectorate in progress •Mechanisms to determine potential license fee holders in progress •Drafting of policies and SoPs in progress
Irregular, fruitless and wasteful expenditure -2015	<ul style="list-style-type: none"> •Key vacancies in procurement are filled •Monthly reporting mechanisms to detect and report the expenditure has been developed per division •Vendor database is continuously cleaned up with updates of legislated supplier documents 	<ul style="list-style-type: none"> •Implementation of consequence management incorporating a performance management regime to enforce accountability and address non performance
Deferred taxation, tax payable and income tax -2017	<ul style="list-style-type: none"> •Centralisation of tax management and accounting in the CFOs office •Process to withhold tax on Royalties to foreign suppliers is implemented •Appointment of service providers to address findings in assets & programme and film rights that will form a significant portion of tax adjustments. 	<ul style="list-style-type: none"> •Recruitment of dedicated skilled resources to improve capacity in tax •Appointment of service providers to reopen and resubmit prior returns
Deferred government grant -2015	<ul style="list-style-type: none"> •Service provider doing verifications on fixed assets and ring fencing those acquired from Government grants •67.1% of 85 000 assets verified to date. 	<ul style="list-style-type: none"> •Verification and reconciliations of remaining 32.9% in progress •Approval of draft policies and SoPs •Appointment of dedicated and experienced staff
Other payables -2017	<ul style="list-style-type: none"> •Centralisation of tax management and accounting in the CFOs office •Implementation of inspectorate service to validate the data base and aid recovery of TV license fees due is completed 	<ul style="list-style-type: none"> •Source service providers for GIS and TV Inspectorate in progress •Confirmation of potential license fee holders in progress •Recruitment of skilled tax resources
Mobile income -2015	Contact has been made with the auditors of the 3 rd parties that collect and remit revenue on behalf of SABC	<ul style="list-style-type: none"> •Provide for fees and establish audit scope for 3rd party auditors. •Incorporate audit requirement in future contracts with 3rd parties.
IFRS disclosure- Trade Receivables Ageing -2015	Identification of root cause of problem of allocating of receipts to specific debtor invoices.	System configurations to ensure that receipts are allocated accurately

Audit turn around dependencies

- Board /committees continue to meet frequently to ensure that action plans are implemented
 - Audit committee – monthly
 - Risk committee – at least quarterly
- Risk management, internal audit and compliance functions have been adequately staffed.
- Policies and procedures for key activities
- Recruit experienced professional accountants
- Embedding of performance management.

