



FY2014/15 THIRD QUARTER 1 OCTOBER – 31 DECEMBER 2014



EXECUTIVE SUMMARY

FINANCIAL PERFORMANCE

OPERATIONS

PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

- The SABC is mandated to deliver a public value proposition of educating, informing and entertaining all South Africans in all official and other significant languages, by means of 18 radio stations and four television channels.
- This report tracks the implementation of the FY2014/15 Corporate Plan examining the most recent Quarter.
- Owing to the profound transformation that broadcasters are undergoing globally and taking into account the shifts in the world economy, new technologies, changes in audience behaviour and increasingly complex competitive environments, the SABC needed to reshape its future with a Corporate Plan that is guided by a very clear sense of direction and focus.
- The SABC's FY2014/15 – 2016/17 Corporate Plan was developed to ensure that the Corporation operates within well-defined parameters. The plan focuses on a new value proposition and a new forward-looking funding model which is essential to the future success and sustainability of the SABC as South Africa's only public broadcaster.

- In the context of lower than expected economic growth and increasing competitive activity in the broadcast environment, the SABC remains the dominant player in the broadcast environment, recording significant year-on-year improvements – particularly relating to aspects of over-all audience and revenue performance.
- The targets set in the Corporate Plan were ambitious and some of these were missed. Mitigating actions and interventions were identified during the Quarter under review and their implementation aggressively managed in order to address these.
- The outlook for the Corporation remains positive, as the SABC continues to deliver value to South Africans in terms of public service content with the Corporation's services providing an unmatched diversity through all its platforms.

- The 3rd Quarter of the fiscal was financially challenging, however, the Corporation also had the following highlights:
- Cash and cash reserves were respectable at R1,011.3bn with R978m invested in the money markets. The funds are invested with the Big 5 banks. The cash reserves could be under severe pressure due to the effects of salary increases, a potential tax liability of R330m arising from government grants received over the year that were not taxed, the cut backs in airtime purchases by advertisers and delays in contracting TV Licence debt collection agencies. The cash balance at year end is projected to amount to R1,449.3bn up 3% from the previous year.
- The Balance sheet is relatively robust with the SABC showing a net asset position of R2,374.2bn (at 31 March 2014) and R2,362.5bn as at the end of Quarter 3. Movements in non-current assets are expected as the Capex plan is implemented and service providers continue with the asset verification exercise that is anticipated to be completed by 27 February 2015.

- Revenue targets were not met in all instances other than net financing income and income recognised from the utilisation of government grants. Total revenue and income earned in the quarter was R2,099.7bn which was lower than budget by 9% (R207.3m).
- There were unfavourable performances in revenue from advertising, sponsorship, trade exchanges, licence fees, content & commercial exploitation, other revenues and other income all which fell short of their quarterly targets.
- The effects of increased competition, client (advertising) budget cuts owing to contractions in the economy, effects of the sustained labour unrest, the post office strike that affected mailing of TV licence statements, disruptions to the schedules and delays in approving revised TV licence tariffs all or in part contributed to this decline.
- Revenue and income earned for the nine-month period ended 31 December 2014 also fell short of budget by 7% equating to a shortfall of R451.2m.

- Expenditure in Quarter 3 amounted to R1,877bn which was 7% (R139.2m) lower than budget. Significant savings of R205.2m were realised collectively from the following cost categories: content amortisation on programmes and films, broadcast, freelancers, employee compensation, depreciation and amortisation, marketing, revenue cost collection and professional and consulting fees.
- These cost saving were, however, reversed by over expenditure of R62.9m from the amortisation of Sports rights and the production thereof that were not budgeted for.
- Expenditure incurred in the first nine months of the fiscal was 3% (R175.1m) below budget. Cost savings arose largely from under spending in broadcast costs, employee compensation, marketing, revenue collection and other operational expenses.
- The cost savings were reversed by overspending on amortisation of content which was caused by changes in the amortisation policy and expenditure on sports content that was not budgeted for.

BALANCE SHEET

		April 2014 R millions	YTD movement R millions	Dec 2014 R millions
Assets	Non-Current	1 790.1	(173.1)	1 616.9
	Current	3 411.3	(146.7)	3 264.6
	Total Assets	5 201.4	(319.8)	4 881.5
Equity	Share capital & reserves	6.9	-	6.9
	Retained earnings	2 367.3	(11.7)	2 355.6
	Total	2 374.2	(11.7)	2 362.5
Liabilities	Non-Current	1 085.7	33.2	1 118.9
	Current	1 741.4	(341.3)	1 400.1
	Total	2 827.1	(308.1)	2 519.0
Total Equity and Liabilities		5 201.4	(319.8)	881.5

CASH AND CASH EQUIVALANTS

	Analysis of cash and cash equivalents available for use at the end of the quarter			
	Foreign Currency	Balance at end Of Sept. 2014 R millions	Movements in the Quarter R millions	Balance at end of Quarter 3 R millions
Surplus cash in call and Fixed deposits***	x	962.0	16.0	978.0
Bank balances	x	27.5	(11.6)	15.9
Balance of Cash in Foreign Subsidiary (APT)	✓ Euro 297 000	4.2	(0.1)	4.1
Other liquid investments (SANLAM)	x	9.35	3.78	13.13
Outstanding Cheques & cash from Conditional grants		2.3	(2.13)	0.17
Total funding available		1 005.4	(229.3)	1 011.3

- A current ratio of 2.33 at the end of the quarter indicates that the SABC is fairly resourced to meet its current obligations with R2.33 of current assets available for each R1.00 of current liabilities that fall due. However, it is concerning that the cash ratio at the end of the quarter is set at R0.72 which is lower than the R0.79 figure at the beginning of the year.
- The cash ratio of R0.72 is, however, an improvement from the R0.65 at the end of Quarter 2. This implies that R0.72 of cash is available to settle R1 of current liabilities that fall due.
- Compliance with the PFMA with regard to irregular and fruitless and wasteful expenditure is being monitored. However, despite this, R2.05m of irregular expenditure and R0.82m of fruitless and wasteful expenditure were incurred in the quarter under review.

- The SABC continued to deliver top-class public service broadcasting to South African audiences. This was underscored by the number of prestigious awards the public broadcaster won during the 3rd Quarter. The Corporation's commitment to its mandate to educate, inform and entertain is portrayed in the highlights from the period under review.
- During October 2014, the SABC issued its Television Request for Proposals (RFP) book with a total value of more than R600m making it the largest RFP book issued by the SABC for local content to date.
- Through this substantial investment, the SABC continues to be the leading consumer of local content in South Africa, and more importantly the foremost generator of employment and development of the independent production industry.
- A significant amount of the RFP book has been ring-fenced for new black, female, people with disabilities and youth owned companies.
- As a public service broadcaster, the focus will also be to ensure that there is equitable distribution amongst the provinces in terms of allocating work.

- During the period under review, the SABC met the prime time audience share target but missed the performance period target by two per cent. The prime time success was attributable to SABC 1 exceeding its targeted audience share by almost four per cent, which counter-weighed the under-performance of the other two channels.
- It is important to note that SABC 1's delivery of a 29.9% prime time audience share took place in the context of the cancellation of Generations and the loss of some of those audiences. By aggressively managing the sudden cancellation of this key property the impact of its loss was mitigated.

- The 24-hour News Channel's audience share continued to grow with a daily average audience of 7,428 viewers. It is now the second most watched news channel on the DSTV bouquet. The SABC's News Room showcased its talent and skills by winning various awards across the country.
- Of significance is that the SABC is recognised by its peers in these awards. The Corporation received the following awards: Five Vodacom Awards; the prestigious Webber Wentzel Legal Journalist of the Year Award for Cutting Edge; a commendation for Special Assignment; The Newsroom was voted best new show on television at the Nedbank annual media event and the SABC received a commendation at the SAB Environmental Awards for the radio story on worm farming.

- The SABC successfully broadcast a full range of sports of national interest on both radio and television. Highlights include the SAB Regional Championship, the SA Sports Awards, the derby involving Kaizer Chiefs vs Orlando Pirates, the Bafana Bafana qualification to AFCON 2015, the Nelson Mandela Marathon and The Nelson Mandela Sport and Culture Day.
- During the period under review, the SABC also successfully concluded a 3-year deal with Cricket South Africa for both Television and Radio, which saw live coverage of the West Indies tour of South Africa.
- October 2014 did, however, turn out to be a sad month for Sport in general with the passing of three South African athletes - Senzo Meyiwa, Phindile Mwelase and Mbulaeni Mulaudzi.
- These three athletes made their mark in Soccer, Boxing and Athletics and will long be remembered for their achievements. The SABC extensively covered the memorial service for the athletes and gave fellow South Africans the opportunity to mourn this tragic loss.
- This broadcast also attracted the highest ever audience numbers on the News platform.

- A significant number of South Africans depend solely on radio as a source of information - of a total of 37.6 million adult weekly national listenership, SABC Radio reaches an estimated 28.8 million weekly, once again re-enforcing the role of the public broadcaster.
- Radio performed very well during the 3rd Quarter and exceeded weekly audience share targets - 69.7% against a target of 68.8%.
- Radio content was also a focus of public service delivery with on-air activities specifically aligned to national programmes such as 16-days of Activism Against the Abuse of Women and Children and coverage of events of national importance.
- Radio stations also continued with Freedom Fridays during the quarter under review and featured local music as well as quotations and interviews with veterans of the struggle for liberation.
- To complement the *Twenty Years of Democracy* theme the National Anthem was played daily and twice on Fridays.
- SABC Radio broadcast the Minister of Finance's mid-term budget speech and also provided expert analyses thereof to ensure that South Africans understand the impact of the budget on their everyday lives.

- The 3rd Quarter also featured the commemoration of the death of former President Mr Nelson Mandela. SABC provided extensive coverage of commemorating the first year of the passing of Mr Nelson Mandela including live broadcasts.
- From a digital media perspective, the SABC's on-line assets enjoyed healthy growth, with the number of website page views up 18% to almost 5-million against an 11% target.
- Seventeen of SABC's 18 radio stations launched their websites during the period under review and the final site's launch will take place in the 4th Quarter. The websites will be used to boost audience share and complement other revenue generation activities.

- During October 2014 the SABC experienced a number of interruptions to its on-air services owing to power failures which affected *Uninterrupted Power Supply* (UPS) as well the functionality of back-up generators.
- The SABC has put in place measures to ensure that the power outages that disrupted on-air services at the beginning of October 2014 are not repeated. These include an UPS Bridging system that will provide limited power to the Final Control Centre (FCC) if such a situation arises again.
- Implementation of the technical infrastructure in anticipation of digital migration is progressing with the Henley Sport play-out facility being on-air and operational as well as the HD (High Definition) Head-end Upgrade having been completed.
- A significant milestone leading to the roll-out of Digital Terrestrial Television (DTT) transmissions was reached when the SABC successfully added the 24-hour News Channel to the trial Multiplex 1 bouquet at the end of the Quarter under review.
- Part of the transition to digital includes the use of *Direct to Home* (DTH) digital satellite feeds and the SABC is developing plans to ensure that this is used to boost access in under-serviced areas.

- In order to fast-track DTT roll-out the Minister established a *Digital Migration Task Team*. The SABC is playing a key role in the team. Currently the focus of the team is the review of 2008's *Digital Migration Policy*, with the goal of having a revised document ready for the Department of Communication to review.
- Some of the key issues the new policy will address are the Set-top Box (STB) encryption, the digital migration period and the impact the revised policies will have on ICASA's current regulations.
- During the period under review the Corporation was also actively involved in a range of developmental and social projects across the country. Community organisations and institutions were provided with the opportunity to make *Public Service Announcements* (PSAs) free of charge on both Radio and Television.
- The PSAs provide critical information that creates top of mind exposure for worthy causes (e.g. breast cancer, organ donation, NICRO,) that are in the interest of the public at large.
- The SABC fulfilled its mandate by conducting a variety of events, workshops and interactions in order to strengthen the relationship between the SABC and its external stakeholders at a Provincial and National level.

THE SABC'S PERFORMANCE AGAINST FY2014/15 3RD QUARTER PREDETERMINED OBJECTIVES TARGETS MAY BE VIEWED UNDER SECTION 16 OF THE QUARTERLY REPORT.

THANK YOU