

RISE UP SABC!
PHAKAMA SABC!
VUKA SABC!
PFUKA SABC!
TAN È SABC!
STYG UIT SABC!
EMELELA SABC!
TAKUWANI SABC!
PHAHAMA SABC!
GOLA O AKALALE SABC!

ANNUAL REPORT 2021

AGM PRESENTATION

September 2021



VISION

To become the leading, credible voice and face of the nation and the continent.

MISSION

A high-performing, financially sustainable, digitised national public broadcaster that provides compelling informative, educational and entertaining content via all platforms.

VALUES

TRUST:
always demonstrate honesty and consistent dependability in our interactions in and outside the organisation.

RESPECT:
To respect the public mandate we are entrusted with and conduct ourselves respectfully in all our engagements internally and externally.

INTEGRITY:
To always conduct ourselves ethically and in the interest of the organisation, in the decisions we make in executing our responsibilities.

QUALITY:
To aspire to and provide the highest standard of quality in the work we produce and experiences we exchange.

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MANDATE DELIVERY



- Attracted an average of **25.8 million adult audiences per month** across SABC 1, SABC 2, and S3;
- **Education content broadcast** to support learners, including **Woza Matric** programme aired on S3.



- Attracted an average of **30 million adult listeners per week** across our 18 radio stations;
- **Education content broadcast** to support learners, especially the Matric Class of 2020.

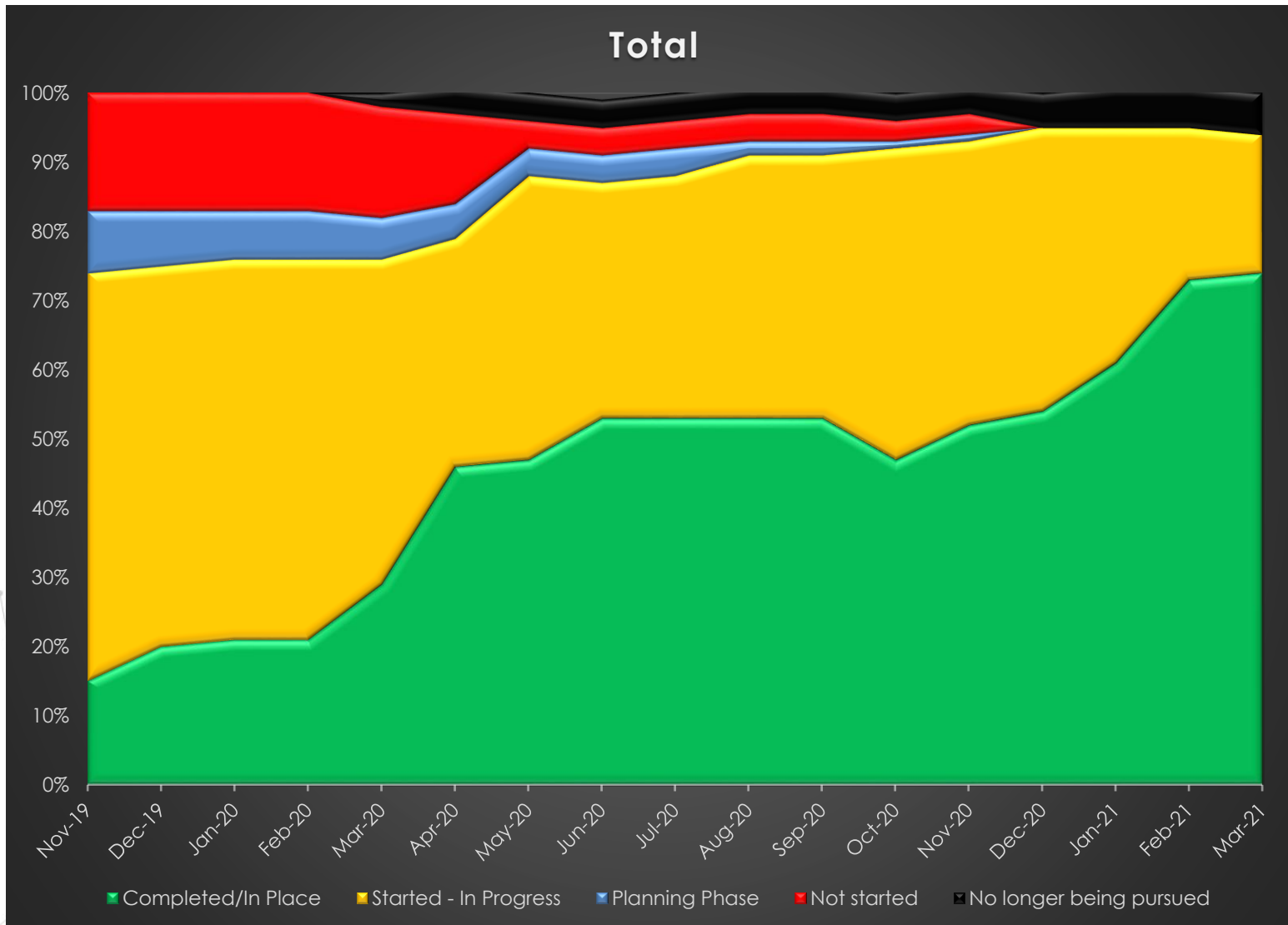


- SABC News attracted an average of **7.2 million adult audiences per month**;
- **SABC Education channel launched** on the DTT platform, to enable uninterrupted distribution of curriculum support to grades 10-12



- All SABC platforms (including digital platforms) provided **extensive credible COVID-19-related coverage** (including all Presidential addresses and Ministerial briefings)
- **700 hours of education content was broadcast** to support learners, especially the matric class

TURNAROUND PLAN IMPLEMENTATION

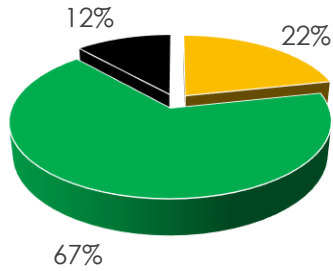


As at the end of March 2021, the SABC had implemented **74%** of the Turnaround Plan key actions – **17 months into a 36-month implementation period.**



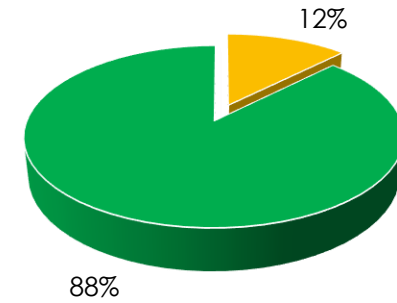
TURNAROUND PLAN IMPLEMENTATION

Financial Sustainability and Governance



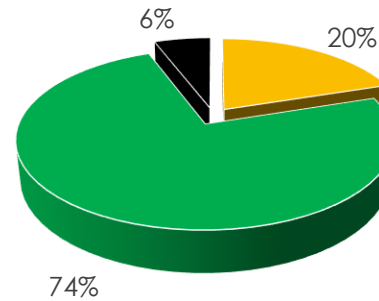
- Started - In Progress
- Completed/ In place
- No longer being pursued

Content & Platforms



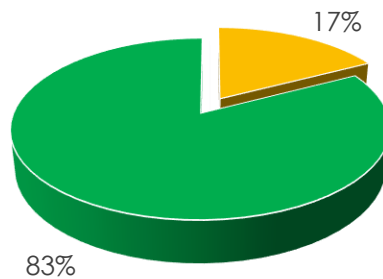
- Started - In Progress
- Completed/ In place

Overall



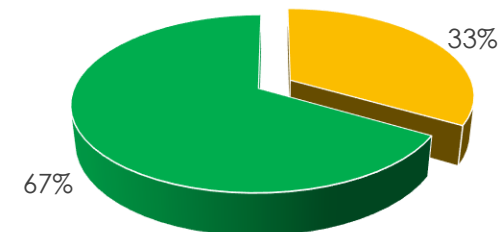
- Started - In Progress
- Completed/ In place
- No longer being pursued

Human Resources



- Started - In Progress
- Completed/ In place

Transmission and Digital Migration



- Started - In Progress
- Completed/ In place



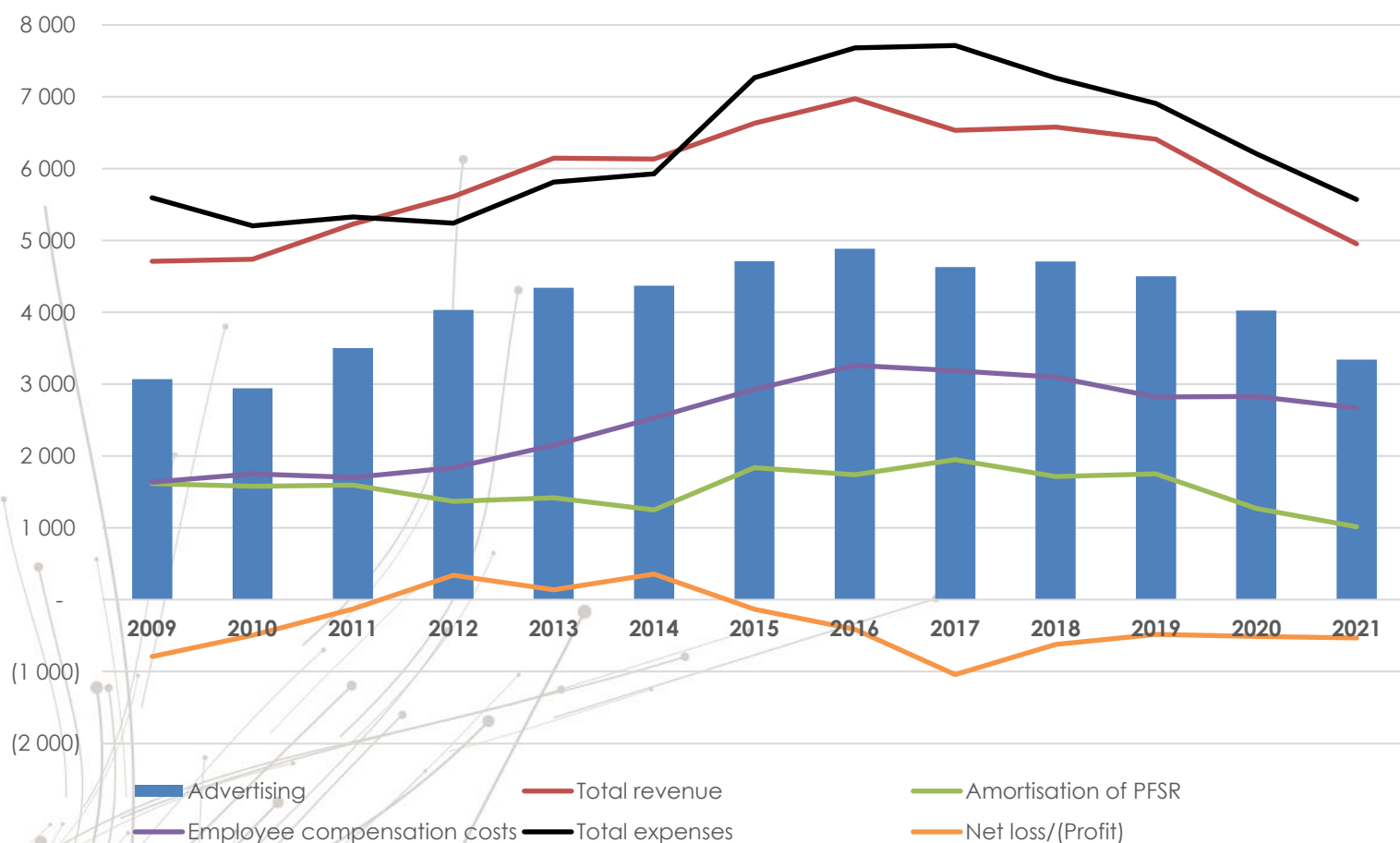
SABC AFS 2021

**HIGHLIGHTS FROM THE AUDITED
ANNUAL FINANCIAL STATEMENTS
OF 2020/21**

SUMMARY FINANCIAL PERFORMANCE

THIRTEEN-YEAR PERFORMANCE TREND

13 Year Performance Trend (R'm)



- The losses have managed to stabilise despite the significant losses in revenue in the last three years
- Although COVID-19 accelerated the decline in revenue, this has been in decline since 2016
- In the last three to five years, management has managed to keep employee costs from growing
- Decline in content investment over the last three financial years may be a cause for concern. This was worsened by COVID-19 related production restrictions. These matters are receiving management attention.
- There is room for revenue growth in the short-term at above market growth levels

SUMMARY FINANCIAL PERFORMANCE

SUMMARISED INCOME STATEMENT (R`000)

	GROUP		COMPANY	
	2021	2020	2021	2020
Revenue	4,953,202	5,652,481	4,953,202	5,652,481
Other income	15,063	20,82	15,063	20,82
Expenses	(5,573,187)	(6,207,178)	(5,572,789)	(6,206,614)
EBIT	(604,922)	(533,877)	(604,524)	(533,313)
Investment income	82,147	64,931	82,147	64,883
Finance costs	(8,339)	(41,935)	(8,339)	(41,935)
Gain on financial asset	(939)		(939)	
Impairment of subsidiaries			(1,761)	
Loss before taxation	(530,175)	(510,881)	(531,539)	-510,365
Taxation	-	(497)	-	(497)
Loss for the year	(530,175)	(511,378)	(531,539)	(510,862)

NET LOSS ANALYSIS

- Advertising revenue was R741m lower than prior year, as ad-spend was very depressed in Q1 and Q2 due to the trading restrictions and market anxiety from the COVID -19 pandemic. By the end of Q2, advertising revenue was already R616m lower than comparative prior year actuals.
- TV licence fees were almost flat, R3m decline to R788m.
- Sponsorship revenue grew by R32m (10%) to R354m, growth on Radio platforms
- Channel Carriage fees marginally grew by R8m to R197m
- Mobile revenue grew by R5m or 55% to R14m. SABC also entered into the TelkomOne deal but billing could only commence after year-end
- All other revenue streams' performance was relatively stable.
- Total revenue was R700m lower than prior year, indicating the strong rebound in revenue generation experienced in Q3 and Q4.

Total expenses declined by R634m (10%) driven by the following:

- Employee costs decreased by 5,6% (R157m). Included in employee cost is a once off charge for VSP amounting to R177m.
- Broadcast costs were R131m lower due to virtually no outside broadcasting activities especially in sport and reduced royalties from lower advertising revenue.
- R255m underspending on production of commissioned TV content, and suspended long form sporting events such as the PSL.
- Depreciation and amortisation on assets decreased by R17m due to revision of useful lives as the entity sweats the use of its assets
- There were general savings across other personnel related costs from remote working arrangements – estimated at R30m
- Direct cost of content to fulfil unfunded mandate is R450m, excluding transmission costs. Including transmission cost is R739m for financial year 20/21.

SUMMARY FINANCIAL PERFORMANCE

NORMALISED PERFORMANCE

R'000	GROUP		COMPANY	
	2021	2020	2021	2020
Loss for the year	(530,175)	(511,378)	(531,539)	(510,862)
Adjusted for :-				
Amortisation software – RUL assessment	(7,780)	-	(7,780)	-
Depreciation - RUL assessment	(2,420)	(20,340)	(2,420)	(20,340)
S189 settlements - employee cost	176,625	-	176,625	-
Normalised loss for the year	(363,750)	(531,718)	(365,114)	(531,202)

- Loss for the year is adjusted for “abnormal” or non-recurring costs to determine the “normalised” loss for the year.
- **The normalised result indicate an improved performance of R168m (32%) in the operational losses suffered year on year.**
- The justification for the adjustments made are as follows:-
- Amortisation and depreciation charge reduced due to material non-routine re-assessment of useful lives and residual values of assets. This will normalise as the organisation continues these adjustments annually.
- Once off expenditure costs associated with severance packages for voluntary resignations and retrenchments arising from the S189 process.

ANALYSIS OF THE SABCs NET LOSS OVER A 5 YEAR PERIOD

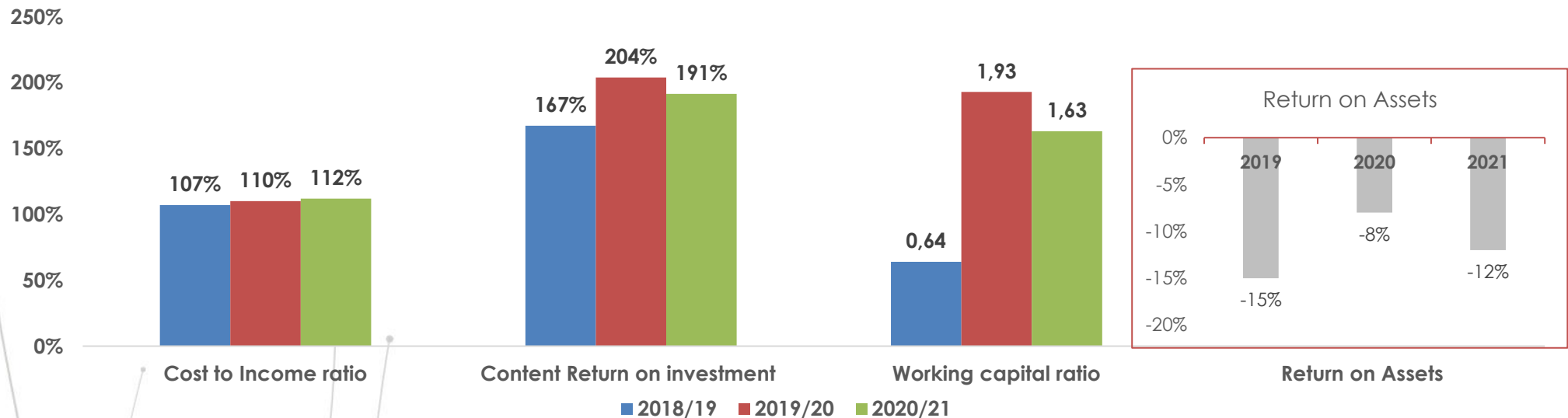
	2021	2020	2019	2018	2017
Earnings before Interest and Tax (Including once off items)	(604 922) *	(533,877)	(443,764)	(634,732)	(1,143,390)

* Includes S 189 settlements amounting to R 177m

SUMMARY FINANCIAL PERFORMANCE

RATIO ANALYSIS

KEY FINANCIAL RATIO ANALYSIS

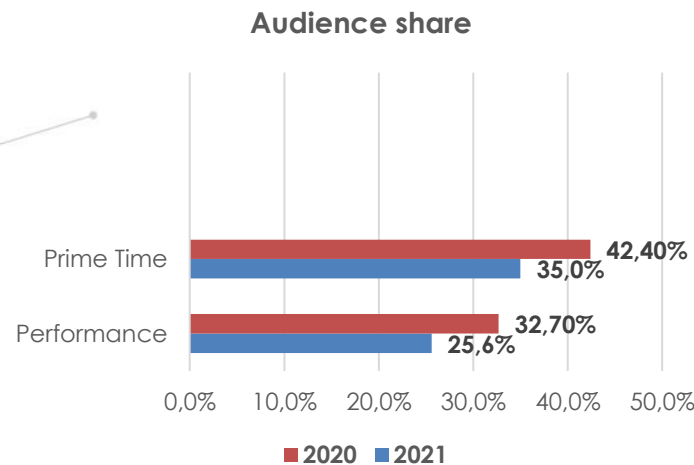
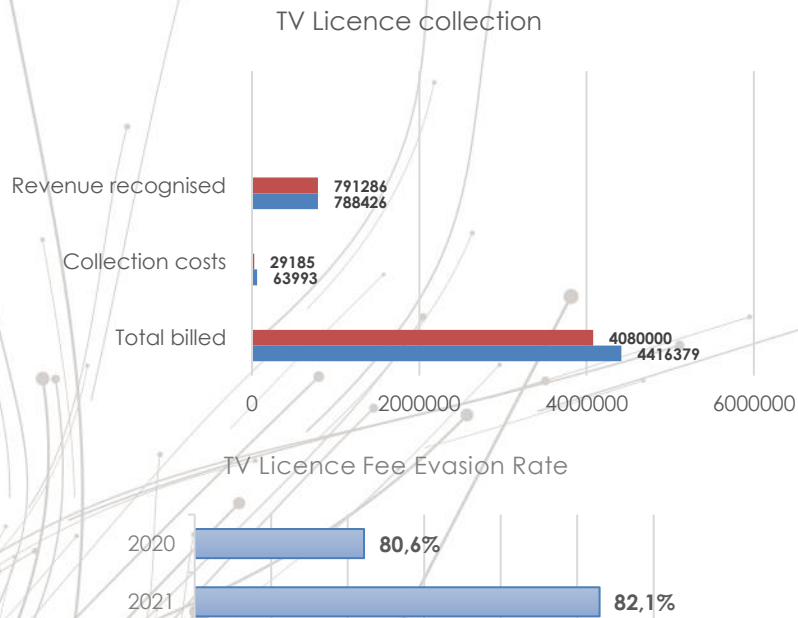
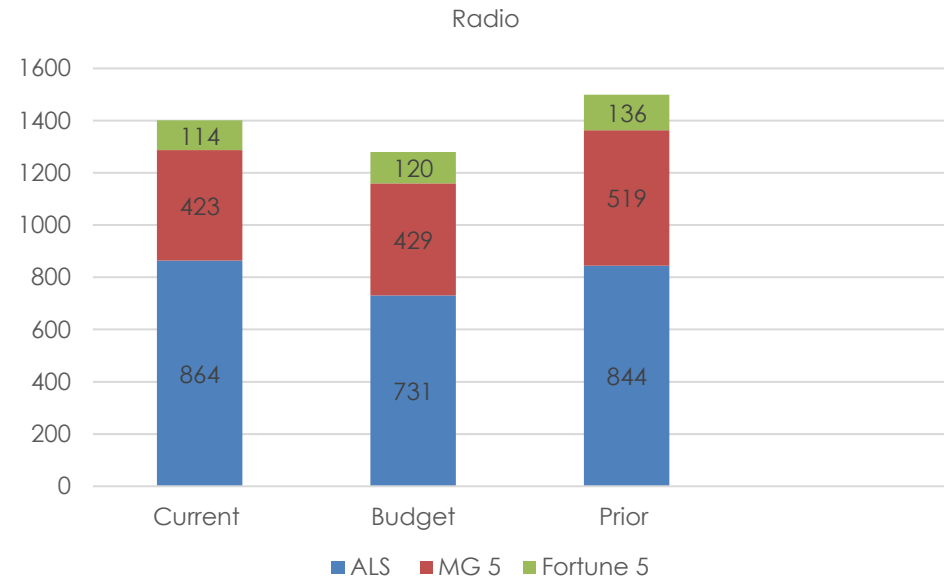
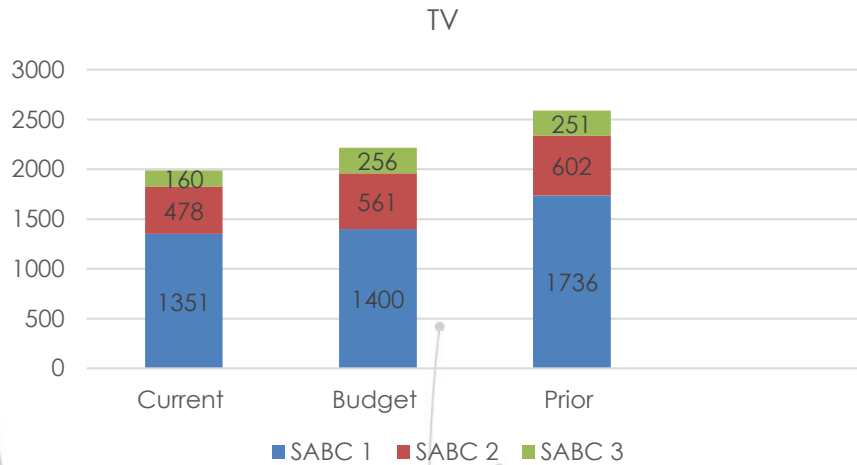


- Cost to income has increased by 5% over the three year period due to misalignment in revenue and expenditure movement.
- Content ROI (This is content amortisation costs as a percentage of advertising revenue). The increase in content ROI % is due to the underspend in content investment at a rate bigger than revenue decline over the period. The desired content ROI must yield a gross margin of 250%, i.e revenue should be 250% of content amortisation.

- Working capital ratio shows an improvement in the liquidity position. The positive liquidity position is largely due to the remaining recapitalisation funding. Through stringent cash management practices and strong support from our financial institution partners we continue to demonstrate the ability to meet current obligations. Working capital ratio of 1,2 to 2 is considered to be good. Our target is 1.5.
- The return on assets measure indicates how efficient we are in converting our invested resources into income. This has deteriorated over the past financial period. The desired return on assets is 5%.

REVENUE PERFORMANCE

ADVERTISING REVENUE PER PLATFORM (R` MILLION)

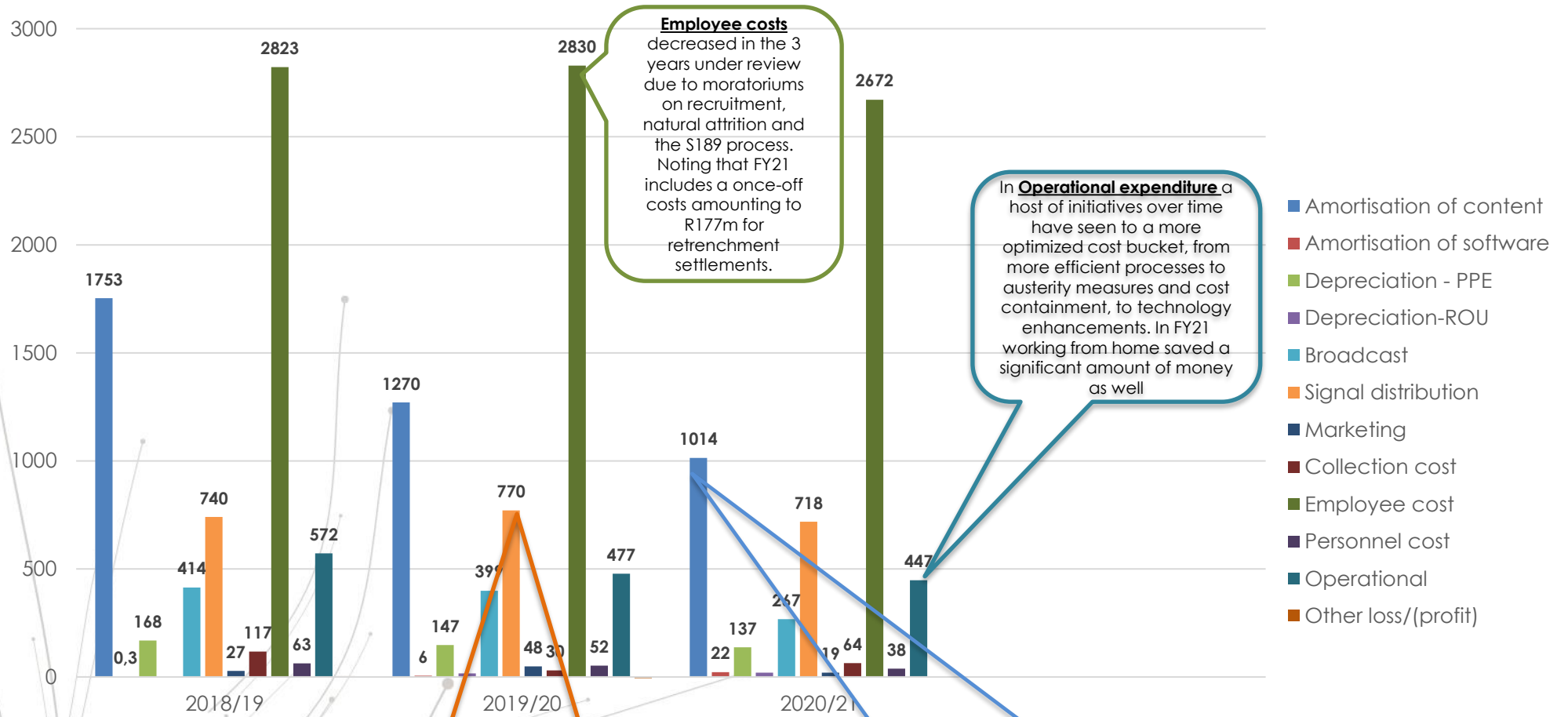


- Delays in delivering fresh content negatively impacted audience share and advertising and sponsorship revenue
- Radio advertising decline across the board with the exception of African Language Stations



EXPENDITURE PERFORMANCE FY19 – FY21

THREE YEAR PERFORMANCE (R'MILLION)



Employee costs decreased in the 3 years under review due to moratoriums on recruitment, natural attrition and the S189 process. Noting that FY21 includes a once-off costs amounting to R177m for retrenchment settlements.

In **Operational expenditure** a host of initiatives over time have seen to a more optimized cost bucket, from more efficient processes to austerity measures and cost containment, to technology enhancements. In FY21 working from home saved a significant amount of money as well

With respect to **Signal and Distribution** cost a transmitter audit and chart of accounts interrogation were initiated. Furthermore, from a financial perspective it was negotiated that no tariff increase is implemented in FY21 and there was an additional cash discount. An application was also lodged with the Competition Commission to investigate the unfair and uncompetitive pricing experienced by the SABC.

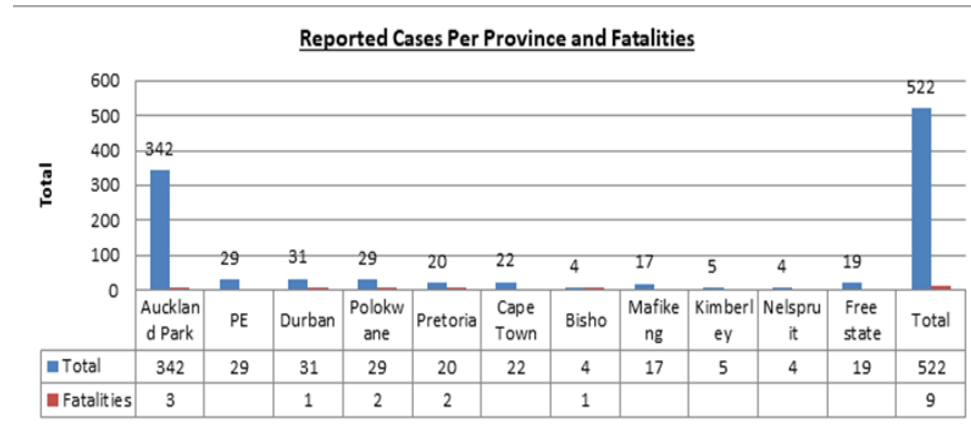
Content investment reflects a decline due to the cashflow challenges in FY19 and FY20, the Corporation assessing its content acquisition performance parameters and the suspension of long running lossmaking contracts or renegotiations of contracts, instability in leadership and the stabilisation/strengthening of the governance and internal control environments that were required. In FY21 once again lower investment was due to the lockdown restrictions and disruptions caused by positive cases which halted production repeatedly and with every new wave. Under the new leadership the team took a step back to reflect on its content acquisition strategy and metrics. The spend is expected to increase once again going forward.

- Amortisation of content
- Amortisation of software
- Depreciation - PPE
- Depreciation-ROU
- Broadcast
- Signal distribution
- Marketing
- Collection cost
- Employee cost
- Personnel cost
- Operational
- Other loss/(profit)

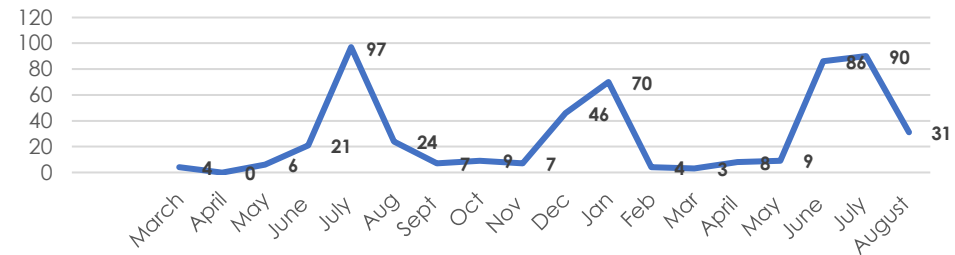


IMPACT ASSESSMENT OF COVID-19

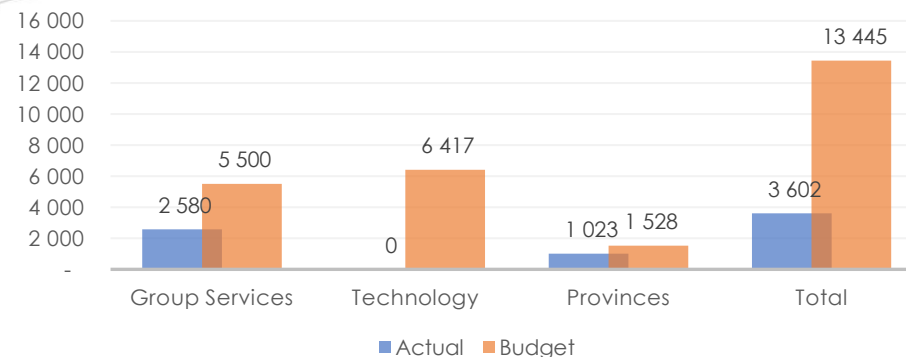
- Declared as an essential service per the regulations, during level 5 restrictions the SABC was eligible to continue operating at full capacity.
- Non-essential areas of the business were identified and a work-from-home strategy was developed with the primary purpose of limiting infections and prioritising the safety of employees.
- The work-from-home strategy yielded cost savings, productivity levels were maintained amidst section 189 process and moratorium on recruitment.
- Key enablers for positive results was the provision of resources to facilitate the effective execution of staff functions
- Measures were/are in place to protect key operations, essential staff and monitor the number of employees on site wherever possible.
- Content production experienced delays due to the pandemic as infections affected production houses. One of the flagship soapies, the biggest revenue driver, halted production due to the imposition of level 5 restrictions, and insufficient stock levels meant the soapie went off air for a full month.
- A negative impact on future revenue generation is expected to continue in the short term as uncertainty over the pandemic continues. However, this should be countered by the introduction of digital revenue generation techniques aimed at revenue enhancement.



Comparison of accumulative cases reported March 2020 - August 2021



Spending on COVID-19 expenses (Actual R'000)



SUMMARY FINANCIAL POSITION

SUMMARISED STATEMENT OF FINANCIAL POSITION

	GROUP	
	2021	2020
Total non-current assets	3,357,649	2,428,635
Total current assets	2,715,272	3,745,472
Total Assets	6,072,941	6,183,062
Total equity	2,980,934	2,993,453
Total non-current liabilities	1,426,810	1,245,400
Total current liabilities	1,665,197	1,944,209
Total Liabilities	3,092,007	3,189,609
Total Equity and Liabilities	6,072,941	6,183,062

- Total non-current assets – there was a favourable actuarial valuation of the Pension Fund increased defined benefit asset by R1.02 bn. Additions to our PPE amounted to R102m as we continue to upgrade and digitise our equipment.
- Current assets - Cash balance on hand was R1.48 billion, as recapitalisation was utilised and funding of operating deficit.
- Total non-current liabilities - Unfavourable actuarial valuation of the unfunded post retirement obligation which increased by over R250 million as result of actuarial movements

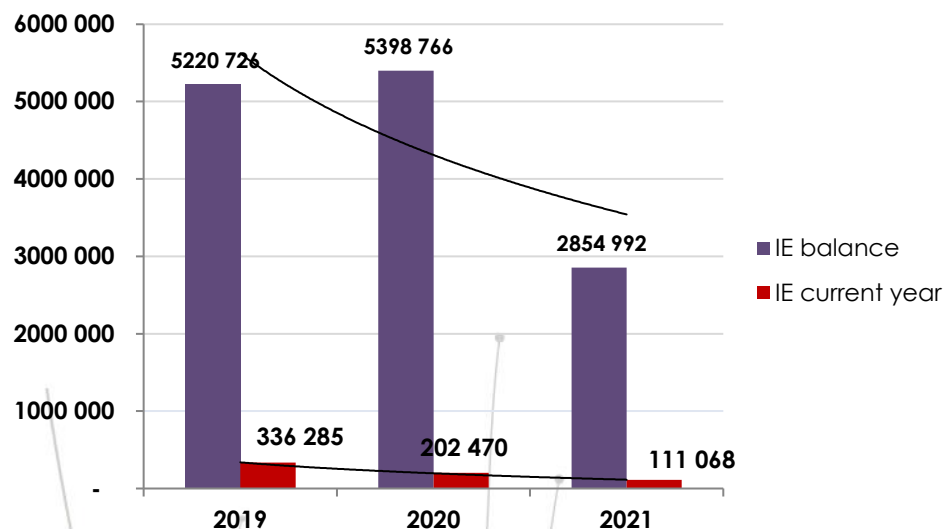
	2020	2021
Debtors days	56	54
Creditors days	52	33



IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

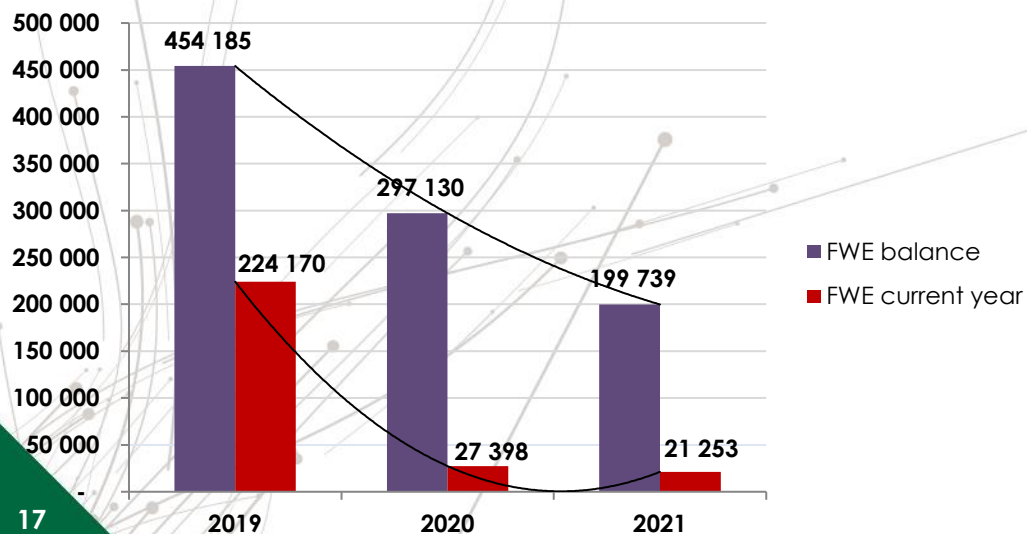
IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

IE ANALYSIS OVER A 3 YEAR PERIOD (R`000)



R`000	2019	2020	2021
IE- Balance	5,220,726	5,398,766	2,854,992
IE- Movement	243,426	178,040	(2,543,774)
% Increase/(decrease)	5%	3%	(47)%
IE – current year	336,285	202,470	111,068
IE -current year movement	(235,211)	(133,815)	(91,402)
% Increase/(decrease)	(41%)	(40%)	(45%)

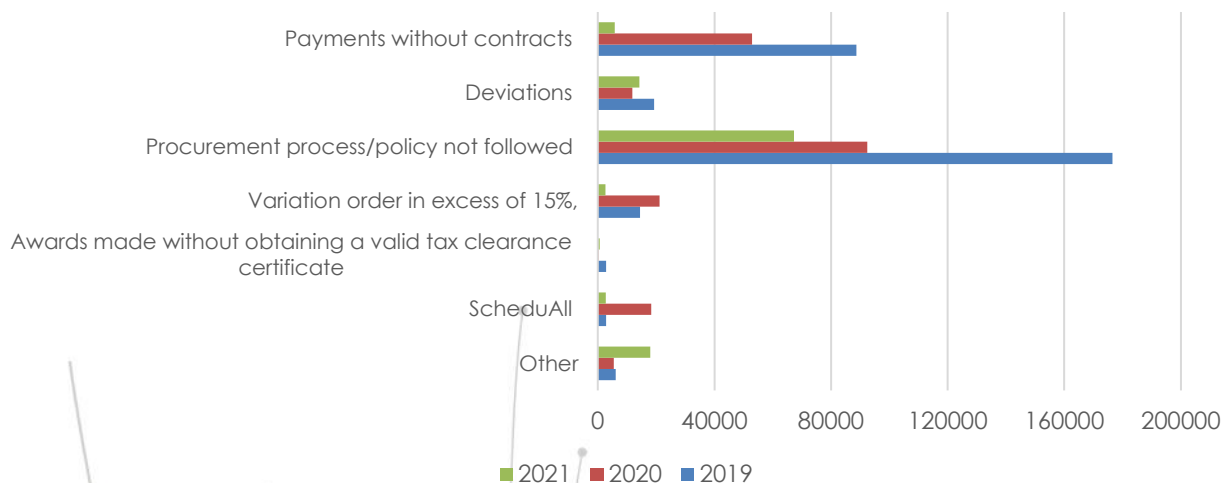
FWE ANALYSIS OVER A 3 YEAR PERIOD (R`000)



(R`000)	2019	2020	2021
FWE-Balance	454,185	297,13	199,739
FWE-Movement	224,17	(157,055)	(97,391)
% Increase/(decrease)	97%	(35%)	(33%)
FWE – current year	224,17	27,398	21,253
FWE current year movement	140,149	(196,772)	(6,145)
% Increase/(decrease)	167%	(87%)	(22%)

IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

IRREGULAR EXPENDITURE



Incorrect application of evaluation criteria is included under "Procurement process/policy not followed, and accounts for 68% (63 m out of 92 m)

Irregular expenditure (IE) has significantly decreased by R2.36 bn over 3 years, with a main decrease of R2.53 bn realised in the current year.

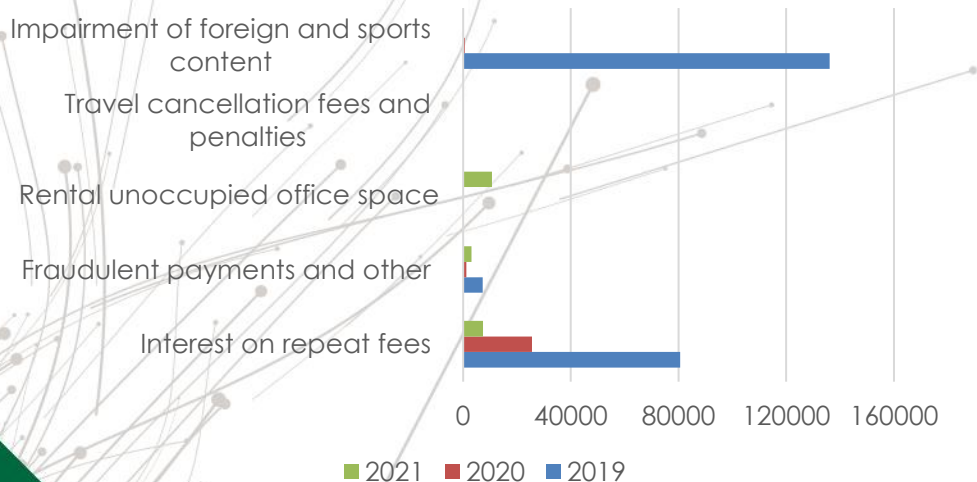
Although it decreased (25%) when compared with prior year, the application of incorrect evaluation criteria still remains the significant IE contributor. This is mainly due to past years' transgressions with contracts continued into current year pending condonation process. Only 3% (R1.6m) of the IE incurred relates to current year transgressions

Tenders above R30 million not including subcontracting as a condition of tender shot up by 1100% to R12.7 m. This is due to a past year transgression with contracts continued into current year pending condonation process. There were no new transgressions identified in current year.

IE control environment has significantly improved. An IE Standard Operation Procedure has been developed, all in-year vendor payments were investigated for IE, and training of SCM officials was carried out.

Consequence management is still being enforced. Disciplinary steps were taken against some of the officials who had incurred and/or permitted irregular expenditure in prior years, as required by section 51(1)(e)(iii) of the PFMA.

FRUITLESS & WASTEFUL EXPENDITURE



Fruitless and wasteful expenditure decreased by R6,1 m. The most significant decrease realised was for Interest, penalties and fines on late payment which amounted to R18.1 m.

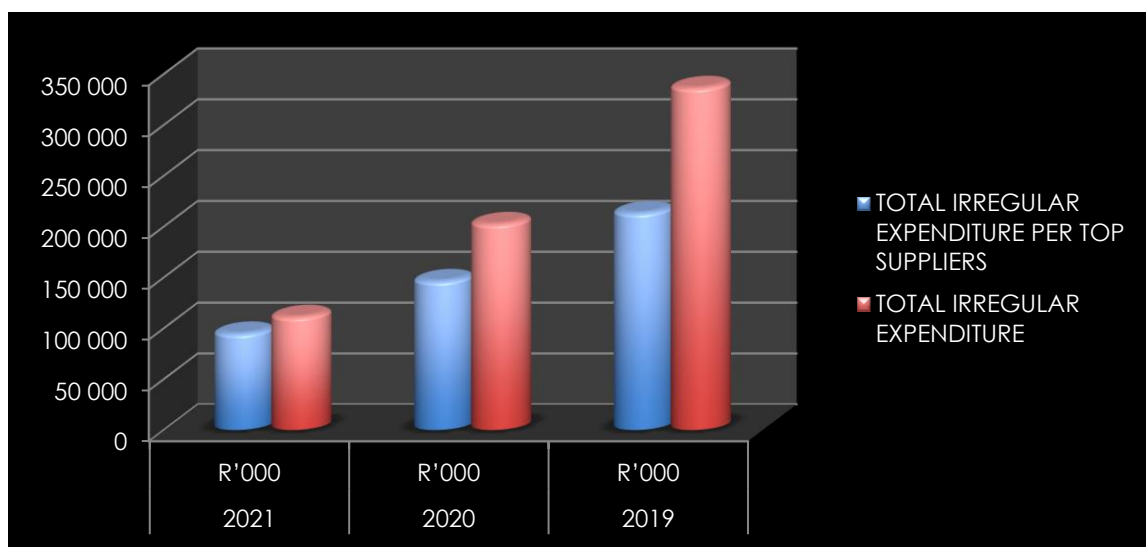
R10.7 m FWE which accounts for significant portion of FWE relates to rental of unoccupied office space, appropriate action will be taken in line with PFMA requirements.

R2.2 m FWE was recovered, and FWE of R103 m in terms of PFMA section 38 was referred to and written off by the board.

IRREGULAR EXPENDITURE

TOP TEN SUPPLIERS

	2019	2020	2021
	R'000	R'000	R'000
TOTAL IRREGULAR EXPENDITURE PER TOP SUPPLIERS	213 315	146 332	94 669
TOTAL IRREGULAR EXPENDITURE	336 285	202 470	111 068



- The top 10 suppliers account for 82.6% of the irregular expenditure reported over the 3 year period (2019 63%;2020 72%;and 2021 85%). Awards to these suppliers are multi-year contracts, and this illustrates improvement in the SCM control environment.
- IE incurred is largely attributable to top 10 suppliers. This illustrates that the number of instances of IE are significantly limited to these suppliers as awards are not wide spread. Although Irregular expenditure incurred is significantly limited to awards to top suppliers, the reported IE decreased by 56% over the 3 year period. Decline is attributable to improvement in the control environment as reported in the previous slide.

IN YEAR IE ANALYSIS

IE Type	Current Year Transgression	Prior Year Transgression	Total	% Current Year / Total
	R'1000	R'1000	R'1000	
Awards made to suppliers without obtaining valid Tax Clearance Certificates		593	593	0%
Bids advertised for less than minimum number of days		345	345	0%
Deviations	85	14 125	14 210	1%
Incorrect evaluation criteria applied to bids	1 634	62 174	63 808	3%
Irregular awards due to lack of planning		157	157	0%
Minimum number of quotations not obtained	150	1 806	1 955	8%
Non-Compliance with National Treasury Instruction Note on PPE Emergency Procurement (COVID 19)	63		63	100%
Payments without contracts	5 748		5 748	100%
Procurement Process not Followed	869	135	1 003	87%
Procurement through quotation process instead of competitive bidding process		5 158	5 158	0%
ScheduAll	2 727		2 727	100%
Tenders above 30 million did not include subcontracting as a condition of the Tender		12 713	12 713	0%
Variation order in excess of prescribed thresholds (15%)		2 588	2 588	0%
Total	11 275	99 793	111 068	10%

The largest IE contributor are prior year awarded multi year contracts, which represent 90% of IE. This further demonstrates the implemented controls are operating effectively.

AUDIT OUTCOME ANALYSIS

Audit outcomes for the past 5 years

	AUDIT OPINION				
	2017	2018	2019	2020	2021
OVERALL OPINION	ADVERSE	DISCLAIMER	QUALIFIED	QUALIFIED	QUALIFIED
FINANCIAL STATEMENTS					
Property, plant & equipment	●	●	●	●	●
Irregular expenditure	●	●	●	●	●
Going concern	●	●	●	●	●
Programme, film & sports rights	●	●	●	●	●
Trade & other payables	●	●	●	●	●
Taxation	●	●	●	●	●
Deferred government grant Expenditure	●	●	●	●	●
PERFORMANCE INFORMATION	●	●	●		●
COMPLIANCE	●	●	●	●	●

AUDIT FINDINGS ANALYSIS

AUDIT FINDINGS (Count)	2018	2019	2020	2021
Material AGSA audit findings	68	28	23	6

Audit outcomes over the 3 year period:-

2018/19

- Four qualification areas were reported being PPE, Irregular expenditure, Performance information and compliance

2019/20

- PPE and Performance information qualifications were addressed. A material irregularity was reported for the first time in the audit report.

2020/21

- The corporation regressed as the Performance information qualification re-emerged. The main contributor was the deficiencies in the system used to report on % of local music broadcast on PBS radio stations.
- No material irregularity was reported.
- No Material findings were reported on in-year Irregular expenditure. Stricter controls were implemented, an SOP was developed and all in year Irregular expenditure was investigated by SCM

Interventions

- Enhancement of monthly financial controls.
- Monitor the execution of IE SOP, and investigation of IE.
- Configuration of system reports will be adjusted to be in line with the ICASA reporting parameters.

- Reported material findings have decreased by 62 findings (92%) over 5 year period. This attributable to institutionalisation of internal controls.
- In the 5 year context, findings reported in the following areas have significantly reduced attesting to improvement in the control environment
 - Supply Chain Management
 - Predetermined objectives



THANK YOU