

SABC Presentation Portfolio Committee on Communications

18 June 2009
Cape Town



Broadcasting for Total Citizen Empowerment

Gab Mampone: Acting Group CEO

Our Citizens



Broadcasting for Total Citizen Empowerment

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Presentation by

SABC Performance & Challenges

Acting Group CEO: Gab Mampone

Financial Sustainability

Chief Financial Officer: Robin Nicholson

SABC Strategic Focus Areas

Head: Group Strategy: Sipho Sithole

TOTAL CITIZEN EMPOWERMENT

People

Operations

Funding

Technology

Governance

Corporate Goals and Values

Regulatory Frame work

Legislative Frame work

CONSTITUTION

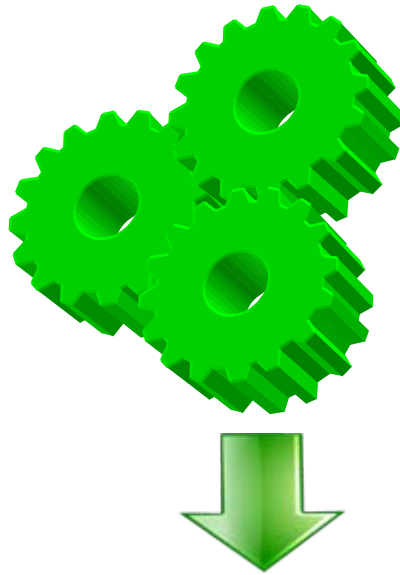
Strategy Building Blocks

B. Organisational Values

- Conversations & Partnerships
- Restoration of Human Dignity
- Building a Common Future

C. Strategic Pillars

- People
- Operation
- Funding
- Technology
- Governance



A. Corporate Goals:

- Content – democracy non-racism, nation building
- Stakeholders – support and respect of shareholder and audiences
- Financial – sustainability and empowerment
- People – preferred employer
- Technology – innovative
- Governance – compliance – legislative framework
- Performance Monitoring – Corporate Goals and SABC policies

Informs the Vision : Broadcasting for Total Citizen Empowerment
Informs new performance management framework/group score card

Delivering Public Value

SABC Vision

Broadcasting for Total Citizen Empowerment

SABC Mission

To be a:

- People Centered
- Content Driven
- Technologically enabled
- Strategically focused
- Financially Sustainable

Public Service Broadcaster

Organisational Values

- Conversations and Partnerships
- Restoration of Human Dignity
- Building a Common Future

Objectives

- Ensuring that the SABC promotes democracy, non-racism, nation-building and empowerment through innovative programming that is informative, entertaining and educational, in all official languages
- Creating an SABC that enjoys the support and respect of its shareholders, the citizens, viewers, listeners and other stakeholders
- Putting in place innovative technology platforms and infrastructure that will enable the SABC to deliver on its mandate

Organisation Challenges & Austerity Measures

Maintaining relevance as a Public Service Broadcaster

External Challenges

- Understanding the changing tastes of audiences
- Maintaining relevance in a TV and radio market that is becoming more competitive



Increased Competition

SABC Ambitions

- Public Service "Plus"
- Leadership in digital distribution at home
- Services for audiences abroad



Funding Mix

Solutions

- Proper audience segmentation
- Clearly defined strategy options
- Sustainable funding
- Implementation roadmap



Sustainable Future?



SABC Key Challenges

The single biggest challenge of the SABC as a Public Service Broadcaster is the obligation to deliver public mandate within the realm of commercial imperatives.

- Funding Model and Funding Mix
- A Sustainable TV License Funding Regime
- A Regulatory Framework that takes Cognisance of the Sustainability of the Public Broadcaster
- Obligation to contribute to Social Cohesion and Nation Building through Sports of National Interest in competition with Commercial Broadcasters
- The extent of the investments in Sports rights and costs of rights (gate-keeping rights)
- Absence of adequate Education Sponsorships and funding to fulfill public mandate
- Relevance of SABC as Public Broadcaster in an increasing competitive environment (Audience Growth/Share)
- Returning the Core to profitability (Austerity Measures & Turn-around Plans)
- Cost of Local Content and Programming
- Upgrade and Digitisation of Broadcasting Infrastructure
- News International and the extent of News Bureaus
- Funding for DTT Migration
- The SABC Operating Model in a converged broadcasting landscape
- Returning the core to profitability

Root Causes of the Current Crises

Revenue

- Decline in sales of airtime particularly in television. Sales were R643 behind budget
 - Consumer spending recession in SA,
 - Compounded by the global debt crisis
 - Sport sponsorship market and SABC internal sales capability
 - Decline in audience share
 - Pricing issues for some audiences in Television

Expenditure

- Certain units were overspent
- Certain cost items were overspent in those units and across the SABC
- Pressure on rights and remuneration given higher than planned inflation and long term cost deals (content and wages)
- Certain transactions produced worse than expected outcomes
 - AUB for Olympics and 2010
- Asset write downs on content and debtors made the situation worse

Debtors

- The trend in slower payments from debtors increased sharply due to:
 - Worsening economy
 - SAP implementation and switch on issues in debtors accounts
 - Poor service levels to clients
 - Deal pricing and administration
 - Issue on timing of play out and placement on channels

Inventory

- Increased rights prepayments for soccer, cricket and the world cup as well as domestic productions increased cash tied up in prepayments
- Stock levels continue to increase and resulted in write downs of inventory. These deals are in the process of being renegotiated.

Creditors

- Creditor terms have come under pressure as cash flow has continued to be constrained. Trading results in the first 2 months show continued slow down in the economy.

Capital Expenditures

- SAP implementation phase concluded with IPM module go live 12 June 2009. This has driven a lot of the consultant spend in the office of the CFO. The long term maintenance contract for specialized skills and support has been awarded. This is usual practice with mod sized implementation such as the SABC.
- Government funded projects and internal digitisation projects continue
- Cost of imported technology
- 2010 and DTT are the only capital expenditure projects receiving new funding

Austerity Measures: High Level Summary

Revenue Enhancing

- Schedule Stability
- Bulk Content Procurement
- Sales effectiveness and convergence
- Better media spend on SABC platforms
- TV Licence Revenue Collection
 - TV Licence increase
 - TV Database Management
 - TV VAT Exemption
 - TV Licence Subsidy for low income groups
- Regaining the lost market share

Working Capital

- Debtors Management

Capital Expenditure

- Reduction in the 5-year Capital Plan to focus on broadcast critical projects

Cost Reduction

- Bulk Content procurement value chain
- Better utilisation of stock and reduction in write-offs
- News International and the extent of investment in News Bureaus
- Termination of low value Projects
- Headcount and Business Process re-structure
- Strategic Sports Rights
- Strategic Procurement/Sourcing
- Freelance Spend and Temporary Labour
- Mobile and Fixed Telephony
- SAP System exploitation and benefits
- SAP Time Management Policy

Summary

- Revenue Enhancing over a 5-year period = R3.8billion
- Cost Reduction over a 5-year period = R1.7billion
- Working Capital management over 5-year period = R98million

Additional support requested

- Balance sheet support for working capital for the rights and creditor payments
- Regulatory support to deal with anomalies
 - Must carry – No pay regulations
 - Sports of National interest
 - Certain ICASA regulations on local content including treating Sport as local content and 3rd run local content should not qualify as foreign content
- Significant support for DTT ambitions
- A new operating model to support strategy in a converged environment
 - Regulations and processes required to ensure the PBS & PCS split result in an overly complex organisation – driving cost and delays in decision making

Broadcasting for Total Citizen Empowerment

Robin Nicholson: Chief Financial Officer

Funding and Financial Health

Funding Model for SABC under the Electronic Communications Act

← Impact of the Funding Mix on Editorial Independence →



Public Funding	Commercial Funding		
TV Licence Fees (<i>S21 Co taxation</i>)	Content Sales	Consumer Products	Airtime Sales
Collection	Channels (<i>FTA & DtH</i>)	Retail	Radio
Allocation Models	Pay to View Channels (<i>DtH & DTT</i>)	Publishing	Television
Public Private Partnerships	Advertiser Funded Programmes	Facilities	Web Sites
Government Dept Funding	News Bureau	Mobile WASP	Interactive
Direct Funding for Projects	Joint Venture	Portal Services	Programme Sponsors
Technology	Music (<i>Strategy</i>)	Access Services	Sport Sponsorships
Infrastructure (<i>DTT</i>)	Film (<i>Strategy</i>)	The Citizens SABC Club Card	SMS Services
	New Media		
	IPTV		
	Content on Demand		
	Trade Exchange	Trade Exchange	Trade Exchange

Low ← Impact of Advertising Market Volatility → High

SABC funding model dynamics

- Commercial revenue is 85 to 87 percent of total income, Licence fees comprise 13 percent and direct government grants 2 percent
- Commercial revenues are variable due to both market conditions and economic conditions. The market has and will continue to become more competitive
- The absolute level of funding must be sufficient to attract a significant audience and provide competition to commercial broadcasters, They must be sustainable and sustained over time. Sudden fluctuations will severely disrupt the organization
- While earnings are important cash flow is far more important. The SABC has to prefund productions and rights acquisitions and provide for cash flow to support asset replacement and expansion cycles
- The SABC funding model drives complex accounting, financial and management behaviors and leads to complex governance issues which do not assist an efficient organization

Key financial risks of the SABC model

- Low diversification of funding streams
 - 85% commercial
- Economic volatility and ability to plan content over the longer term
- Vulnerable to commercial interest and adverse impacts on editorial independence
- Short term planning does not align with MTEF cycles
- Debt covenants and restrictions in the MTEF restrict borrowings without long approval cycle
- Growth of public broadcasting and industry is limited to SABC's commercial ability
- The licence regimen is subject to ministerial not regulatory approval. 1 licence increase in 9 years
- Increasing funding required for public service mandate

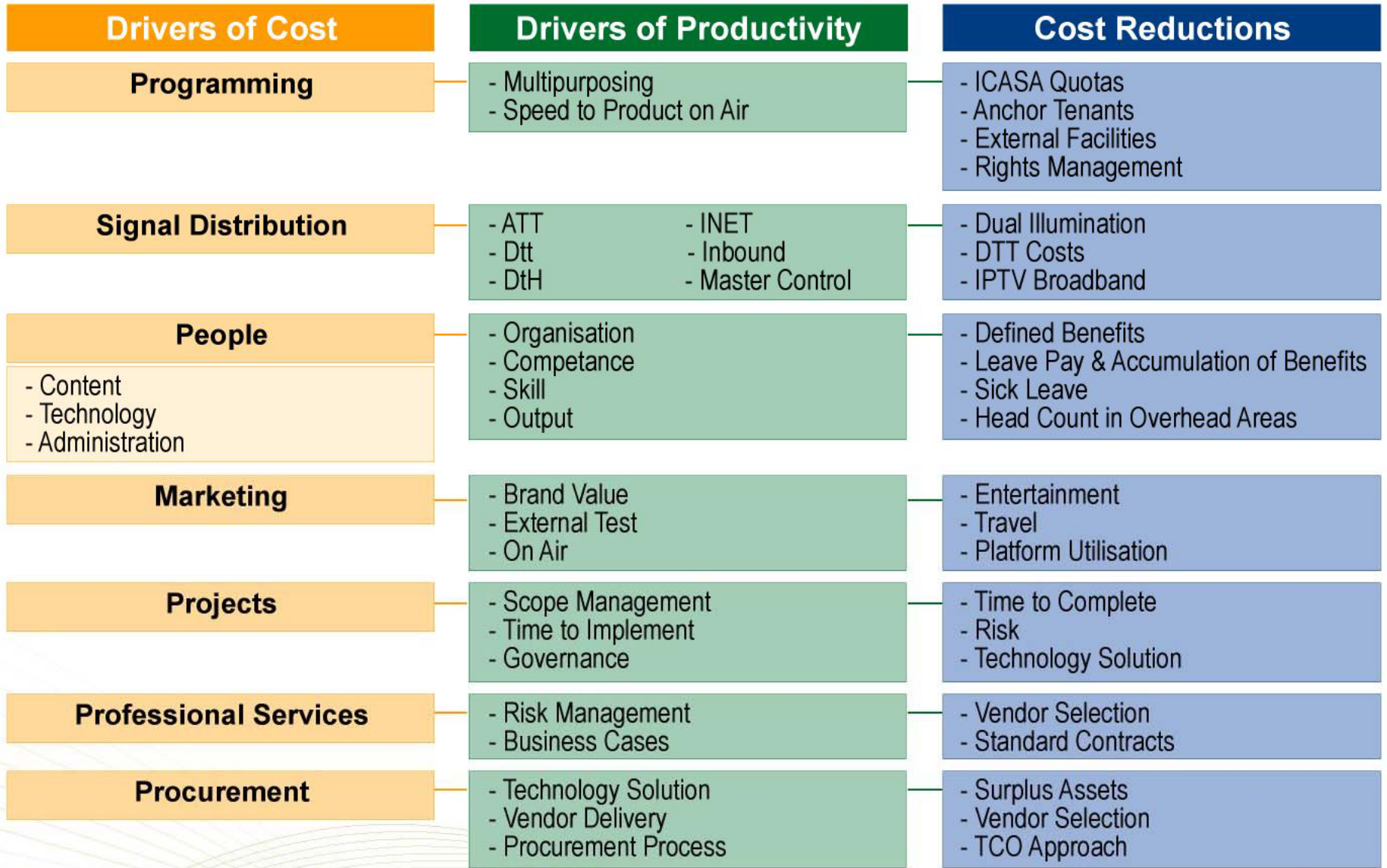
Financial risk issues

- Working capital management needed earlier and more aggressive intervention
- Cost management at divisional level was slow to respond to the austerity plan formulated by Finance in September last year. Headcount growth was particularly slow to respond.
- Greater financial control of expenditure has now been implemented at divisional level
- Closer monitoring of expenses and cash flow commitments is now in place
- The funding of the SABC needs strategic review as the economic downturn is likely to be with us for a while yet.
- The exposure to foreign exchange continues to be a significant weakness despite good controls in this area.
- Better long range planning and forecasting is needed across all units of the SABC
- Better understanding by management of financial indicators would also assist in early detection and results in earlier corrective action
- Better and more frequent communication of group results is again required within the formal reporting processes of the organization.

Austerity Measures

Austerity Measures: Financial Benefit Case

Cost and Productivity



Austerity Measures: High Level Summary

Revenue Enhancing

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Summary

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- Working Capital management over 5-year period = R98million

Austerity Plan Financial Summary

2009 2010 2011 2012 2013 2014 Total

Funding Requirement:

Business As Usual	-546,042	-714,715	-1,306,888	-2,026,367	-3,021,711	-4,153,500	-4,153,500
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Quadrant 1

Revenue Enhancing:

	0	119,500	181,050	218,288	229,202	240,663	988,703
Schedule Stability	0	21,250	55,781	58,570	61,499	64,574	261,674
SABC3: Regaining the lost market share	0	98,250	125,269	159,718	167,704	176,089	727,029

Cost Reduction:

	0	56,200	127,981	117,187	107,812	99,609	508,789
Bulk Content procurement value chain	0	14,650	29,300	23,440	18,752	15,002	101,144
Better utilisation of stock and reduction in write offs	0	0	0	0	0	0	0
News International	0	17,000	40,375	38,356	36,438	34,617	166,786
News Bureaus	0	5,500	13,063	12,409	11,789	11,200	53,960
Termination of low value Projects	0	19,050	45,244	42,982	40,833	38,791	186,899

Working Capital:

Debtors Management	0	98,000	0	0	0	0	0
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Quadrant 1 TOTAL

	0	273,700	309,031	335,475	337,014	340,271	1,497,492
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Quadrant 2

Cost Reduction:

	0	5,420	4,639	3,999	3,473	3,038	20,569
Temporary Labour	0	1,500	1,425	1,354	1,286	1,222	6,787
Mobile Telephony	0	520	494	469	446	424	2,353
Fixed Telephony	0	3,400	2,720	2,176	1,741	1,393	11,429

Quadrant 2 TOTAL

	0	5,420	4,639	3,999	3,473	3,038	20,569
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Austerity Plan Financial Summary - Cont

Quadrant 3	2009	2010	2011	2012	2013	2014	Total
Cost Reduction:	0	84,900	248,988	302,287	298,110	295,037	1,229,321
Reduction in commissioning cycle times	0	3,900	10,238	10,749	11,287	11,851	48,025
Headcount and Business process restructure	0	0	0	55,700	52,915	50,269	158,884
Strategic Sports Rights	0	0	116,000	121,800	127,890	134,285	499,975
Strategic Procurement/ Sourcing	0	26,000	61,750	58,663	55,729	52,943	255,085
Freelance Spend	0	10,000	9,500	9,025	8,574	8,145	45,244
SAP System exploitation and benefits	0	35,000	42,500	38,250	34,425	30,983	181,158
SAP Time Management policy	0	10,000	9,000	8,100	7,290	6,561	40,951
Revenue Enhancing:	0	55,500	423,250	773,772	807,102	842,366	2,901,990
Sales effectiveness and convergence	0	21,750	57,094	59,948	62,946	66,093	267,831
Better media planned spend on SABC platforms	0	23,750	56,406	53,586	50,907	48,361	233,010
SABC added value perception	0	10,000	26,250	27,563	28,941	30,388	123,141
TV Licence increase	0	0	81,500	85,575	89,854	94,346	351,275
TV VAT Exemption	0	0	136,000	142,800	149,940	157,437	586,177
TV DSTV Database Management	0	0	66,000	69,300	72,765	76,403	284,468
TV Licence LSM1 to 3 Subsidy	0	0	0	335,000	351,750	369,338	1,056,088
Quadrant 3 TOTAL	0	140,400	672,238	1,076,059	1,105,212	1,137,403	4,131,311
SUMMARY OF QUADRANTS:							
Revenue Enhancing:	0	175,000	604,300	992,060	1,036,304	1,083,029	3,890,693
Cost Reduction:	0	146,520	381,608	423,473	409,395	397,683	1,758,679
Working Capital:	0	98,000	0	0	0	0	0
Total Austerity Plan	0	419,520	985,908	1,415,533	1,445,699	1,480,712	5,649,372

Summary

<u>SUMMARY OF QUADRANTS:</u>									
Revenue Enhancing			1,480,980		0	175,000	604,300	992,060	1,036,304
Cost Reduction:			541,376		0	146,520	381,608	423,473	409,395
Working Capital:			76,000		0	98,000	0	0	0
Total Austerity Plan			2,098,306	0	0	419,520	985,908	1,415,533	1,445,699

Funding and Financial Health

MTEF High Level Financials: 2010 – 2014

(not included)

PUBLIC FUNDING

CLOSING THE FUNDING GAP: THE CASE FOR TV LICENCE FUNDING

TV Licences



Pay yours. Make a difference.

PUBLIC FUNDING (TELEVISION LICENCE REVENUE)

INTRODUCTION

- The SABC is faced with numerous financial challenges to optimise sustainable funding for its public service mandate.
- An ideal PSB funding model should have the following characteristics:
 - Substantial enough to create true competition for commercial channels
 - Independent from undue commercial and other influences
 - Predictable over the medium term
 - Growing at a similar or faster pace than PBS costs
 - Simple and equitable

Summary of TV Licence Funding Initiatives

- Government subsidy – Concessionary licence holders & LSM 1- 3 households
- Broadcasting levy
- TV licence collection from Pay-TV Operators
- “Zero rated” VAT
- Other Public Funding Opportunities
 - Cell Phone Operators – *DVBH handsets receiving mobile television* (R1,3m)
 - Low-power transmitter roll-out – *Universal access* (R52m)
 - Public Private Partnerships (PPP's)
 - Funding and Partnerships
- Changes to TV Licence Legislation
 - Definitions
 - Reporting Obligations
 - Penalties
 - VAT and Prescription issues
 - Changes to TV Licence Regulations to be included
- TV Licence Tariff Increase
- Broadcast Levy

Broadcasting for Total Citizen Empowerment

Sipho Sithole: Head – Group Strategy

PERFORMANCE MEASUREMENT & DELIVERABLES :

APRIL – MARCH '09

Performance Measurements & Deliverables: FY2008/09

Pillar: People Internal (First Citizens)

Themes	Objectives	KPA	Deliverables	Status
Skills & Capacity Building	Ensuring the attraction, development and retention of Media and Broadcasting industry relevant skills needed by the SABC to deliver on its Value Proposition and Mandate Obligations	<ul style="list-style-type: none"> • Develop and implement a holistic recruitment strategy including skills pipeline • Identify critical skills requirement and establishment the appropriate skills pipeline 	<ul style="list-style-type: none"> • Finalise recruitment strategy and resourcing pipeline requirements in line with approved vacancies • Finalise skills audit for Business Units 	<ul style="list-style-type: none"> • The recruitment strategy has been signed off. The recruitment policy and practices will be rolled out in the new financial year • Business Units have been trained to conduct skills audit for Training Managers and HR Consultants to increase internal capacity and reduce reliance on external service providers • 29% of the Technology Skills Audit pilot has been completed. • Curriculum designed for Finance & Administrative staff • News Skills Matrix is due for validation and the remaining business units are yet to conduct the skills audit. . • Technical & Core operational competencies will be determined once skills audit is completed.

Performance Measurements & Deliverables: FY2008/09

Pillar: People Internal (First Citizens)

Themes	Objectives	KPA	Deliverables	Status
Skills & Capacity Building	Ensuring the attraction, development and retention of Media and Broadcasting industry relevant skills needed by the SABC to deliver on its Value Proposition and Mandate Obligations	<ul style="list-style-type: none"> • Provide adequate learning environment and infrastructure • Implement a Reward and Recognition Programme 	<ul style="list-style-type: none"> • SABC Academy Curriculum Design • Develop a robust SABC Reward Strategy and the redesign of Incentive Schemes 	<ul style="list-style-type: none"> • The establishment of an SABC Training Academy has been approved by the Group Executive and the Board. A budget for the design and development of the concept and curriculum has been approved for FY2009/10 • Training venue have been upgraded with proper operational and technical equipment to provide adequate and focused technical training for News and Dalet training. • A Hybrid Incentive Scheme in its final year • Remuneration guidelines and directives implemented • Redesigned Incentive Scheme partially implemented • Retention scheme approved and is being implemented • Restraint of Trade strategy approved and to be implemented in FY2009/10 • New salary ranges established and implemented

Performance Measurements & Deliverables: FY2008/09

Pillar: People Internal (First Citizens)

Themes	Objectives	KPA	Deliverables	Status
Leadership Development	Ensuring that the existence of succession planning and mentorship programmes for SABC senior management in support of the SABC Strategy Implementation	<ul style="list-style-type: none"> The Senior Management Forum must be fully operational and driving the SABC strategy. Every member of the Senior Management Forum assessment in terms of leadership potential for the next level 	<ul style="list-style-type: none"> Implementation of the green Leaders project The assessment of the Next Generation of Executives for each level of the organisation will begin 	<ul style="list-style-type: none"> Green leader reporting Framework developed and approved by Group Exco Green leader SAP model developed and approved and went live in November 2008 Green Revolution Awards Framework Developed awaiting the approval Integrated Green Leaders with performance management framework <p><u>Leadership Pipeline:</u></p> <ul style="list-style-type: none"> First Phase of the Leadership Pipeline implementation will be the Succession Reviews at Group Executive Level, expected to resume in April 2009, depending on the availability of funds

Performance Measurements & Deliverables: FY2008/09

Pillar: People Internal (First Citizens)

Themes	Objectives	KPA	Deliverables	Status
Talent Management	Ensuring that the SABC attracts and retains key talent	<ul style="list-style-type: none"> • Existence of retention schemes for key talent 	<ul style="list-style-type: none"> • Identify key talent in the organisation 	<ul style="list-style-type: none"> • Strategy has been approved and is being implemented • Bulk of the retentions agreements have been implemented • Retention Agreements have been signed in some areas of the business

Performance Measurements & Deliverables: FY2008/09

Pillar: People External (Public Value)

Themes	Objectives	KPA	Deliverables	Status
Nation Building	Promote issues of national importance and nation building across portfolio of services including programming that promote democracy and tolerance and reflects the aspirations of South African citizens	<ul style="list-style-type: none"> Investment on content and programmes that promote nation building Participation in community events and government programmes that promote nation building 	<ul style="list-style-type: none"> Content themes to show contribution to nation building Each of SABC business units, channels and radio stations to identify and supports at least 2 events and programmes a year that promote nation building 	<ul style="list-style-type: none"> Portfolio management has ensured that committed content themes have been met and are in line with national priorities and the Corporate Goals Each and every business unit participated in key national campaigns on women, children, youth, human rights and HIV/AIDS <ul style="list-style-type: none"> 16 Days of Activism National Youth Day Human Rights Day International and National Children's Day World Aids Day Heritage Day

Performance Measurements & Deliverables: FY2008/09

Pillar: People External (Public Value)

Themes	Objectives	KPA	Deliverables	Status
Nation Building	Promote issues of national importance and nation building across portfolio of services including programming that promote democracy and tolerance and reflects the aspirations of South African citizens	<ul style="list-style-type: none"> • Participation in community events and government programmes that promote nation building 	<ul style="list-style-type: none"> • Implementation of Outreach projects that contribute towards nation building 	<ul style="list-style-type: none"> • Special Events that have been successfully implemented: <ul style="list-style-type: none"> – Durban and Northwest Film Festival – Showcasing our regions talent and providing a platform where regions can communicate with the SABC – SATMAs – SABC Crown Gospel Awards – SAFTA Awards – SABC Vuka Sizwe Benefit Concert

Broadcasting for Total Citizen Empowerment



Performance Measurements & Deliverables: FY2008/09

Pillar: People Internal (Public Value)

Themes	Objectives	KPA	Deliverables	Status
Social Cohesion	Promote issues of national importance and nation building across portfolio of services including programming that promotes democracy and tolerance and reflects the aspirations of South African citizens	<ul style="list-style-type: none"> Investment on content and programmes that promote Social Cohesion Participation in community events and government programmes that promote Social Cohesion 	<ul style="list-style-type: none"> Content themes to show contribution Social Cohesion Each of SABC business units, channels and radio stations to identify and supports at least 2 events and programmes a year that promote Social Cohesion 	<ul style="list-style-type: none"> Programming themes that promote social cohesion have been delivered on the following areas: <p>Education</p> <ul style="list-style-type: none"> Khululeka 90 Plein Street Tswara Ganang Our Moment Talk SA Sine Kghono Shift

Broadcasting for Total Citizen Empowerment

Performance Measurements & Deliverables: FY2008/09

Pillar: People Internal (Public Value)

Themes	Objectives	KPA	Deliverables	Status
Social Cohesion	Promote issues of national importance and nation building across portfolio of services including programming that promotes democracy and tolerance and reflects the aspirations of South African citizens	<ul style="list-style-type: none"> Investment on content and programmes that promote Social Cohesion Participation in community events and government programmes that promote Social Cohesion 	<ul style="list-style-type: none"> Content themes to show contribution Social Cohesion Each of SABC business units, channels and radio stations to identify and supports at least 2 events and programmes a year that promote Social Cohesion Implementation of Outreach projects that contribute towards nation building 	<p>Content Hub</p> <ul style="list-style-type: none"> Issues of Faith Trace your Roots Chat Room Spirit Sunday <p>Programming Icon Series</p> <ul style="list-style-type: none"> The Manuscripts of Timbuktu The Robert Mangaliso Sobukwe Story Winnie Mandela Speaks The Life of Steve Biko The Oscar Mphetha Life Story A Life in Music with Johnny Clegg Oliver and Adelaide Tambo

Performance Measurements & Deliverables: FY2008/09

Pillar: People Internal (Public Value)

Themes	Objectives	KPA	Deliverables	Status
Contribution to Africa Renaissance & NEPAD	To support SABC's Corporate Goal that is aimed at ensuring that the SABC plays a meaningful role in supporting the objectives of the African Renaissance and NEPAD	<ul style="list-style-type: none"> • Existence of bilateral and multilateral relations in support of national and continental priorities in media and broadcasting • A strategy implemented in positioning the SABC as the leading African Broadcaster that influence the broadcasting agenda 	<ul style="list-style-type: none"> • Support for the African Agenda in the broadcasting and media landscape through AUB initiatives: <ul style="list-style-type: none"> – FIFA Events – Beijing Olympics – Establishment of distribution platform for broadcasters 	<ul style="list-style-type: none"> • Facilitated AUB and FIFA rights agreement • Organized the second AUB conference • Launched two of the five AUB projects [Greening Africa, HIV/AIDS] • SABC produced and distributed African Olympics channel –an African first. • SABC underwrote the Olympics rights for AUB to ensure access for other broadcasters in Africa • Establishment of SABC News International and Foreign Bureaus

Performance Measurements & Deliverables: FY2008/09

Pillar: People Internal (Public Value)

Themes	Objectives	KPA	Deliverables	Status
Stakeholder Management	To ensure that the SABC enjoys the support and respect of stakeholders.	<ul style="list-style-type: none"> • Creation of an emotional bond with all of SABC stakeholders 	<ul style="list-style-type: none"> • Visible and on-going engagement with SABC stakeholders 	<ul style="list-style-type: none"> • Stakeholder Management Framework implemented • Various interaction with key stakeholders across the business units and outside the organisation • Developed a Public Value discussion document for stakeholder interaction and engagement

Performance Measurements & Deliverables: FY2008/09

Pillar: Funding and Financial Health				
Themes	Objectives	KPA	Deliverables	Status
Financial Sustainability	<p>Ensure that the SABC attains financial sustainability in order to deliver on its public service mandate</p> <p>Ensure that the SABC grows market share both in terms of audiences and revenue</p>	<ul style="list-style-type: none"> •Significant revenue growth for TV, Radio, and New Media •Achieve significant growth in classic and programme sponsorship sales •Achieve growth in sports, merchandising, mobile services, co-productions, and programme funding •Optimize TV licence funding 	<ul style="list-style-type: none"> • At least 5% Year-on-year incremental increase on TV, Radio and New Media • 10% growth in classical and programme sponsorship • 25%, 10%, 11% in sports, merchandising and mobile services, respectively • 1.2% growth in TV Licence revenues 	See next slide

Performance Measurements & Deliverables: FY2008/09

REVENUE	<u>Deliverable</u>	<u>2007 vs 2008</u>	<u>2008 vs 2009</u>
Television	5%	10.4%	-3.9%
Radio	5%	15.0%	6.7%
New Media	5%	2.2%	-9.3%
Classic	10%	14.2%	-2.3%
Programme Sponsorship	10%	17.7%	15.4%
Sports	25%	-39.2%	-5.1%
Merchandising	10%	30.5%	-100.0%
Mobile	11%	-44.7%	-37.2%
TV Licences	1,2%	8.2%	5.1%

Performance Measurements & Deliverables: FY2008/09

Pillar: Funding and Financial Health (cont.)

Themes	Objectives	KPA	Deliverables	Status
Financial Sustainability	Ensure that the SABC grows market share both in terms of audiences and revenue	<ul style="list-style-type: none"> Optimize TV licence funding 	<ul style="list-style-type: none"> 1.2% growth in TV Licence revenues 	<ul style="list-style-type: none"> Achieved a 5% growth year on year R972m cash collected during FY2008/09 - R43m (4.6%) better than budget and growth of R47m (5%) year on year. Operating revenue of R865m was R38.6m (4.7%) higher than budget, representing growth of R42m (5.2%) year on year. Operating expenditure is within budget, with cost ratios (both cost-of-sales and operating expenditure) within targets. Cost-to-revenue ratios: <ul style="list-style-type: none"> Actual collection cost is 20.4% (20.9% budgeted) Actual Opex is 11% (12.6% budgeted) Marketing cost as a ratio of operating revenue is 1.6% against a budget of 1.7%.

Performance Measurements & Deliverables: FY2008/09

Pillar: Funding and Financial Health (cont.)

Themes	Objectives	KPA	Deliverables	Status
Financial Sustainability	Ensure that the SABC grows market share both in terms of audiences and revenue	<ul style="list-style-type: none"> Optimize TV licence funding 	<ul style="list-style-type: none"> 1.2% growth in TV Licence revenues 	<p>Year-to-date cash collections of R972 m were better than target by R43 m (5%).</p> <ul style="list-style-type: none"> Year on year growth achieved despite the weakening economy, no TV licence tariff adjustment and the higher cost-of-sales having had to be absorbed. Revenue derived from debt collection exceeded target. The proposed amendments to the Broadcasting Act (Sections 1 and 27) were approved by the Board at its meeting of 26 February 2009. The draft document has been forwarded to the Shareholder under cover of a letter signed by the Chairperson of the SABC Board.

Performance Measurements & Deliverables: FY2008/09

Pillar: Funding and Financial Health

Themes	Objectives	KPA	Deliverables	Status
Public Service Funding	Reduce over reliance on commercial revenue through increased public funding	<ul style="list-style-type: none"> Identify key opportunities contributing estimated at R1.520 billion in order to close the Funding Gap of approximately R1.250 billion 	<p><u>Engage Government and Implement on:</u></p> <ul style="list-style-type: none"> 50% Funding of SABC News Int. Funding during dual illumination <p><u>Engage Government on:</u></p> <ul style="list-style-type: none"> Removal of VAT on Licence Revenues Establishment of a Sec. 21 Co. Imposition of Broadcast Levy Introduction of Licence Fee Subsidy TV Licence collection from Pay TV Operators 	<ul style="list-style-type: none"> MTEF Submission made to DOC/Treasury – not granted, engagement ongoing with DoC & Treasury MTEF Submission made to DOC/Treasury – granted to Sentech – effect is that SABC only pays for single illumination Public Funding opportunities have been identified and costed. The DOC has been engaged, further discussions and submission to be made during the 2009/10 Financial Year. Further implementation subject to enhancements to current TV licence legislation and envisaged Public Value Conference.

Performance Measurements & Deliverables: FY2008/09

Pillar: Content and Platforms

Themes	Objectives	KPA	Deliverables	Status
Platform Positioning	Ensuring that the SABC Platform Positioning is aligned to the new SABC Value Proposition	<ul style="list-style-type: none"> Putting audiences at the centre of the SABC Platform Positioning 	<ul style="list-style-type: none"> Finalise and Implement DTT Platform Positioning for Television in line with the new audience segmentation 	<ul style="list-style-type: none"> DTT Channel positioning has been aligned to new audience segmentation as well as strategic gaps created in market due to existing channel realignment Platforms have been positioned according to the new audience segmentation New Network strategy developed to support cross platform offering and transversality
Multi-Channel Line-Up	Ensure DTT Switch-Over by November 2008	<ul style="list-style-type: none"> Align the DTT channels to new audience segmentation and prepare for launch 	<ul style="list-style-type: none"> Launch the first wave of new channels on the DTT platform aligned to new audience segmentation 	<ul style="list-style-type: none"> DTT test launched in November 2008 Standard SABC Channels plus four others are being tested An interim structure to support a multiplatform environment has been developed and proposed for approval Network strategy developed to support a multichannel environment



Performance Measurements & Deliverables: FY2008/09

Pillar: Content and Platforms				
Themes	Objectives	KPA	Deliverables	Status
Audience Focus	Ensuring that the SABC places audiences at the centre of its Value Proposition	<ul style="list-style-type: none"> Implement the new audience segmentation on all SABC Platforms 	<ul style="list-style-type: none"> An audience segmentation and offering implemented on DTT and Analogue Platforms An audience segmentation and offering on SABC Radio 	<ul style="list-style-type: none"> All platforms, radio and television, have been aligned with the new audience segmentation New SABC Audience Segments have been adopted by SAARF Content acquisition and commission is now aligned to the new audience segments Discussion on a new currency for audience is being proposed to trade

Performance Measurements & Deliverables: FY2008/09

Pillar: Content and Platforms

Themes	Objectives	KPA	Deliverables	Status
Audience Focus	Ensuring that local content delivery takes cognizance of the diverse needs of the multiplicity of South African audiences	<ul style="list-style-type: none"> Aligning content to new audience segmentation and in line with platform positioning 	<ul style="list-style-type: none"> Capture and introduce new audiences to DTT platforms 	<ul style="list-style-type: none"> DTT business plan finalized waiting approval DTT Pilot launched Commission briefs and acquisitions are in line with new audience segments and in preparation for DTT: 55% of content commissioned from HDI and 5% regions
	Ensuring that the commissioning and development of local content takes cognizance of the need to introduce new players in the market	<ul style="list-style-type: none"> Increasing the participation of content producers from HDI including regions 	<ul style="list-style-type: none"> Deliver 55%/35% local content to PBS/PCS TV respectively Deliver 60%/35% local music content on PBS/PCS Radio respectively 	<ul style="list-style-type: none"> Exceeded local content TV requirements: <ul style="list-style-type: none"> PBS: 77% <ul style="list-style-type: none"> -Sabc 1: 77% against a 55% quota -Sabc 2: 76% against a 55% quota PCS: 49% across all day parts [11% over-delivery] Exceeded local content Radio requirements: <ul style="list-style-type: none"> -PBS Radio: 60% music quota -PCS Radio : 30% delivery against 25%
Increase in Local Content Delivery	Ensuring that local content meets the requirement as stipulated by ICASA's licence conditions	<ul style="list-style-type: none"> Deliver content according to ICASA licence conditions 		

Performance Measurements & Deliverables: FY2008/09

Pillar: Technology

Themes	Objectives	KPA	Deliverables	Status
DTT Migration & Readiness	Ensure the implementation DTT Migration Plan for DTT Switch-On by November 2008	<ul style="list-style-type: none"> • Set up the DTT Migration Office and implement a plan for: • Final Multi-Channel Line-Up • Develop and finalise channel and programming positions • Implement distributions strategies per channel 	<ul style="list-style-type: none"> • Multi-Channel FCC and multiplexing in place • 56% DTT network coverage • 1st wave of DTT Channels operational 	<ul style="list-style-type: none"> • DTT pilot switch-on took place on 1st November 2008 • JHB, Pretoria and Durban in pilot (<i>Ask Yusu!</i>) • Encoders and MUX facilities in place • Commercial launch has been delayed due to outstanding process. Consumer launch now expected by April 2010 provided the following processes are finalised: <ol style="list-style-type: none"> 1. Regulatory processes 2. Manufacturing strategy finalised 3. Confirmation of funding 4. Finalisation of the set up of the Digital Dzonga • 1942 set top boxes distributed to research company and 445 to internal and external stakeholders

Performance Measurements & Deliverables: FY2008/09

Pillar: Technology

Themes	Objectives	KPA	Deliverables	Status
Technology Upgrade & Digitisation of Broadcasting Infrastructure	To ensure that the SABC takes the lead in the digital broadcasting infrastructure	<ul style="list-style-type: none"> • Upgrade of OB Units for TV Broadcast to digital • Implementation of a Dalet 5.1 Radio System • Digitisation of News Production Facilities • Establishment of a high-end Sport Center 	<ul style="list-style-type: none"> • Acquire 4 HD TV OB Vans for Outside Broadcast • Digitisation of Studio 9 News International • Studio Main FCC & Multi-Channel Playout • Digitisation of Regional Infrastructure • Implement TV BMS DTT MUX for Scheduling & Archiving Data in a Multi-Channel environment • Implement Radio Main Control and Playout 	<ul style="list-style-type: none"> • OB units in procurement. Two for 2009 and two for 2010 • News Studio 9 approved and in procurement process • News Studio 10 completed in July 2008 • FCC long form play out server project in progress. • Radio regional infrastructure digitization project in process (95% complete) • TVBMS went live in November 2008 • Radio main control completed and in test phase • Sport production server was installed (first tapeless production during Beijing Olympics) • SABC News Server NPS has been approved by Group and Board – in the phase of implementation and will overhaul the entire news productions system

Performance Measurements & Deliverables: FY2008/09

Pillar: Technology				
Themes	Objectives	KPA	Deliverables	Status
Digitisation of Archives	To mitigate the risk of losing valuable archive material and transfer of current formats to a file based format	<ul style="list-style-type: none"> Continue with the digitisation of archive material (audio, visual and broadcast related print material) 	<ul style="list-style-type: none"> At least 25% of all archive material to be digitized 	<ul style="list-style-type: none"> Digital archive project to be initiated in 2009/10 – aiming for 10% of archives to be digitised

Performance Measurements & Deliverables: FY2008/09

Pillar: Governance

Themes	Objectives	KPA	Deliverables	Status
Risk Management Framework	Ensuring that the SABC is able to anticipate, monitor, mitigate and control risk throughout the organisation	<ul style="list-style-type: none"> • Implement the Enterprise Risk Management (ERM) Framework and Policy • Develop a Risk Management Reporting Process • Ensure compliance with applicable legislation and statutory framework 	<ul style="list-style-type: none"> • Align and consolidate various ERM processes with the Corporate risk management process • 100% of all Risk Champions trained on ERM 	<ul style="list-style-type: none"> • Risk management framework and policy approved • Training of Risk Champions rolled out throughout the regions • A new risk management software is being sourced from external suppliers to enhance risk reporting • Top 20 Risks identified, quantification under way • Risk management committees to be set up 2009/10
PFMA Compliance	To ensure full compliance with PFMA and other legislation within the SABC	<ul style="list-style-type: none"> • Quarterly report of PFMA compliance 	<ul style="list-style-type: none"> • Clean audit report on PFMA compliance 	<ul style="list-style-type: none"> • PFMA Compliance process and regular reporting has been implemented throughout the organisation

Pillar: Governance

Themes	Objectives	KPA	Deliverables	Status
Policy & Regulatory	Ensure compliance with ICASA licence conditions	<ul style="list-style-type: none"> Regular report to ICASA on compliance to Licence Conditions To develop a strategy to ensure the viability of the Public Broadcaster 	<ul style="list-style-type: none"> Regular monitoring and evaluation of the SABC's licence conditions and those of Competitors Active participation in Broadcasting related applications to ICASA Preparation and submission of responses to ICASA's position Papers and RFI/Ps Preparation and submission of Broadcasting related policy documents. 	<ul style="list-style-type: none"> Compliant with ICASA regulations and conditions Have participated in all of ICASA activities in response to regulatory changes
Procurement	Ensure a procurement and contracting process that complies with BBBEE and achieves maximum value for the SABC in terms of financial returns and contributes to capacity building	<ul style="list-style-type: none"> Implement Strategic Sourcing Procurement and subcontracting process to comply with PFMA and Regulatory framework Implement a contract management framework 	<ul style="list-style-type: none"> 50% Cost Savings achieved Preferential Procurement Policy compliance Implementation and roll-out of contracting process 	<ul style="list-style-type: none"> Benefits Tracking for Wave 1 complete Policy is being implemented Procurement Process is now aligned to SAP Contracting process rolled out The Bidding and Approval Committee in place

Performance Measurements & Deliverables: FY2008/09

Pillar: Other Key Initiatives

Themes	Objectives	KPA	Deliverables	Status
2010 FIFA WORLD CUP	Ensure that every South African has access to the World Cup through the provision of broadcast facilities in line with the requirements of FIFA	<ul style="list-style-type: none"> • A mass mobilization plan to create awareness and relevant information on 2010 • A broadcast infrastructure ready to deliver quality broadcast of the 2010 FIFA World Cup 	<ul style="list-style-type: none"> • A media campaign that advertises relevant information on 2010 • A technology plan developed for all broadcast facilities for 2010 • Public Viewing Events • Providing access 2010 worlds cup through “every child a radio” campaign • Launch of Radio 2000 as official 2010 Radio Station • Relaunch of Siyanqoba Campaign in Parliament 	<ul style="list-style-type: none"> • Production plan in development, thereafter technology plan will follow • Marketing and Communication Strategy has been approved by LOC and SABC Working Committee • The Acquisition of High Definition OB Vans has been commissioned. • Siyanqoba campaigns on Bafana Bafana games on-gings since 2005 where promotion of 2010 FIFA World Cup is exploited. • News has established special 2010 desks both nationally and in some of the regions that focus on the World Cup from a societal, as well as a sporting, perspective • Roll-out of low powered transmitters to remote areas has started to ensure universal access • Radio 2000 has been launched as the SABC's official FIFA 2010 radio station • Funding requirements with supporting plans has been submitted to the DOC for 2010 FIFA World Cup requirements.

SABC Strategic Ambitions

SABC STRATEGIC FOCUS AREAS: 2010 & BEYOND

SABC Strategic Ambitions

- Sustain a dominant audience and revenue share in traditional platforms and Grow audience and revenue share in new platforms
- Revolutionize the industry segmentation benchmark: Set a new and accepted segmentation currency for Trade and drive mindset change
- Provider of African content Globally
 - ✓ 3 channels
 - o News
 - o Sport
 - o African Content
- Selling of programmes internationally
- Selling of skills and production capacity
- Own New Media distribution platform in South Africa
- Centre of broadcasting and public service excellence and catalyst in skills and capacity building in Africa
- Dominant digital broadcaster in South Africa – SABC Digital
- A model for IP and Rights management regime
- Cutting-edge and relevant broadcasting infrastructure
- Increase and deliver public value
- Independent, Stable and Sustainable Funding Model

Key Challenges

- Financing of the operations
- Misaligned systems and process to deliver on the core business of the SABC
- Delivering on public service against commercial imperatives
- Skills for the new environment
- High cost capacity building
- Availability of requisite cutting edge broadcasting technology
- Broad and common understanding of the broadcasting environment across the SABC
- Implementation of digital migration and convergence
- Growing cost of content
- Retention of audience and market share in the face of inevitable audience fragmentation
- Launching a News and Sport channel in preparation for DTT

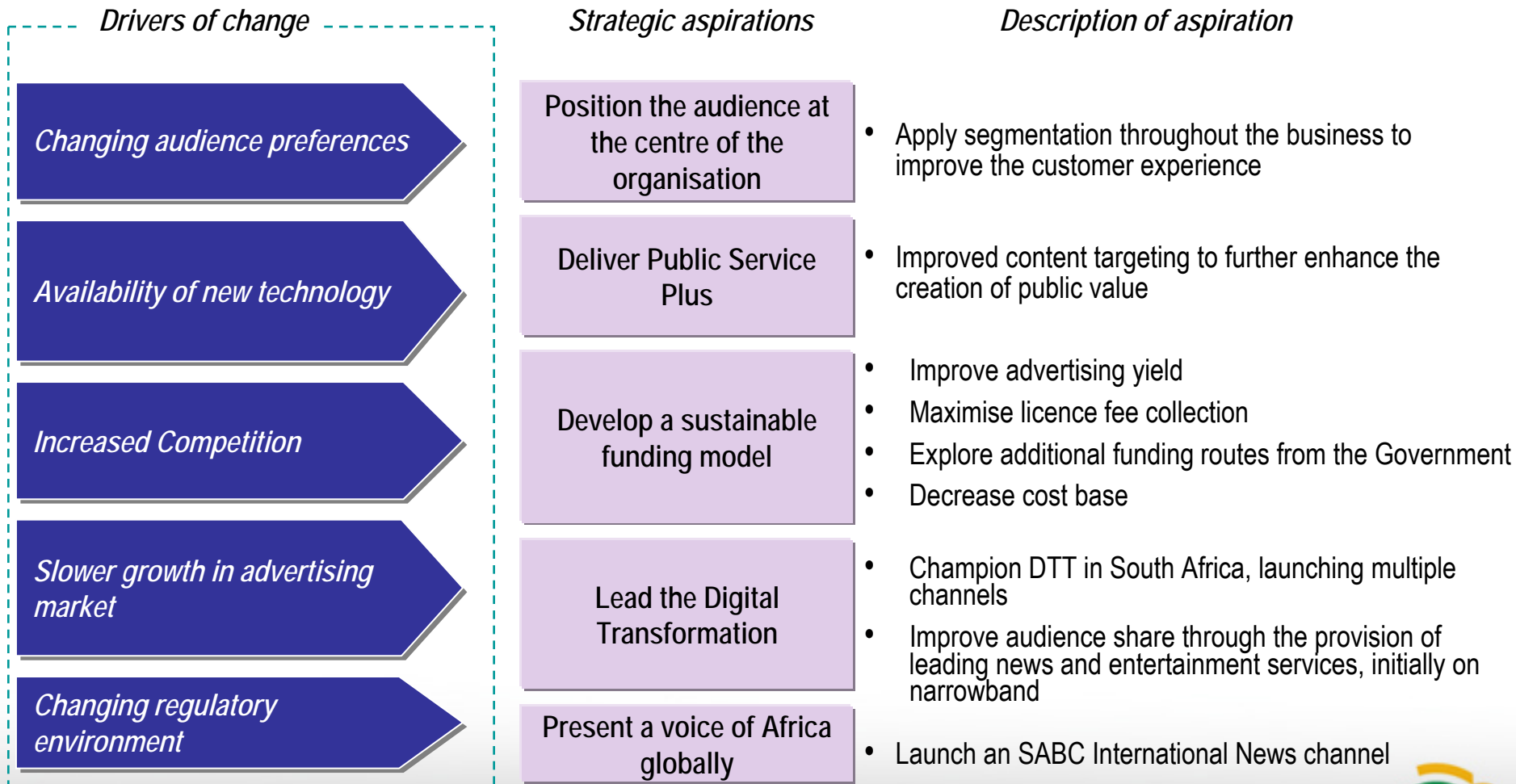
Key Strategic Actions

- Implement DTT Business Plan
- Meet and deliver on SABC 2010 FIFA World Cup Strategy
- Operationalise new audience segmentation
- Implement Platform Network Strategy
- Protect audience share on traditional platforms
- Introduce and grow audiences on new platforms
- Drive a clear IP and Rights Management Framework and Strategy
- Continue to innovate in content production and commissioning
- Deliver content that is aligned to platforms and audience segmentation
- Drive cost efficiencies across the relevant business units
- Deliver public value
- Drive a single minded and uniform marketing and communication plan for the SABC
- Provide market intelligence information to inform business decisions
- Investment in capacity and capability building for the new broadcasting environment
- Maintain a leadership in broadcasting solutions

The Case For A New Operating Model

Organisational Re-design

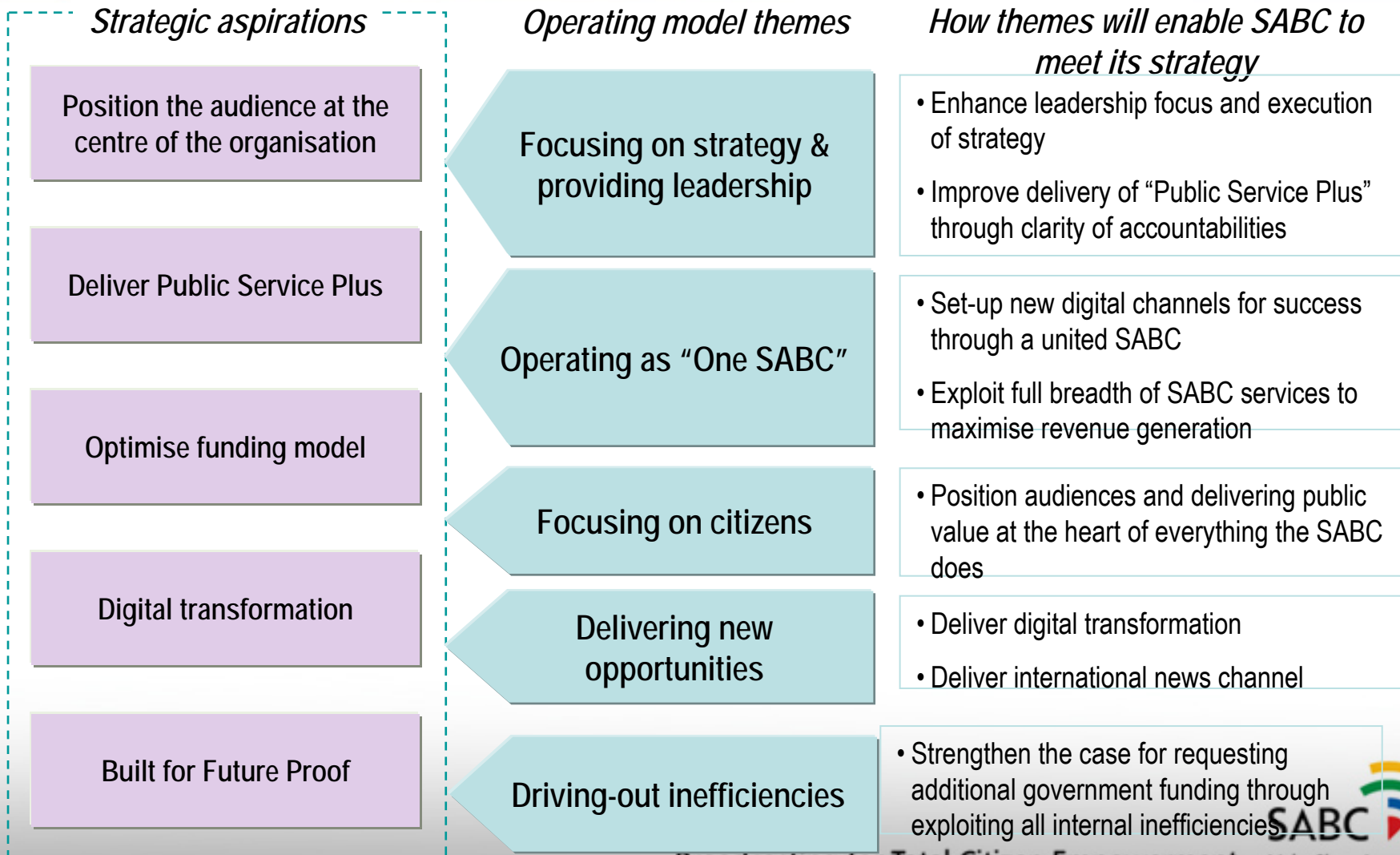
SABC in a converged space – The Need for a new Operating Model



The alignment of the SABC operating model is critical in achieving these aspirations – if the organisation is mis-aligned, the SABC will not be able to meet its strategy.



In order to deliver these strategic aspirations, we developed the key themes that the SABC operating model should incorporate



Broadcasting for Total Citizen Empowerment

Delivering Public Value

DELIVERING PUBLIC VALUE

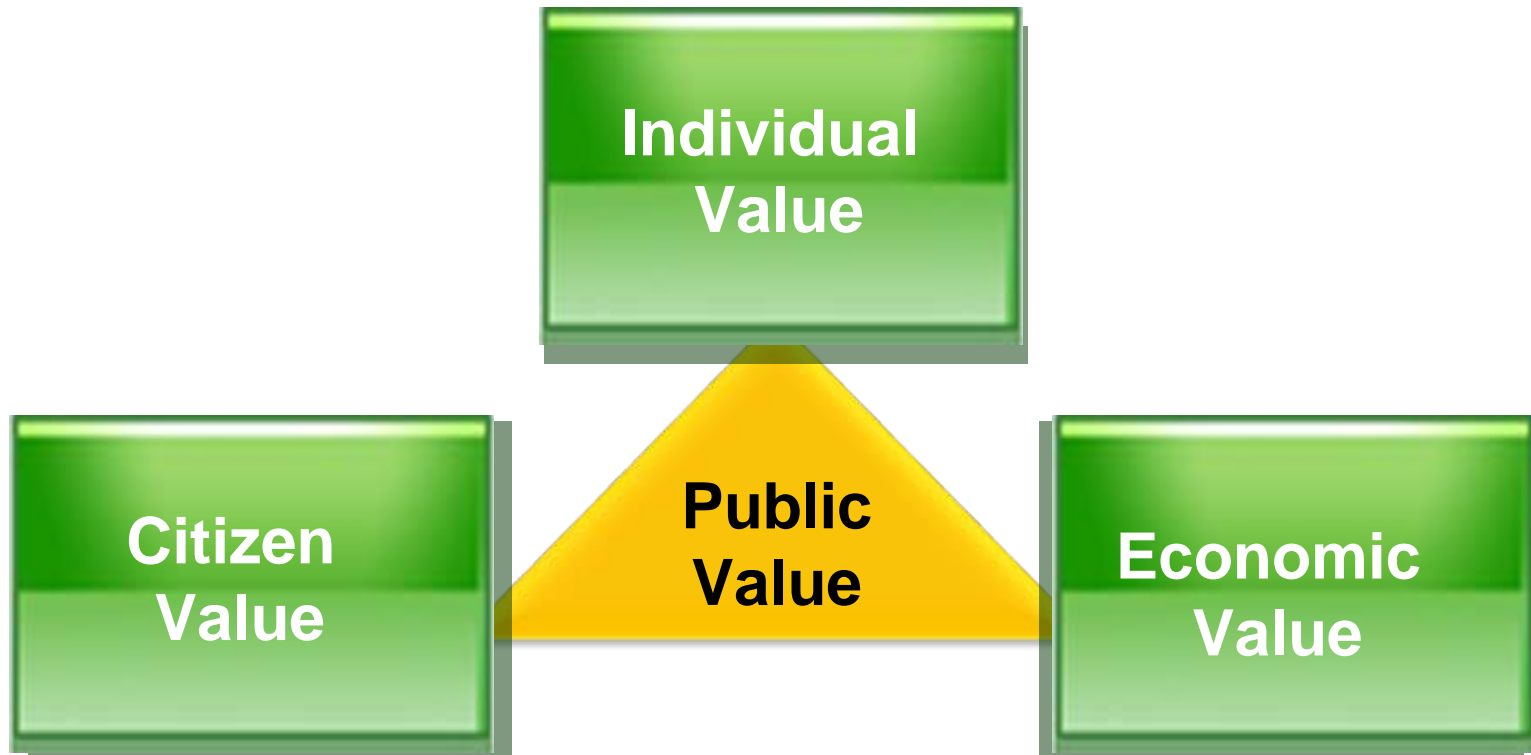
Citizen Centric – Our Value Proposition

Our Citizens



Broadcasting for Total Citizen Empowerment

Delivering Public Value



Importance of Public Value

Individual Value

The value that individuals derive from the SABC's services:

- Programmes that inform educate and entertain
- Value for money

Citizen Value

The contribution to society as a whole

- Equality: Provide universal access to services
- Audience Needs: responsive to audience needs including those of the deaf and the blind
- Programmes that inform, educate and entertain

Economic Value

- Corporate Social Initiatives (CSI): Initiatives aimed at achieving both long-term social objectives and competitive advantage
- Development Initiatives: Initiatives to promote skills development within SABC and externally as well as info/education initiatives that nurture South African market

Summary of the Findings

- **FACT:** The total cost of the mandate is estimated at R1.06 billion
- The public value created by the SABC is estimated at between R2.57 billion and R2.62 billion
- Compared with the amount received through licence fees and direct funding, the surplus value created is equivalent to R1.28bn
- Over 70% of respondents giving the SABC an approval rating of 7 out of 10 or above
- 88% of the respondents feel that the SABC provides a large or moderate contribution to South Africa Society as a whole

Summary of the Findings (Cont.)

- The average 'right price' for the licence fee was R20.8 per month compared to a current average payments per household of R16.1
- If we applied the willingness to pay results to all households, the total individual value of the SABC is around R2.23bn
- News was ranked within the top 3 genres by over half of all individual respondents
- News and Education are the top genres for both genders followed by Children and Drama for women, and Sport for men
- "Citizen" respondents value News, Children's and Current Affairs programming more highly than individual respondents

The public value created by the SABC is estimated at between R2.57 billion and R2.62 billion

Individual Value R2.23bn

- 71% of respondents to our survey give SABC an approval rating of 7 or more out of 10
- The average 'right level' for the licence fee was considered to be R20.8 per month compared to a current average fee per household of R16
- If we applied willingness to pay results to all South African households, the total individual value of the SABC is estimated to be R2.23bn

Citizen Value R60m

- In addition to individual value, the SABC also generates R60m in "citizen" value, providing good to society as a whole
- Comparing against the amount received from current licence fees and direct funding, the surplus value created is equivalent to R1.34bn

Economic Value R280m – R332m

- The SABC also creates economic value through its development of the television production sector and through its corporate social initiatives
- The total economic value of the SABC is estimated at between R280m and R332m
- The SABC does not publicise this investment

The total cost of the mandate is estimated at R1.06 billion

TV Programming & Content R824m

- The total opportunity costs of genre and local content quotas are around R540m
- The obligation for sport puts immense pressure on the profitability of the SABC
- The mandate for sports programming is costing the SABC R284m per year

Transmission R18m

- The top 33 transmitters cover 62% of the population and generate 80% of total revenue for SABC TV

Radio Programming, Content & Transmission R154m

- Between 2005 and 2008 a R154m - increase in radio costs resulting directly from the implementation of the mandate in 2005

Development Initiatives R65.5m

- Could be an under-estimate – some development initiatives might be included as corporate social initiatives

Respondents feel public service objectives are important and that the SABC is performing well against them

Ranked importance of PBS objectives (across individual & Citizen respondents)

Educational programming, broad coverage of audience groups and high standard news and current affairs were the most important objectives

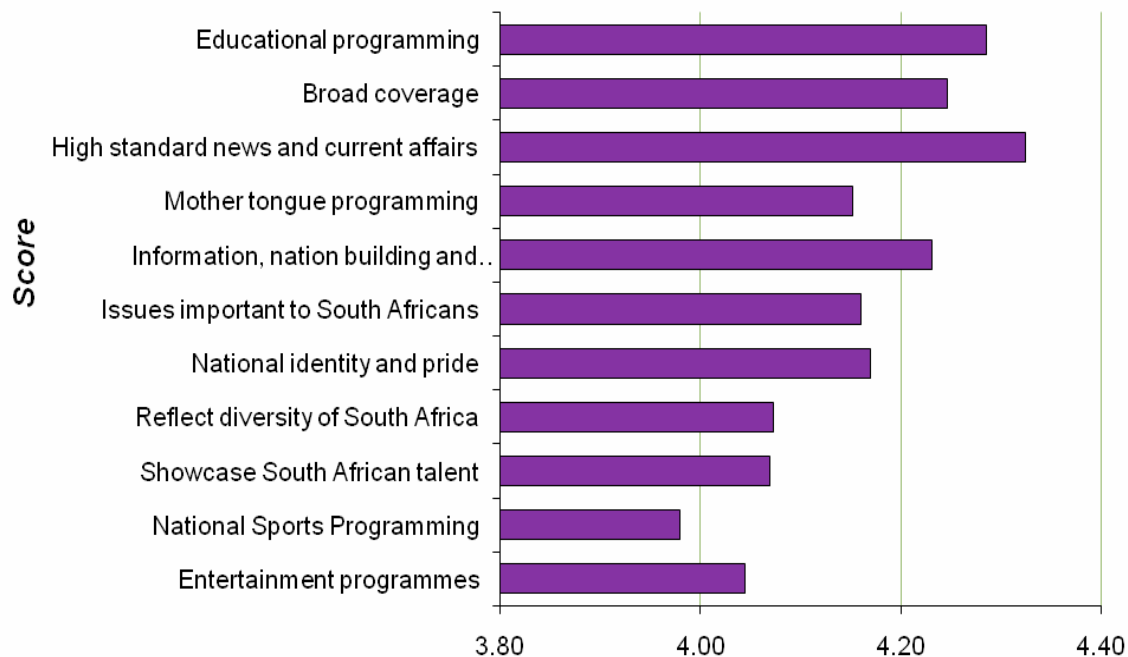
Importance of PBS Objective Rank

Importance of PBS Objective	Rank
Educational programming	1
Broad coverage	2
High standards news and current affairs	3
Mother tongue programming	4
Information, nation building and democracy	5
Issues important to South Africans	6
National identity and pride	7
Reflect diversity of South Africa	8
Showcase South African talent	9
National sports programming	10
Entertainment programme	11

Performance ratings against PBS objectives (across Individual & Citizen respondents)

High standard news and current affairs scored the highest in terms of performance against objectives

Average Performance Ratings



Source: SABC Public Value Survey 2007 (1000 respondents).

The average 'right price' for the licence fee was R20.8 per month compared to a current average payments per household of R16.1

Willingness to pay for SABC services by Consumers

- Consumers were asked how much they would pay for the SABC
- The average "right level" for the licence fee was considered to be R20.8 per month
- This compares to an estimated current average fee per household of R16.1:
 - Based on Dec 2006 proportions of households paying annually, monthly and concessions
 - Does not include revenues from debt collection, inspectorate and factorisation
- 26.6% of respondents would be willing to pay the existing licence fee (between R20 & R23 per month) if the SABC was a pay service
- In addition, a further third of the respondents (35%) would be willing to pay over the full current monthly fee of R23

Willingness to pay for SABC services by Citizens

- "Citizen" respondents were overwhelmingly in favour of the licence fee and valued the SABC higher than "individual" respondents
- 67% would pay R20 or more to secure the availability of SABC services
- 33% of citizen respondents value the SABC at less than its current R16.1 average monthly charge
- When applied to SA households, the "citizen value" equates to R60m
- "The net citizen surplus" (that is, the sum of individual and citizen value minus licence fees & direct funding received) is R1.34bn

Source: SABC Public Value Survey 2007 (Individual Sample: 500 respondents).

Broadcasting for Total Citizen Empowerment

Our Audiences



Broadcasting for Total Citizen Empowerment