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REPUBLIC OF SOUTH AFRICA

**PRESENTATION TO THE
PORTFOLIO COMMITTEE ON COMMUNICATIONS
28 FEBRUARY 2012**



- In December 2009, a Government Guarantee of R1 billion was provided to the SABC by Government which they used to secure a term loan of R1 billion from Nedbank to relieve the financial crisis at the SABC.
- The guarantee was provided to the SABC on the basis of commitments that were made by the SABC that would successfully turnaround the performance of the institution.
- The ability of the SABC to repay these guaranteed funds is dependent on the successful execution of the Turnaround Plan by the Board and the Executive Management team.
- To ensure that the deliverables in pursuit of the Turnaround Plan are met, The Monitoring Task Team (MTT) comprising representatives from the DoC and NT officials was established to monitor the progress of the SABC and its financial position made in this regard.

Introduction (Cont)



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- This presentation is built on the presentation that was made by the MTT to the PCC on 22 November 2011. It also provides progress made with regard to various commitments made by the Minister of Communications to the PCC at this meeting.
- Some of the historical performance of the SABC which was also presented to the PCC on 22 November 2011 is kept in this presentation for ease of reference.
- The MTT report on progress made by the SABC indicated below uses FY2009/10 as the base year.

Introduction (Cont)



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- The performance in respect of the FY2009/10 must be treated with caution due to the fact that there were only three months remaining to the end of the financial year when the government guarantee was secured.
- Due to the timing of the guarantee, the performance of the SABC should be assessed starting from the year 1 April 2010 to 31 March 2011.

Progress in meeting the guarantee conditions



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Guarantee Conditions	Comments	Compliance
Develop a detailed turnaround plan outlining milestones, timelines, executives responsible for achieving the cost saving & revenue enhancement measures	<p>Various elements of the Turnaround Plan have been integrated into a draft Turnaround Plan that was submitted by the SABC by Mid-January 2012.</p> <p>Corrective Measure: A draft integrated Turnaround Plan is being refined. A Board approved Integrated turnaround Plan which will form the basis for the 2012-2015 corporate plan to be submitted by not later than 29 February 2012.</p>	Partially Achieved

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Guarantee Conditions	Comments	Compliance
<p>Implementation plan for addressing issues raised in the Auditor General's (AG) report</p>	<p>Implementation plan for addressing the issues raised in the AG's report has been submitted, but is being revised by the SABC.</p> <p>The SABC has established a team that focuses on the implementation of the recommendation made the AG. The SABC has submitted a progress report. The company has implemented some of the recommendations of the Auditor General, but limited progress has been made in other areas. The SABC team will continue to submit reports and make presentations to the MTT.</p> <p>Corrective Measure: Continuous implementation of the recommendations and monitoring on compliance is on-going.</p>	<p>Partially Achieved</p>

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Guarantee Conditions	Comments	Compliance
<p>Cost cutting and revenue enhancement measures to be captured in the Shareholder's Compact</p>	<ul style="list-style-type: none">• A Shareholder Compact for FY2011/12 has not been signed. The Shareholder Compact is now awaiting signature by the SABC Chair before final approval by the Minister.• Cost cutting and revenue enhancement measures have been captured in the Shareholder Agreement. <p>Corrective Measure: The Board approved Shareholder Compact need to be submitted to the Minister as soon as it is signed by the Board.</p>	<p>Partially Achieved</p>

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Guarantee Conditions	Comments	Compliance
Monitoring Task Team to be established to monitor progress on the turnaround plan	Monitoring Task Team was established and it meets on a monthly basis to consider reports from the SABC	Achieved



Commitments	Comments
Revised Government Guarantee targets	<p>The SABC has submitted a draft proposal for the amendment of government guarantee targets and this has been forwarded to the Minister of Finance for consideration by the Guarantee Certification (GCC) Committee that will meet on 13 March 2012</p>
Filling of key vacant position	<p>The positions of the CEO and CFO have been filled. The other key vacant positions at the SABC are that of; the COO and CTO. The positions of the COO is to be re-advertised shortly based on Minister's instruction.</p> <p>Corrective Measure: The CTO position will be filled before 31 March 2012.</p>
The 24 Hour News Channel	<p>The final Business Plan for 24 Hour News Channel which provides an indication of projected revenues to be generated was not submitted to the MTT. The SABC previously reported to the MTT that it has hired ITN consultants to assist in conducting a feasibility study for the 24 hour News Channel.</p> <p>Corrective Measure: The business plan for the 24 hour News Channel needs to be submitted to the MTT as soon as it is approved by the SABC Board.</p>



Other commitments	Comments
SABC 3 Turnaround Strategy	<p>The SABC 3 has been underperforming in all respect. There has been declining audiences, declining revenue and brand integrity erosion. The SABC need to submit the channel's turnaround plan that will restore its competitiveness.</p> <p>Corrective Measure: A Turnaround Plan to be incorporated in the SABC's Corporate Plan for 2012 - 2015.</p>
Content Acquisition Plan	<p>On an annual basis, the SABC needs to prepare a three-year commissioning and acquisition strategy and plan for both local and international programming that meet SABC's mandate and its business strategy. The plan should be cost effective and efficient.</p> <p>Corrective Measure: The SABC 3 three-year plan to be incorporated in the SABC's 2012-2015 Corporate Plan</p>

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Cost cutting or revenue enhancement initiative	Targeted Measures	Comments	On track
Advertising revenue enhancements	Increase by R535m by March 2013 (R178 by March 2011)	FY2009/10: R2.992bn versus target of R3.135bn FY2010/11: R3.569bn versus target of R3.501bn	Achieved
Increased sponsorship revenue	Increase by R128m by March 2013 (R64 by March 11)	FY2009/10: R445m versus target of R512m FY2010/11: R483m versus target of R607m	Not Achieved

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Cost cutting or revenue enhancement initiative	Targeted Measures	Comments	On track
Enhanced content management	Decrease by R336m by March 2013 (R0m for March 2011)	FY2010/11: R1.597bn versus target of R2.004bn	Achieved
People costs	Decrease by R287m by March 2013 (R143m for March 2011)	FY2010/11: R1.753bn versus target of R1.476bn Reasons: Delay in approving the Operating Model and Organizational Structure	Not Achieved

The low level of spending on content is worrying because of its long term impact the quality of the content has on attracting audiences and advertisers

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Cost cutting or revenue enhancement initiative	Targeted Measures	Comments	On track
Professional fees	Decrease by R136m by March 2013 (R68m for March 2011)	FY2009/10: R138m versus target of R191m FY2010/11: R167m versus target of R113m Reasons: Cost related to SIU and Turnaround Specialists were not anticipated	Not Achieved
Marketing	Increase by R42m by March 2013 (R42m for March 2011)	FY2009/10: R90m versus target of R182m FY2010/11: R108m versus target of R234m Reasons: The marketing agencies have not been appointed	Not Achieved
Improved license fee collection (Revenue)	Increase by R46m by March 2013 (R23m for March 2011)	FY2009/10: R868m versus target of R865m FY2010/11: R872m versus target of R877m - R5m difference not significant	Achieved

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Cost cutting or revenue enhancement initiative	Targeted Measures	Comments	On track
Other expenses	Reduced by R72m by March 2013 (R36m by March 2011)	FY2010/11: R389m versus target of R480m	Achieved
Finance costs	Increase by R188m by March 2013 (R176m by March 2011)	FY2009/10: R78m (versus projection of R130m) FY2010/11: R85m (versus projection of R176m)	Achieved

SABC's overall loss for FY2010/11 was R214m which was slightly lower than the targeted loss of R228m

Progress in meeting the guarantee commitments– Third Quarter



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Fincl Statement Item	Actual OCT 2011- DEC 2011	Budget OCT 2011- DEC 2011	Variance OCT 2011- DEC 2011	Var %	Actual LY OCT 2010- DEC 2010	YTD Act DEC 2011	YTD Bgt DEC 2011	YTD Var DEC 2011	YTD %
	* 1,000	* 1,000	* 1,000		* 1,000	* 1,000	* 1,000	* 1,000	
Advertising Revenue	(1 203 355)	(1 011 854)	191 501	19	(1 034 109)	(3 220 691)	(2 851 397)	369 294	13
Sponsorship Revenue	(84 475)	(182 153)	(97 678)	(54)	(123 019)	(283 818)	(410 212)	(126 394)	(31)
Trade Exchanges	(5 526)	(30 531)	(25 005)	(82)	(3 749)	(33 826)	(96 012)	(62 186)	(65)
Licence Fees	(277 381)	(218 542)	58 839	27	(262 903)	(673 330)	(645 367)	27 963	4
Government Grants	(31 881)	(33 662)	(1 781)	(5)	(33 450)	(110 068)	(112 121)	(2 053)	(2)
Revenue: Content & Commercial Exploitation	(8 639)	(22 104)	(13 465)	(61)	(10 314)	(25 260)	(69 157)	(43 898)	(63)
Revenue Websites	(581)	(2 074)	(1 493)	(72)	(544)	(1 392)	(6 223)	(4 830)	(78)
Other Revenue	(15 272)	(18 939)	(3 667)	(19)	(17 032)	(58 638)	(58 290)	348	1
Revenue	(1 627 109)	(1 519 858)	107 251	7	(1 485 120)	(4 407 022)	(4 248 779)	158 244	4
Other Income	(19 519)	(28 375)	(8 857)	(31)	(22 957)	(44 208)	(59 126)	(14 919)	(25)
Revenue & Other Income	(1 646 628)	(1 548 233)	98 395	6	(1 508 077)	(4 451 230)	(4 307 905)	143 325	3
Amort. & Imp. Prog, Film, & Sports Rights	383 352	378 786	(4 566)	(1)	381 593	1 089 464	1 105 093	15 629	1
Amortisation of Computer Software	11 931	11 531	(400)	(3)	11 718	35 100	34 594	(506)	(1)
Impairm/(Reversal)Trade & OtherRec Cred notes	83	34	(49)	(144)	(1 481)	(1 281)	103	1 384	1 348
Broadcast Costs	68 263	92 492	24 229	26	68 832	223 837	288 446	64 610	22
Signal Distribution and Linking Costs	122 684	138 138	15 454	11	123 126	374 041	412 421	38 380	9
Employee Compensation and Benefit Expenses	477 409	380 549	(96 861)	(25)	418 527	1 370 163	1 256 025	(114 139)	(9)
Depreciation and Impairment	54 102	60 020	5 918	10	53 352	162 320	184 245	21 925	12
Impairment of Property, Plant & Equipment	1		(1)	(100)	0	1		(1)	(100)
Marketing	41 732	63 371	21 639	34	33 560	89 885	181 958	92 073	51
Direct Licence Collection Costs	36 043	47 319	11 276	24	32 443	100 899	141 957	41 058	29
Professional and Consulting Fees	54 328	39 325	(15 003)	(38)	16 489	97 819	118 121	20 303	17
Other Expenses - Operational	68 788	97 699	28 911	30	85 375	226 165	304 044	77 879	26
Other Expenses - Personnel Cost	13 885	33 363	19 478	58	2 078	32 697	100 327	67 630	67
Other Expenses - Administrative	44 139	16 051	(28 089)	(175)	12 342	125 733	48 278	(77 454)	(160)
Other (Profits)/Loss	1	216	216	100	136	150	649	499	77
Expenses	1 376 741	1 358 893	(17 848)	(1)	1 238 090	3 926 992	4 176 261	249 269	6
Operating (Profit)/Loss Before Interest & Tax	(269 887)	(189 340)	80 546	43	(269 987)	(524 238)	(131 644)	392 594	298
Net Financing (Income)/Loss	18 382	26 227	7 845	30	12 060	82 535	78 682	(3 853)	(5)
Income Tax Expense				0	0				0
SABC Financial Statement Version	(251 505)	(163 113)	88 392	54	(257 928)	(441 703)	(52 962)	388 741	734

Progress in meeting the guarantee commitments– Third Quarter (Cont)



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- The SABC revenue for the three months (Oct, Nov & Dec 2011) amounted to R1.6 billion, higher than the budget for the period by R107 million (7%), higher than the previous three monthly periods (Apr-Jun2011: R1.3 billion; Jul-Sep 2011: R1.4 billion) and also higher than the recorded revenue for the same period in the previous financial year (FY2010/11: R1.485 billion).
- The year to date (Dec 2011) revenue amounted to R4.4 billion also higher than the budget of R4.2 billion.
- The positive revenue performance for the quarter is mainly driven by advertising revenue and license fees.
- The sponsorship revenue has remain a concern with sport revenue contributing to most of the underperformance.
- SABC is projecting that revenue for the year will be R5.615 billion which will be slightly ahead of the budgeted R5.613 billion.

Progress in meeting the guarantee commitments– Third Quarter (Cont)



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- The SABC's total expenses for the three months period amounted to R1.377 billion higher than the budget by R17.8 million (1%) and also higher than the recorded total expenses for the same period in the previous financial year (FY2010/11: R1.238 billion).
- The year to date total expenses amounted to R3.9 billion which is lower than the budget of R4.2 billion.
- The employee compensation and benefit expenses are R114 million higher than budgeted for the year to date.
- The SABC is projecting that by year end total expenditure will be R5.627 billion which is R130 million more than the budget of R5.496 billion.
- The increase in the costs in the last quarter is attributed to the higher than budgeted expenditure on employee compensation and benefits, programming costs that will be incurred and year end accruals.

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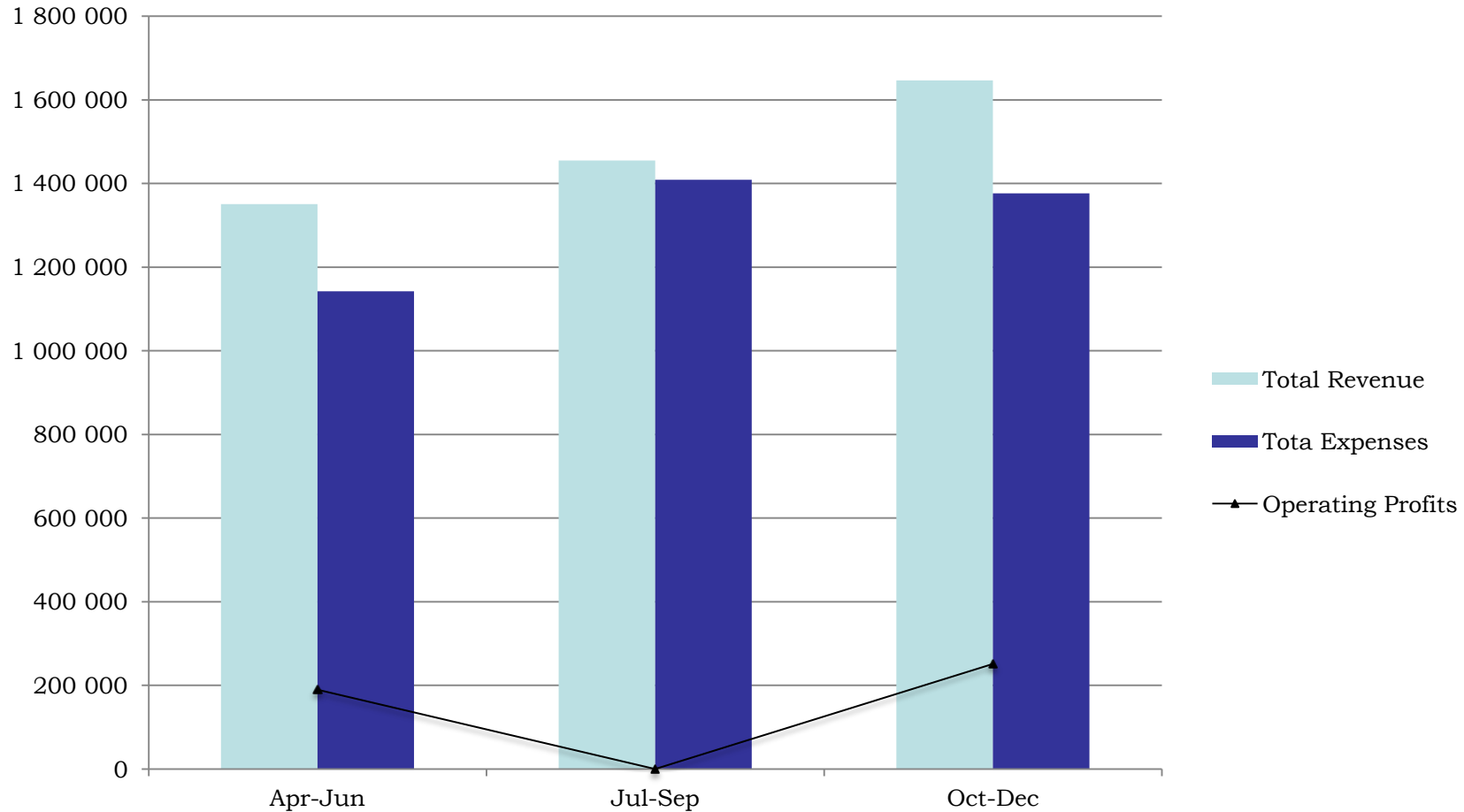
- The SABC posted an operating profit for the three months (Oct, Nov & Dec 2011) of R252 million, higher than the budget for the period by R163 million (54%) and lower than the operating profits for the same period in the previous financial year (FY2010/11: R258 million).
- The year to date (Dec 2011) operating profits amounted to R442 million, higher than the budget for the period of R53 million.
- The SABC is projecting that by year end an operating loss of R11 million will be realised.
- SABC is projecting to realise a net loss of R92 million by year end which is R105 million lower than the net profit of R12 million budgeted at the beginning of the year, and R320 million lower than the R228 million profit committed to under the guarantee.
- The graph on the next slide show the trends for the current financial year for total revenue, total cost and operating profit for the period ending in December 2011.

Progress in meeting the guarantee commitments– Third Quarter (Cont)



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Progress with the turnaround strategy



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TURNAROUND PROJECT PRINCIPLES	RESPONSIBLE	STATUS (current)
1. Revenue Enhancement		
TV Licence Revenue	Juanita van Rensburg	
Trading and pricing methodology	Anton Heunis	
Advertising Revenue Enhancement	Anton Heunis	
Improve SABC Brand and Reputation	Yvonne Johnston	
2. Cost Cutting Measures		
People Cost Management	Thabiso Lesala	
Sport Cost Reduction	Sizwe Nzimande	
Improve procurement effectiveness	Simon Mulaudzi	
Fruitless and Wasteful Expenditure	Lerato Nage	

Pending approval for rate increase

Pending appointment of agencies

On track - Delayed - Behind - Completed

Status

Progress with the turnaround strategy



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TURNAROUND PROJECT PRINCIPLES	RESPONSIBLE	STATUS (current)
3. Audience Attraction and Retention		
Content Planning and Acquisition <i>(Content Management and Enhancement)</i>	Sizwe Nzimande	
Television Audience and Competitive Intelligence Hub	Bessie Tugwana	
Repositioning of SABC 3	Bessie Tugwana	
Launch of a 24-Hour News channel	Phil Molefe	
Digital migration and Multi-channel environment	Sipho Sithole	
4. Operating Models and Efficient Organisational Structures		
Television Operating Model and Organisational Design	Bessie Tugwana	
Sports Operating Model and Organisational Design	Sizwe Nzimande	
Establish a Digital Media Division	Sipho Masinga	
Sales Operating Model and Organisational Design	Anton Heunis	
Human Capital Shared Services Implementation	Thabiso Lesala	

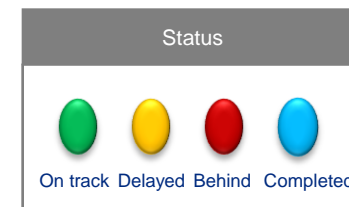
On track Delayed Behind Completed

Status

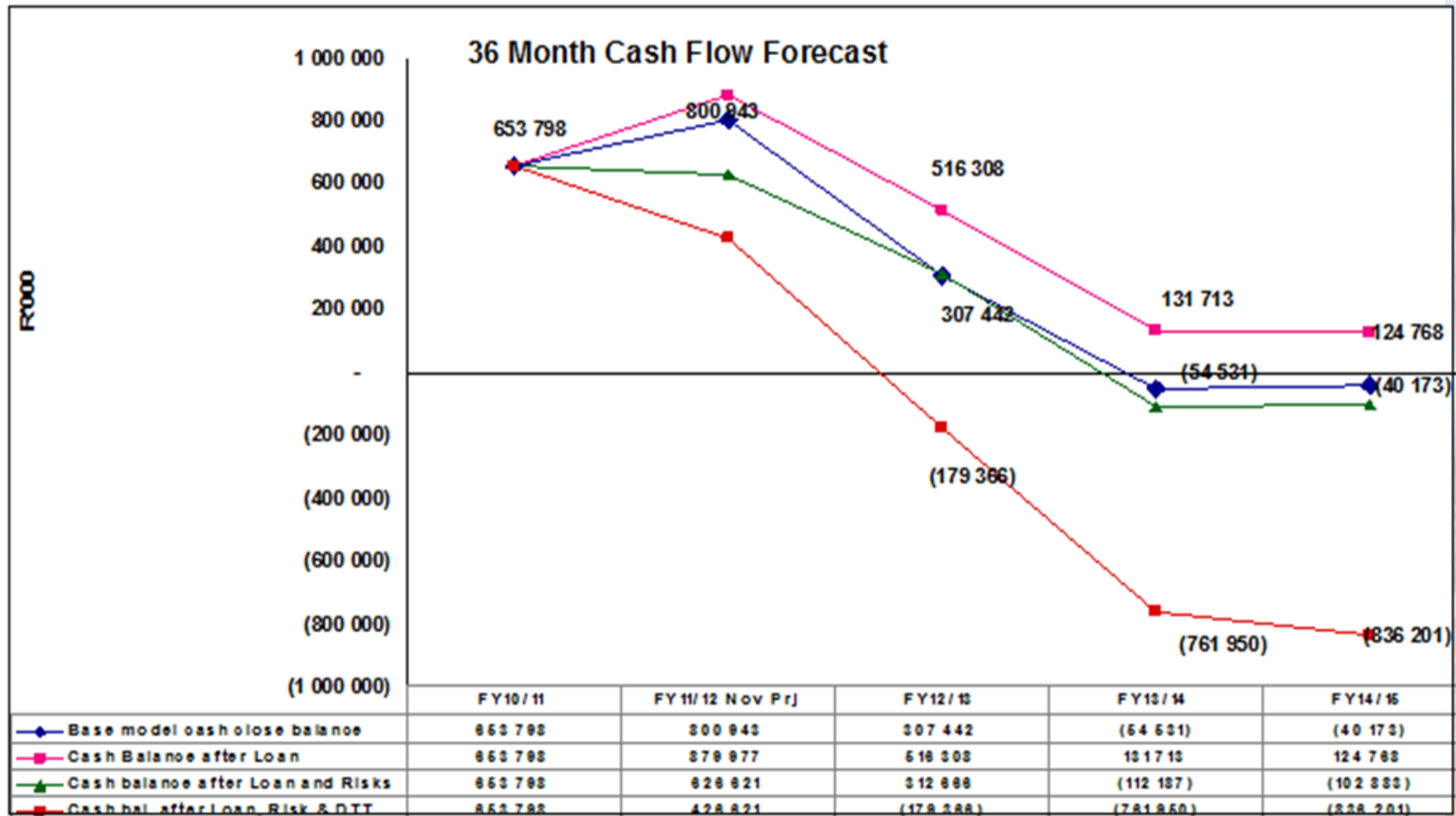


TURNAROUND PROJECT PRINCIPLES	RESPONSIBLE	STATUS (Current)
5. Governance and Control		
Review and Enhance the Delegation of Authority Framework (DAF)		
Review of SABC Editorial Policy	Graham Welch	
Group Wide Performance Management review	Thabiso Lesala	

- The status of most of the Turnaround projects is delayed.
- Some of the challenges identified by the SABC in respect of the delayed projects are:
 - Delays in implementation of the approved new operating model and organisational structure.
 - Lack of funds to implement some of the recommendations; and
 - Inability to attract sponsorship revenues.



Cash flow projections



The SABC is projecting a cash flow shortfall if they are to invest in DTT



- The SABC has made some progress in stabilising the organisation but there are still challenges in achieving the desired targets
- Performance against the commitments made in the guarantee application has been mixed especially in the crucial areas of reducing employee compensation and investing in content.
- For the year to date, the SABC has delivered performance well ahead of budget, but this performance is expected to reverse over the last quarter
- Going forward, the SABC is projecting that it will not deliver the performance committed to under the guarantee and will realise a R836 million cash flow shortfall if it is to invest in DTT.
- The SABC has submitted a draft proposal for the amendment of government guarantee targets and has been submitted to National Treasury for consideration by the Guarantee Certification Committee (GCC) that will meet on 13 March 2012.



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THANK YOU