



# INTEGRATED REPORT



# 2018

# CONTENTS

<b>ABOUT THIS REPORT</b>	1
Financial information	1
Reporting frameworks and regulations	1
Assurance	1
Approval of the integrated report	1
<b>2018 AT A GLANCE</b>	3
Distributions for the year to 30 June 2018	3
Our performance in numbers	3
Why become a member	4
<b>ORGANISATIONAL REVIEW</b>	5
<b>CHAIRPERSON'S REPORT</b>	6
<b>OUR VALUE CREATION PROCESS</b>	9
Stakeholder engagement	12
Material matters	14
Strategy	15
<b>CHIEF EXECUTIVE OFFICER'S REPORT</b>	16
Value added statement	21
<b>OUR SOCIAL IMPACT</b>	22
The SAMRO Foundation	23
Transformation report	28
Our people	30
<b>HOW WE ARE GOVERNED</b>	32
Effective and ethical leadership	34
Board members	36
SAMRO'S leadership	37
Group operation and management structure	38
Board committees	42
How we ensure good governance	43
<b>RISK REPORT</b>	46
Risk policy and management	46
<b>REMUNERATION REPORT</b>	49
Remuneration strategy and policy	49
Overview of remuneration	49
Directors' responsibility statement	52
<b>DIRECTORS' REPORT</b>	53
<b>CERTIFICATE BY COMPANY SECRETARY</b>	54
<b>INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS</b>	55
<b>SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL REPORTS</b>	56
<b>ABBREVIATIONS AND ACRONYMS</b>	67
<b>CORPORATE INFORMATION</b>	69
In tribute to our members who have passed on	72 & IBC

# DEFINITIONS

## **MECHANICAL RIGHTS**

(also known as reproduction rights) apply when a musical work is legally affixed and/or reproduced to any medium for public use. Examples include making commercial copies of recordings on cassette, CD, DVD, tape, video, computer hard drives, cell phones (ringtones and track downloads), MP3 players, or any other medium.

## **NEEDLETIME RIGHTS**

were introduced when the Performers' Protection Act and the Copyright Act were amended in 2002. These rights entitle performers and record companies to remuneration for the public performance and/or use of their recorded performances.

## **REPROGRAPHIC RIGHTS**

are administered by the Dramatic Artistic and Literary Rights Organisation (Pty) Ltd (DALRO). We primarily administer reprographic reproduction rights (from published editions), public performance rights (including stage rights for musicals and plays) and reproduction rights (granted for both publishing and copying) in works of visual art.

## **PERFORMING RIGHT**

The right to have the composition performed in public.





# ABOUT THIS REPORT

This integrated report (report) presents the holistic performance of the Southern African Music Rights Organisation (SAMRO, the organisation or the company) and its subsidiaries<sup>1</sup> (the group) for the period 1 July 2017 to 30 June 2018. Any material events after this date, before publication, have also been included in the report.

This report is our primary report to our stakeholders and outlines our strategy, business model, sustainability initiatives, governance, remuneration and risk management. We have included commentary from the chairperson and the chief executive officer (CEO).

SAMRO is a non-profit company (NPC) with a high public interest score, as defined by the Companies Act, 71 of 2008, as amended (Companies Act).

SAMRO is affiliated to other international collective management organisations that collect licensing income on behalf of composers, authors and publishers (SAMRO members) in their territories. SAMRO plays a similar role in South Africa on behalf of other collective management organisations and makes regular distributions to them in return.

## FINANCIAL INFORMATION

We apply International Financial Reporting Standards (IFRS) and our financial statements are publicly available on [www.samro.org.za](http://www.samro.org.za). The reporting structure, content and data of our summarised financial statements are comparable to previous reports. PricewaterhouseCoopers Incorporated (PwC) audited SAMRO's summary consolidated and separate financial statements and its independent report to SAMRO members is available on page 53.

## REPORTING FRAMEWORKS AND REGULATIONS

The preparation of this report was guided by the following reporting frameworks and regulations:

- International Integrated Reporting Council's <IR> Framework (<IR> Framework)
- IFRS
- Companies Act
- King Report on Corporate Governance™ for South Africa, 2016 (King IV). Copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved

## ASSURANCE

SAMRO operates in an established control environment, which is documented and reviewed regularly. Risk management and internal control procedures are in place to provide reasonable but not absolute assurance that SAMRO's risks are being controlled and assets are safeguarded.

PwC will provide external assurance on the financial information supplied in the report.

## APPROVAL OF THE INTEGRATED REPORT

The board of directors (the board) is responsible for the integrity and completeness of this report. The board applied its collective mind to the preparation and presentation of the report and accordingly approved the 2018 integrated report for publication. The board believes the report was prepared in accordance with the <IR> Framework.

Signed on behalf of the board:



**Jerry Mnisi**  
Chairperson

27 November 2018



**Nothando Migogo**  
Chief executive officer

27 November 2018

<sup>1</sup> The SAMRO Foundation, DALRO, Arab Emirates Music Rights Organisation (AEMRO), SAMRO House Holdings (Pty) Ltd and SAMRO House (Pty) Ltd. Dormant/Inactive subsidiaries: SAMRO IP Technologies and Gratia Arts.





# 2018 AT A GLANCE

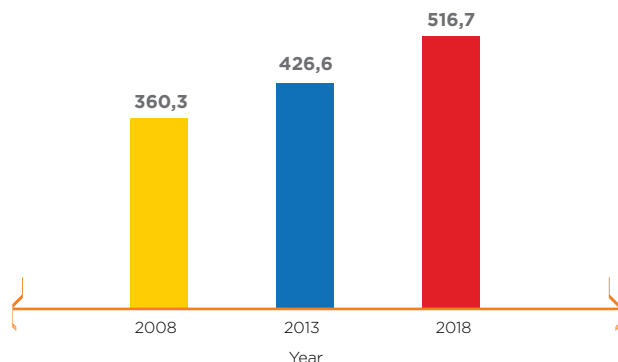
## DISTRIBUTIONS FOR THE YEAR TO 30 JUNE 2018

CATEGORY	DISTRIBUTION	DATE OF CREDIT
Foreign (Seq 1)	FY2018	2017/07/11
Post (Seq 1)	FY2018	2017/07/29
Post (Seq 2)	FY2018	2017/08/29
Fees in error (Seq 1)	FY2018	2017/08/30
Foreign (Seq 2)	FY2018	2017/09/12
Supplementary NS <sup>1</sup> (Seq 1)	FY2018	2017/09/18
Film	FY2018	2017/10/04
Post (Seq 3)	FY2018	2017/10/18
Foreign post (Seq 1)	FY2018	2017/10/31
Royalty adjustment (Seq 1)	FY2018	2017/11/03
Grant of rights payment	FY2018	2017/11/07
Performance adjustment (Seq 1)	FY2018	2017/11/29
Post (Seq 4)	FY2018	2017/12/20
Post (Seq 5)	FY2018	2018/01/29
Radio and general (Seq 1)	FY2018	2018/03/03
Television (Seq 1)	FY2018	2018/04/07
Live (Seq 1)	FY2018	2018/04/17
Supplementary NS <sup>1</sup> (Seq 2)	FY2018	2018/04/25
Post (Seq 6)	FY2018	2018/05/07
Performance adjustment (Seq 2)	FY2018	2018/05/23
Mobile and internet transmission (Seq 1)	FY2018	2018/06/01
Post (Seq 7)	FY2018	2018/06/21
Royalty adjustment (Seq 2)	FY2018	2018/06/25

<sup>1</sup> NS is an abbreviation for Non-Société. This means the work or a share of that work has been used belongs to a composer who is affiliated to any society at the time of distribution.

## OUR PERFORMANCE IN NUMBERS

### GROSS GROUP TOTAL INCOME - 10-YEAR VIEW (Rm)



Total available for distribution  
**R336,8 million**  
 (2017: R351,8 million)



Cost-to-income ratio  
**40%**  
 (2017: 38,6%)



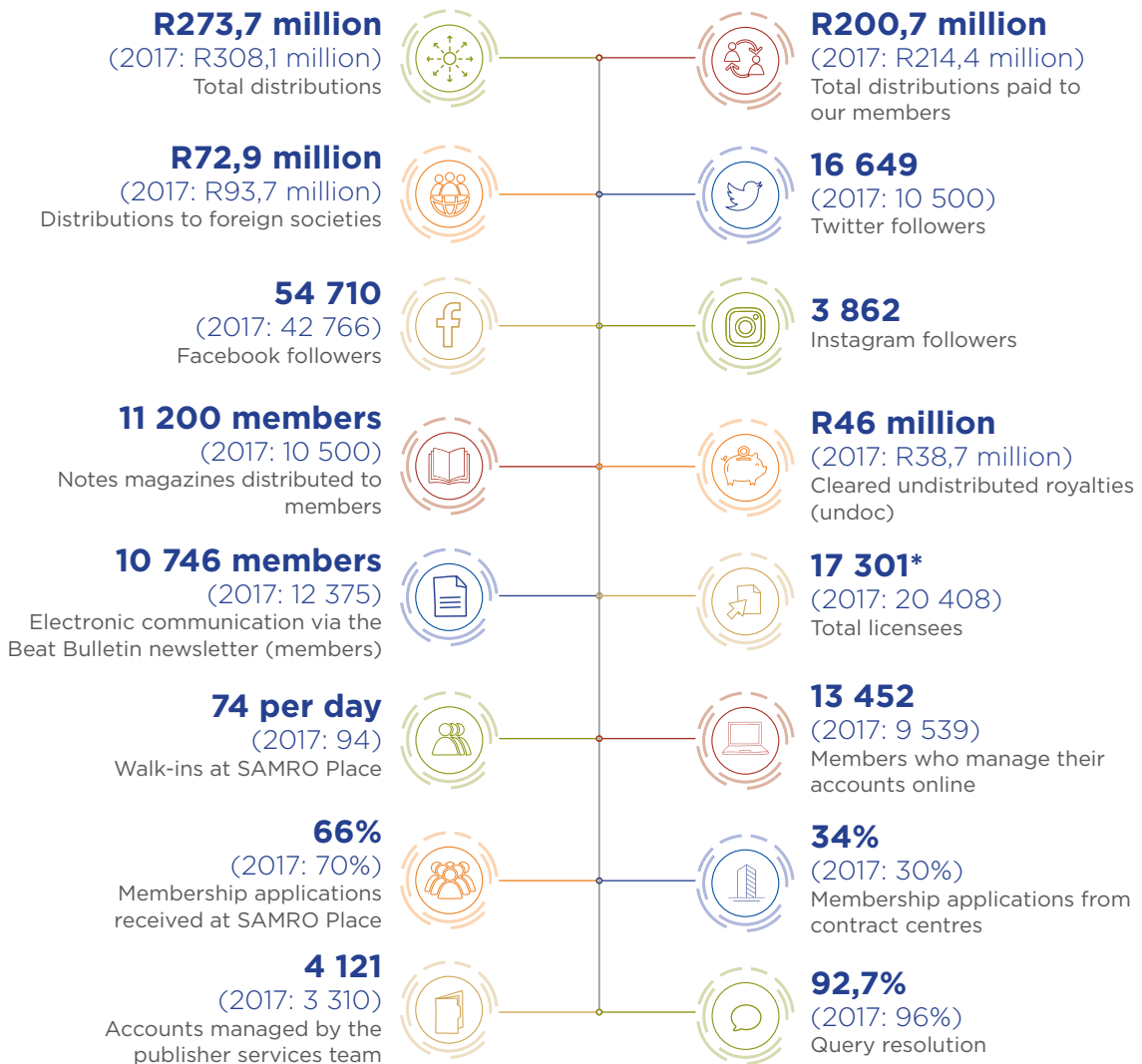
Number of distributions  
**23\***  
 (2017: 31)



Total group licence revenue  
 (before deductions)  
**R488,9 million**  
 (2017: R483,7 million)

\* Number of distributions decreased due to increased efficiencies in distributions processes as well as certain post distributions being consolidated.

## 2018 AT A GLANCE CONTINUED



\* Total licensees reduced as a result of licensee review as part of operating effectiveness assessment processes carried out internally.

### WHY BECOME A MEMBER

Through its relationships with international collecting societies, SAMRO provides a valuable service to over three million music creators worldwide.

- 🌀 **Distribution of royalties** (highlight distribution cycles)
- 🌀 SAMRO **Funeral Benefit** Scheme
- 🌀 SAMRO **Retirement Annuity** Fund
- 🌀 Join forces in lobbying for **Copyright Amendment Bill** that best suits music creators
- 🌀 SAMRO collects royalties worldwide and across South Africa, ensuring that your **music rights** are **represented and measured** at the correct value countrywide
- 🌀 Member **application** and **registration** is free



# ORGANISATIONAL REVIEW

**16 374**  
South African **composers**  
and **publisher** members  
(2017: 14 961)

**200<sup>1</sup>** employees

**67%** African

**13%** coloured

**7%** Indian

**11%** white

**2%** foreign

## OUR VISION

To be the global  
**music rights**  
and **value-added**  
**services**  
organisation of  
choice for Africa

## OUR VALUES

- Accountability
- Achievement
- Integrity
- Service excellence
- Teamwork

## OUR STRATEGIC THEMES

SAMRO is a member-centric organisation that thrives on a high-efficiency and high-performance culture. This enables us to successfully execute our strategic themes:

- Optimisation of the business model
- Diversification
- Innovation

SAMRO represents  
more than  
**four million**  
**composers** and  
**authors**  
across the globe

ESTABLISHED  
**1961**

SAMRO was established in 1961 as a company limited by guarantee. Its members comprise southern African composers, authors and music publishers. When the new Companies Act was promulgated, SAMRO members elected to move from a company limited by guarantee to an NPC. Since inception, SAMRO has delivered services to its members on a not-for-profit basis.

## OUR PURPOSE

- To **create** value for the creators and users of music
- To **protect** the intellectual property rights of writers, composers and music publishers by licensing music users
- To **ensure** that members whose works are broadcast and played commercially are paid their royalties from licence fees collected by SAMRO
- To actively **promote** the value of copyright

## Rights administered by SAMRO<sup>2</sup>

### PERFORMANCE RIGHTS

A performance rights licence allows musical works to be broadcast, performed in public and transmitted by a diffusion service. The licence fees collected for this use are paid as royalties to music composers, authors, publishers and affiliated societies

<sup>1</sup> SAMRO has 200 permanent and 17 contract employees.

<sup>2</sup> SAMRO no longer administers mechanical rights and needletime rights. Mechanical rights are administered by the Composers, Authors and Publishers' Association (CAPASSO) and following the Performers Organisation of South Africa's (POSA) merger with the South African Music Performance Rights Association (SAMPRA), needletime rights are now administered by SAMPRA.

# CHAIRPERSON'S REPORT

SAMRO was established to be a world-class collective management organisation (CMO) that protects the rights of composers and authors across the world. In 2018, we focused on aligning the organisation to its core purpose.

SAMRO is focused on being a member-centric organisation that is transparent and well governed under the guidance of the board, Nothando Migogo and the executive team.

The board approved the new strategy which it formulated in collaboration with executive management. The strategy has three themes: optimisation of the business model, diversification and innovation.

## OUR OPERATING ENVIRONMENT

In 2017, South Africa's entertainment and media revenue increased by 6,8% year-on-year to R129,2 billion<sup>1</sup>. Increased accessibility to the internet and digitalisation contributed significantly to revenue growth. This trend is expected to continue and will impact the traditional business model which SAMRO relies on. The internet is becoming the preferred platform for advertisers due to its compelling ability to capture and engage audiences. Currently, broadcasting (television (TV) and radio) constitutes 67% (2017: 66%) of SAMRO's licensing income.

We are committed to unlocking all licensing opportunities related to the use of music. We are particularly targeting the online sales market and assessing live music and local government.

The rate of digitalisation in our industry requires us to have a reliable information technology (IT) platform that delivers on our members' needs by providing accurate, reliable and user-friendly information. Zeus upgrades went live in December 2017 but the platform is not yet at the desired standard. The IT team is working to catalyse our IT system to be more reliable, accurate and user-friendly.

Due to the tough economic conditions in South Africa, there are numerous licensees who have delayed or avoided payment. We currently have R72,6 million as a bad debt provision.

The impending Copyright Amendment Bill could alter our regulatory compliance requirements, reporting requirements and provide extended user rights.

## A CULTURE OF GOOD GOVERNANCE AT SAMRO

SAMRO is committed to ensuring good governance policies and structures (pages 42 to 44). A fundamental element which will drive the organisation forward is a unitary board with appropriate skills, experience and diversity. Membership issues occupied a significant part of our agenda in that there is currently one independent non-executive director on the board. However, we have set a target to ensure that the board consists of at least three independent members by 2020.

We reviewed our policies and performed a board evaluation process. Most notably, the remuneration policy was comprehensively reviewed to ensure alignment with the company's strategy while driving employee performance. The board evaluation process identified areas which we need to strengthen, and specific training was allocated to directors. Other aspects, such as the delegation of authority to committees and our meeting arrangements, are being closely assessed to optimise their efficiency and value contribution to the board.

<sup>1</sup> PwC: Entertainment and media outlook: 2018 to 2022 – An African perspective.



**“WE ARE COMMITTED TO UNLOCKING ALL  
LICENSING OPPORTUNITIES RELATED  
TO THE USE OF MUSIC.”**

JERRY MNISI



# CHAIRPERSON'S REPORT CONTINUED

Our ability to attract and retain talent contributes to our sustainability. The CEO and CFO recruitment processes outlined the scarcity of skills in our industry. We are improving our succession planning process to ensure reliable contingencies are in place to manage future vacancies.

The board is satisfied that it performed its duties according to its charter. Improvement areas have been identified and we will continue to work towards improving our standards of governance.

## ENGAGING WITH OUR STAKEHOLDERS

SAMRO engaged with members regarding the company's membership rules to address issues such as the discrepancies over the various levels of membership. A task team has been established to educate members on SAMRO's legal content which is difficult to understand. Additionally, the team will assist in the development of social security systems for members who are no longer as economically active.

We also continued to engage with government on the Copyright Amendment Bill by submitting our recommendations to parliament. During the reporting period, parliament deliberated on the submissions and proposals made by various stakeholders in the music and arts industries.

In 2014/15, we identified the AEMRO investment as an opportunity. We hoped it would fulfil our diversification objective and contribute to licensing revenue growth, especially at a time when growth was lagging. Unfortunately, the investment did not benefit our members as we predicted. In hindsight, we recognise that we could have taken preventive measures, such as conducting sufficient due diligence. We are committed to transparent disclosure regarding the shortcomings of the investment decision. As such, PwC conducted an initial investigation, and findings from the second, forensic, investigation by Sekela Xabiso were presented to SAMRO members. For financial information relating to this investment, please refer to the CEO's report.

## THE SAMRO FOUNDATION

The SAMRO Foundation plays a pivotal role as our corporate social investment (CSI) arm. In November 2017, maestros Kutlwano Masote and Nomfundo Xaluva were elected as chairman and vice-chairman respectively. The SAMRO Foundation focused on promoting South African music, the notation of indigenous music and the reallocation of music investment resources in 2018. Furthermore, over R3 million was allocated to our partner organisations and to bursaries at tertiary institutions.

The Concerts SA (CSA) project no longer receives long-term three-year funding from the Norwegian Embassy, and our contracts declined on a year-on-year basis due to fiscal pressures in Norway.

## TRANSFORMATION

The social and ethics committee seeks to address non-compliance and other challenges that SAMRO is facing with its scorecard. SAMRO's aim is to achieve a level 4 broad-based black economic empowerment (BBBEE) rating in the next two years.

The organisation's BBBEE rating impacted our licence income performance due to licensees resisting to settle their accounts due to our lower BBBEE compliance level.

In 2018, the appointment of black women at executive management level contributed to the improvement of our scorecard.

## OUTLOOK

Our industry and South Africa's macro-economic outlook will remain volatile due to the national elections in 2019. We will continue striving to improve brand reputation and to develop our stakeholder inclusive approach in line with King IV. Management will continue realigning the business to the back to basics approach and evolving within the competitive environment.

## APPRECIATION

In conclusion, the AGM held on 11 December 2018 will be my final duty as a board member. It has been an honour and a humbling experience to serve SAMRO in various capacities throughout the years. My gratitude goes to my fellow board members, management and employees for their contribution. I have confidence in management and the new board that they will deliver on SAMRO's strategy.



**Jerry Mnisi**  
Chairperson

# OUR VALUE CREATION PROCESS

Members entrust their musical rights to SAMRO. Our primary role is to administer these rights on their behalf by collecting licence fees and distributing royalties earned.

SAMRO's administration function entails licensing and collecting fees from music users (such as television and radio broadcasters, live music venues, retailers, restaurants, promoters and shopping centres) who reproduce, distribute and adapt the works of our members. These fees are then distributed to members as royalties during our annual distribution cycles (after administration costs are deducted).



## INPUTS

- Composers, authors and publishers:
  - o **16 374** members
  - o New membership applications:
    - **66%** (2017: 70%) received at SAMRO Place
    - **34%** (2017: 30%) from contact centres



## ACTIVITIES

Administers  
**performing rights** collection

**Copyright protection** for composers and authors' works, and lobbying activities to **positively influence music industry** and **copyright legislation**

**Artist support and industry development** through the SAMRO Foundation (page 23), support of SAMRO affiliates/CMOs



## OUTPUTS

- Distribution of royalties for the works of artists
- **4 121** (2017: 3 310) accounts managed by the publisher services team
- **10 746** (2017: 12 375) electronic communication via the Beat Bulletin newsletter



## OUTCOMES

- **R273,7 million** (2017: R308,1 million) total distributions
- **R200,8 million** (2017: R214,4 million) total distributions paid to our members
- **R72,9 million** (2017: R93,7 million) distributions to foreign societies
- **R46 million** (2017: R38,7 million) cleared from Undoc
- **23 distributions** (2017: 31 distributions)

# OUR VALUE CREATION PROCESS CONTINUED

## SAMRO

SAMRO is a membership-based organisation and its core function is the administration of various types of intellectual property works in copyright, governed by the Copyright Act, 98 of 1978, as amended. SAMRO also owns a property-holding company in which SAMRO Place is housed. The organisation's main revenue is derived from licensing the rights of music composers, authors and publishers. This includes licensing the SAMRO repertoire of musical works for broadcast, performance in public and transmission through a diffusion service.

Composers, authors and publishers assign their rights to SAMRO for licensing purposes. In return, SAMRO distributes royalties after collecting licence fees from users of copyright works (such as broadcasters) and deducting administration costs for this service.

SAMRO provides composers, authors and publishers from foreign territories with the same service through a system of bilateral agreements for reciprocal representation with similar organisations throughout the world. SAMRO also receives distributions from these international organisations when our members' works are performed in their countries.

## DALRO

DALRO, SAMRO's largest subsidiary, has been operating since 1967 and licenses the reproduction of literary, artistic and dramatic-musical works, and offers a range of related services<sup>1</sup>. Members legally assign their rights to SAMRO, while DALRO acts on an agency basis for its members.

DALRO's main source of revenue is the administration of reprographic rights, although the organisation is developing other revenue streams in copyright licensing and related fields. The organisation developed tariff and licensing instruments for licensing these rights to private and public sector businesses, particularly universities and more recently media monitoring services. Licensing schemes were also developed for visual works of art and the adaptation of books for film and TV productions.

## THE SAMRO FOUNDATION

The SAMRO Foundation is an NPC housing the CSI portfolio of SAMRO. The SAMRO Foundation's activities aim to promote South African arts and encourages a culture of excellence and music education in the arts while supporting the local music industry through a diverse range of programmes (pages 22 to 27).

## NON-ROYALTY COMMERCIAL ENTERPRISES

This area of the business houses the group's activities that focus on generating non-royalty revenue to diversify the sustainable revenue stream for its members, including rental from SAMRO Place.

<sup>1</sup> Administration of reprographic reproduction rights (from published editions), public performance rights (including stage rights for musicals and plays) and reproduction rights (granted for both publishing and copying) in works of visual art.





# OUR VALUE CREATION PROCESS CONTINUED

## STAKEHOLDER ENGAGEMENT

SAMRO engages with stakeholders to ensure the transparency and accountability of our business.

The levels of power and influence of each stakeholder group differ. SAMRO aims to build and maintain relationships that achieve shared value by communicating transparently, promptly and effectively with all stakeholders. Our high-level stakeholder engagement feedback discussions for 2018 are highlighted in the reports of the chairperson (page 6) and CEO (page 16).

We engage with our key stakeholders through various meetings, our website, online platforms and specific industry conferences and events.

STAKEHOLDER	STAKEHOLDER EXPECTATIONS/CONCERNS	GROUP RESPONSE
Composers, authors and publishers	<ul style="list-style-type: none"> <li>• Outdated membership rules</li> <li>• Ineffective communication</li> <li>• Transparency in royalty payment process</li> </ul>	<ul style="list-style-type: none"> <li>• Roundtable sessions and an extraordinary general meeting (EGM) dedicated to membership rules and member information around AEMRO</li> <li>• CEO engagements</li> <li>• Appointed a task team to deal with membership-related matters</li> </ul>
Broadcasters	<ul style="list-style-type: none"> <li>• Adherence to local music initiative</li> <li>• Inaccurate distributions</li> <li>• Unfair distributions</li> </ul>	<ul style="list-style-type: none"> <li>• Piloting the media monitoring solution for TV and radio</li> </ul>
Employees and unions	<ul style="list-style-type: none"> <li>• Employee wellness</li> <li>• Fair remuneration</li> <li>• Increased transparency</li> </ul>	<ul style="list-style-type: none"> <li>• SAMRO conducted a strategy session for staff in August 2018</li> <li>• Engagements with employees on cost to company packages</li> <li>• Engagements with the Commission for Conciliation, Mediation and Arbitration (CCMA)</li> <li>• Wage negotiations with the Communication Workers Union (CWU)</li> </ul>
Government	<ul style="list-style-type: none"> <li>• Compliance with regulatory requirements</li> <li>• Advising government with policy and legislative changes</li> <li>• Transparency of distributions</li> </ul>	<ul style="list-style-type: none"> <li>• Participated various engagements with industry and government players</li> <li>• Various meetings with key individuals to establish a strategy to unlock licensing opportunities</li> <li>• Formation of Copyright Alliance to best respond and provide legislative input in the Copyright Amendment Bill process</li> </ul>
Membership organisations	<ul style="list-style-type: none"> <li>• Protection and enforcement of copyright and other intellectual property rights</li> <li>• Copyright Amendment Bill</li> </ul>	<ul style="list-style-type: none"> <li>• Various memberships and alliances</li> <li>• SAMRO is a founding member of the Copyright Alliance</li> </ul>
Fellow Africans collecting societies	<ul style="list-style-type: none"> <li>• Mutually beneficial relationships</li> <li>• Need for enforceable and fair copyright laws across the continent</li> </ul>	<ul style="list-style-type: none"> <li>• Visits by CEO and other management members to various countries on the continent to build strong relationships</li> <li>• CEO was elected president of the International Confederation of Societies of Authors and Composers (CISAC) Africa, positioning her well in the drive to identify and address areas of concern</li> </ul>

## MEMBERSHIPS

SAMRO has memberships and affiliations with organisations that protect and enforce copyright and other intellectual property rights.

### MEMBERSHIPS

<b>SAMRO</b>
CISAC
Bureau International des Sociétés Gérant les droits d'Enregistrement et de Reproduction Mécanique (BIEM)
<b>DALRO</b>
International Federation of Reproduction Rights Organisations (IFRRO)

## ONLINE PRESENCE AND SOCIAL MEDIA

Our website contains vital member-related information, such as:

- Licensing application forms
- Distribution schedules
- Various types of rights and memberships
- Relevant links to other information

Our website also hosts the Member Portal, enabling members to manage their SAMRO accounts online. Members can view and update personal information, notify works and view accurate current and historical account statements. In 2018, 82,1% of our members (2017: 63,7%) are registered online. Of these members, 70% actively use the platform.

SAMRO engages with members on social media platforms such as Facebook, Twitter, Instagram, and YouTube in order to inform them on any pertinent matters that they may need to be aware of. The SAMRO Foundation utilises Facebook, Twitter and YouTube to share the performances of scholarship winners and other beneficiaries. CSA's information is available on its website and it also has a social media presence on Facebook, Twitter, YouTube and SoundCloud.



# OUR VALUE CREATION PROCESS CONTINUED

## MATERIAL MATTERS

Our material matters are matters that can substantially impact the company's ability to create sustainable long-term value. We determine our material matters by assessing the operational risk log, and the local and international macro-economic environment. The table below lists matters that are considered most material to SAMRO:

MATERIAL MATTERS	DESCRIPTION	HIGH-LEVEL FEEDBACK
Membership	Ability to increase distributions in line with membership growth	SAMRO is working on various initiatives to ensure members receive maximum benefit. We aim to improve our royalty payout rate by ensuring efficient frequency and reduced undoc balances.
Board composition	Alignment with corporate governance codes	SAMRO will ensure that the board comprises a sufficient skillset and is appropriately balanced with an adequate number of independent members.
Legislative changes	Business model relies on existing legislation	The lies uncertainty surrounding the new copyright legislation, which could impact SAMRO's business model.
	The regulation of societies is being intensified	There is a likelihood of government enforcing regulatory changes that would result in CMOs having to report to government on performance and processes.
Costs	AEMRO investment	AEMRO investment was wound up as a result of infeasible overheads and a lack of conducive legal framework, amongst other things. This assisted with containing our spending at group level.
	Regulation requiring improved efficiencies	SAMRO anticipates regulation to enforce strict rules on society which will assist in driving higher distributions to composers, authors and publishers. It is anticipated that regulation will be 20%. Our cost-to-income ratio was 40% and our target is to reduce this to 20% by 2022.
Licensing	The public broadcaster's payment patterns	Liquidity issues at the public broadcaster are expected to persist. This situation will continue to affect our licensing income.
	Licensing initiatives	We are addressing the simplification of tariffs to streamline our licensing process. Empowering music users to understand the value of music and its importance in their business.
	Lack of adequate copyright legislation for new media	Collaborating with mechanical music rights (CAPASSO) to create licensing solutions for digital service providers.

## STRATEGY

In support of the group's vision, we have established three strategic themes:



### 1. OPTIMISATION OF THE BUSINESS MODEL

The optimisation of operations and processes in areas such as invoicing, sales and credit control enables SAMRO to increase value for members and grow licensing revenue. Negotiating favourable tariffs is crucial to ensure that we derive sufficient licensing revenue from our licensees. Providing a more member and licensee centric service.

### 2. DIVERSIFICATION

Working with strategic partners in order to increase licensing and collection in other African territories. Providing value added services for members as well as tech driven customer solutions.



### 3. INNOVATION

SAMRO intends to be a dynamic and future-orientated company which understands members' wants and needs. We will consistently monitor trends such as digitalisation and ensure that we respond effectively. Our approach to innovation enables us to be a business which gains the affinity of members by offering great value in the changing landscape.



# CHIEF EXECUTIVE OFFICER'S REPORT

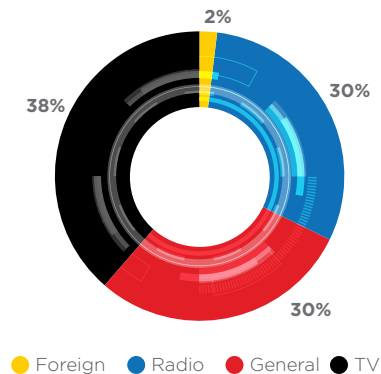
## WELCOME TO THE 2018 SAMRO **integrated report**

SAMRO is on a drive to reinforce its role as a transparent and accountable entity serving the best interests of its members.

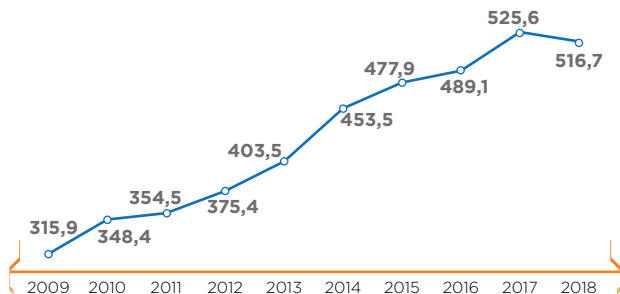
In 2018, our membership base increased to 16 374 members as we continued to diligently administer rights, collect licence fees and distribute royalties.

SAMRO's total income decreased by 1.7% to R516,7 million (2017: R525,6 million). The decrease was significantly influenced by the decline in our licensing revenue – which constitutes 95% of our total income.

### LICENCE AND ROYALTY INCOME



### TOTAL INCOME (Rm)





**“THE COMPANY IS DEDICATED TO PROACTIVELY ADDRESSING OUR MEMBERS’ UNIQUE NEEDS AND DELIVERING ON THEIR EXPECTATIONS.”**

NOTHANDO MIGOGO



# CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

General licensing income decreased by 0.6% due to market constraints and slow business growth. Furthermore, businesses have closed down due to economic pressures and defaulted on payments. The poor performance was also driven by reduced market confidence in SAMRO due to negative media, an outdated sales strategy as well as inefficient licensing and collecting processes. These were key focus areas during the period.

Despite delayed payments from the public broadcaster, total broadcast revenue increased by 3,3%. We also faced challenges to secure a tariff increase during the year. However, an increase for an annual licence fee worth R80 million (2017: R55 million) excluding value added tax (VAT) with a private broadcaster is in its final negotiation stages.

The board and management revised the strategy to optimise the company's current business processes, diversify appropriately, and pursue innovation. These objectives will enable us to become a member-centric organisation which achieves increased distributions, efficiency and revenue.

We strengthened our management team with agile and motivated individuals who are professionals in their field and have solid knowledge of the industry and our members' interests. The enhanced competencies of our management team will be an integral driver of our business in future.

The company is dedicated to proactively addressing our members' unique needs and delivering on their expectations. We held two EGMs during the year which gave us the opportunity to address membership rules, the lack of independent members on our board and unprocessed

distributions related to works in the public domain. We increased member awareness of the amended membership criteria, our nomination committee engage on board composition issues and a dedicated department, comprising six employees, was introduced to administer undoc.

Our involvement in the Copyright Alliance enables us to continually lobby and engage with government regarding the development of the Copyright Amendment Bill. The bill threatens DALRO's continued operations due to extensive educational exceptions.

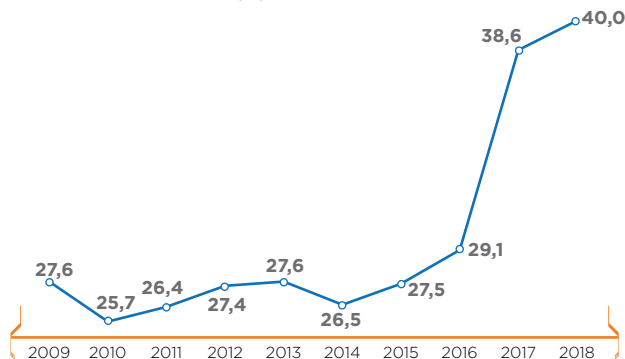
SAMRO sponsored the 2018 South African Music Awards (SAMA) held on 2 June 2018, and presented the SAMRO highest airplay special composer award. The Wawela Music Awards were postponed to 2019.

## OPTIMISATION OF THE BUSINESS MODEL

SAMRO collected R471,9 million (2017: R465,6 million) in licence and royalty income and distributed R273 million (2017: R308,1 million) in royalties. Although our revenue increased the impact of AEMRO (approx R9m) and Bad Debts Provision (approx R31,6m) affected our distributable income in the current period. R127,3 million (2017: R127,9 million) was generated from renewals and R11,5 million (2017: R11 million) was generated from new business. Containing our expenses enabled us to perform comparatively better than the prior year, however, changes in the accounting of our internally generated assets still affected overall costs and led to cost-to-income ratio of 40% (2017: 38,6%).

We are negotiating towards a single music rights licence between SAMRO, Recording Industry of South Africa (RISA), CAPASSO and

### COST-TO-INCOME RATIO (%)



<sup>1</sup> 2017 - The cost to income ratio is high because of the impairment loss related to the investment in the UAE

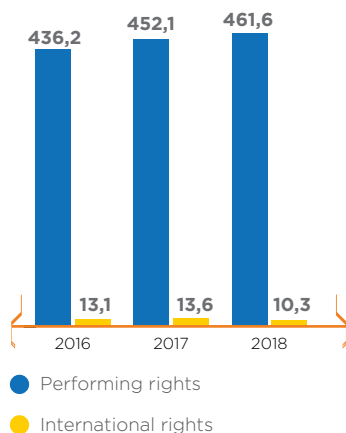
2018 - The cost to income ratio is high because of the impairment loss related to the investment in the UAE, writing off the POSA loan and other intangible assets. The change in accounting estimate related to the custom built SQL Database also contributes to the increase in expenses which has an adverse effect on the cost to income ratio.

<sup>1</sup> 36% excluding AEMRO costs.

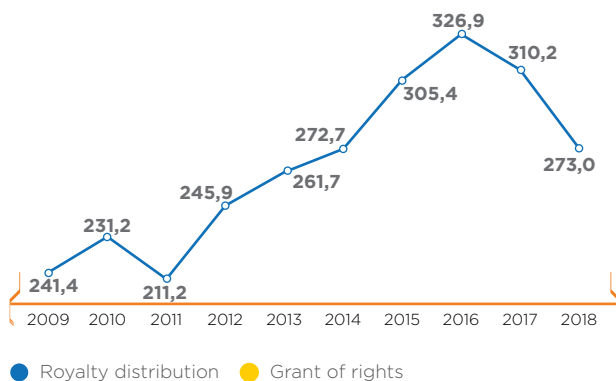
SAMPRA. This could assist our licensees by reducing the number of parties and contracts they would have to engage with, allowing the licensing process to be simple and efficient, and resulting in more royalty income across the industry.

Beyond the strategic realignment, we aim to implement robust internal controls and enhance SAMRO's reputation.

### LICENCE INCOME SOURCES (Rm)



### DISTRIBUTIONS (Rm)

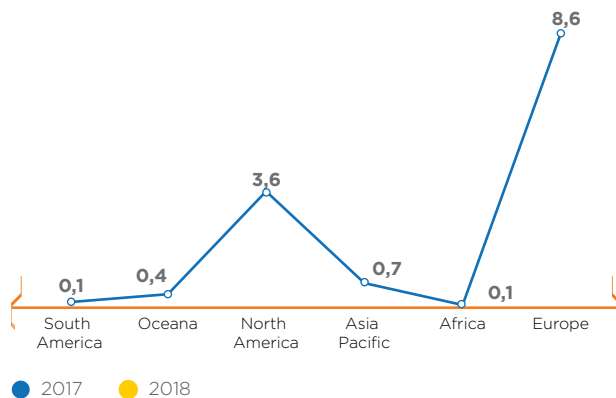


### DIVERSIFICATION

Foreign income declined by 24,3% to R10,3 million (2017: R13,6 million) due to the fluctuating exchange rate and timing of revenue receipts from foreign societies. SAMRO maintained its focus of promoting South African repertoire to overseas markets. This enables SAMRO to collect royalties from other societies.

SAMRO's investment income decreased by 54% to R17,3 million (2017: R37,7 million). We assumed a cautious investment approach due to the subdued macro-economic conditions and political uncertainty. The group deposited its excess cash into short-term unlisted investments such as call accounts and fixed deposit accounts.

### FOREIGN INCOME BY REGION (Rm)



# CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

In 2014/15 the AEMRO investment was identified as an opportunity to diversify our revenue streams. We encountered unfeasible investment costs, constraints in obtaining a trading licence from the United Arab Emirates (UAE) local government, from rights owners and other societies within CISAC. As a result, we resolved that it would be prudent to wind up the investment. A total of R48 million was written off and investigations from PwC and Sekela Xabiso were commissioned to gain full insight of the matter.

## INNOVATION

Technology supports our distribution capabilities. It is vital to ensure that our technology platform is appropriately equipped to accommodate our members' needs for faster and more accurate reporting which in turn leads to improved distributions. Despite upgrades going live in December 2017, Zeus, in its present state, remains ill equipped to fully meet these requirements. The radio and general distribution processing was affected by a glitch in the upgraded Zeus system. A committee was established to review and prioritise technology improvements in the business model and we spent R7,5 million this year on technology and information system upgrades.

We collaborated with reputable service providers to implement a pilot broadcast monitoring system and we are exploring the possibility of partnering with other service providers that will process music usage data for mobile and internet users. Although this service will be outsourced, we intend to integrate it onto our systems to enhance efficiencies.

## OUTLOOK

SAMRO aims to remain dynamic and to maintain an understanding of our members and stakeholders' expectations. Embedding the new strategy and enhancing our technology capabilities will be crucial in our increasingly digitalised environment. These components will enable the company to achieve improved efficiency and financial health characterised by increased revenue growth, distributions and ultimately an improved cost-to-income ratio.

Acquiring licensing revenue will be challenging going forward and will require a keen emphasis on dormant markets and tariff realignment to adequately cover all music usage by existing licensees. Further, the imminent technical recession and negative media sentiment only increase the licensing challenge.

The amended membership rules, the possibility of improved board composition and the impending copyright legislation are other factors which could impact our future performance.

## APPRECIATION

Our members and stakeholders are the core of our purpose and we are grateful for their continued support.

I thank all SAMRO employees for their positivity, resilience and dedication during our transitional period. The board's contributions, guidance and oversight were pivotal and the executive committee played an enormous role in persevering and driving the company forward.



**Nothando Migogo**  
CEO

## VALUE ADDED STATEMENT

SAMRO created and distributed R519 million of wealth in 2018 (2017: R550 million). Distributions for member benefit, in the form of royalties, retirement annuity and funeral benefits, endowments for the national arts and other social and cultural allocations, decreased by 3% to R418,4 million (2017: R429,9 million).

Payment to employees in the form of salaries, wages and benefits decreased by 5,2% from R115 million to R109 million (2017: R115,1 million). This represented 26,2% of total value distributed. Providers of capital received R2,6 million this year and taxation paid to government totalled R5,2 million.

No withdrawals were made from reserves this year (2017: R18,3 million).

	GROUP	
	2018 R000	2017 R000
Music licence and royalties	471 983	465 615
Reprographic licence and royalties	52 353	51 866
Administration and other fees	27 429	22 322
Cost of generating revenue	(109 895)	(78 913)
<b>Value added</b>	<b>441 870</b>	<b>460 889</b>
Income from investments	17 267	37 705
Distribution adjustment	60 194	51 804
<b>Wealth created</b>	<b>519 332</b>	<b>550 399</b>
<b>Value distribution</b>		
<b>Members</b>		
Music royalty distributions	313 216	310 180
Reprographic royalty distributions	52 353	51 866
Grant of rights payments	23 645	41 617
SAMRO Retirement Annuity Fund (SRAF) and members' funeral benefit	8 622	9 161
SAMRO Foundation allocation	20 297	16 810
Other social and cultural allocations	314	315
<b>Employees</b>		
Salaries, wages and benefits	109 796	115 145
<b>Providers of capital</b>		
Finance costs	2 647	2 542
<b>Government</b>		
Taxation charge	5 221	4 510
<b>Reinvested in the group</b>		
Depreciation and amortisation of capital items	32 135	9 155
Transferred from reserves	(25 499)	(29 618)
Retained earnings/(losses)	(23 417)	18 716
<b>Total</b>	<b>519 332</b>	<b>550 399</b>



# OUR SOCIAL IMPACT

SAMRO plays a pivotal role in Africa as a driver of the creative economy.

## 2018 CSI IN NUMBERS

Over R140 million invested in the arts since 1962.	More than 84 overseas scholarships for young musicians have been awarded since 1962. The scholarships alternate annually for different disciplines such as composers, singers, instrumentalists and keyboard players. This applies to both western art, music and jazz.	Over 2 200 bursaries were awarded to all university music departments in South Africa. In 2018 <sup>1</sup> the bursary amount was increased to R12 000 per student.
We supported 48 music schools, and the inaugural Mzilikazi Khumalo Bursary granted R30 000 to support a student reading her master's in indigenous music.	Over 64 500 original South African works have been archived, the bulk of which are original handwritten manuscripts.	Over 600 live music venues were surveyed in projects by CSA.
Since 2013, the CSA project contributed to the income of over 5 000 artists, reaching an audience of over 250 000 people.	More than 400 new South African music works commissioned.	16 partner venues were supported, and in total, 300 venues were reached.
We supported nine universities and two orchestras to perform South African compositions <sup>2</sup> .	The Music Mobility Fund <sup>3</sup> received over 900 applications and supported more than 160 tours through nine funding rounds since its inception in 2013.	

<sup>1</sup> 99 music bursaries awarded.

<sup>2</sup> These included compositions by Dizu Plaatjies, Andile Khumalo, Sibusiso Mashiloane, Errol Dyers and Gloria Bosman.

<sup>3</sup> Artists who have benefited include Freshlyground, Madala Kunene, Moonchild Sanelly, Samthing Soweto, DJ Lag, Bombshelter Beast, The Brother Moves On, Sibot, Taxi Violence, Sibusile Xaba, Msaki, Native Young and Make-Overs.

SAMRO has been promoting the sustainability of artistic communities and music for over 60 years.

We represent and support musicians and artists by protecting their livelihood and providing professional counsel and guidance. SAMRO is a membership-based organisation able to influence arts policy at government level, preserve our musical heritage and build the capacity of arts organisations. Our employees' collaboration and commitment are pivotal drivers in our pursuit of excellence (page 31).

SAMRO's corporate citizenship philosophy is based on the Freedom Charter and is closely related to our commitment to stakeholder development. These values have been the foundation of our corporate culture since 1962.

CSI projects are managed by the SAMRO Foundation and are concentrated in the areas of:

- Music education programmes
- Music heritage
- Conservation and promotion through the SAMRO music archive
- Music/cultural industry support through the SAMRO Stakeholder Hub

SAMRO allocates 8,3% of operational profit before distribution and tax is allocated to the Foundation, the SRAF and the SAMRO Funeral Benefit Scheme. This is in accordance with the provisions contained in the standard CISAC-approved reciprocal agreement. The SAMRO Foundation allocates funds to projects annually. The board receives feedback on activities and progress at all board meetings and funds are allocated transparently.

## THE SAMRO FOUNDATION

The SAMRO Foundation's ethos can be summarised as "roots to fruits", with a strong emphasis on ploughing resources back into the communities in which we operate, so those roots will bear new fruits.

SAMRO's sustainability perspective is driven through its corporate social responsibility activities and the social and ethics committee. The group's CSI initiatives are channelled through the SAMRO Foundation, which provides investment support for music education and the development and promotion of South African composers, authors and artists.

The SAMRO board took on CSI responsibilities in 1962 but in 1996 founded the SAMRO Endowment

for the National Arts (SENA), a subcommittee of the board that operated until 2011. The SAMRO Foundation, established in 2012, emerged from SENA and is a semi-autonomous non-profit organisation (NPO). The SAMRO Foundation is fully registered as a public benefit organisation approved for section 18(a), meaning contributions are tax-deductible in the hands of donors. The SAMRO Foundation has a team of dedicated and passionate individuals who work relentlessly to successfully execute numerous projects.

Since inception, the Foundation has invested more than R140 million in supporting and nourishing the South African cultural landscape through bursaries, scholarships, commissions, the preservation of music heritage and other industry enrichment projects. The Stakeholder Hub continues to benefit creative industry organisations and our live performance initiative, CSA. CSA has played an instrumental role in the betterment of music in southern Africa through increased partnership, diversity, range and scope. New partnerships in the Netherlands, the United States of America, Germany and France have changed the scope of our global relationships.

Our large archive of musical scores is now available online. This is an accessible platform to preserve, promote and support southern African musicians through the SAMRO Music Archive Online Portal. The Indigenous African Music (I AM) transcription projects, funded by the US Ambassador's Fund for Cultural Preservation, are also playing a role in the advancement of African music. These platforms give southern African composers the opportunity to publish and sell their works to global markets.

# OUR SOCIAL IMPACT CONTINUED

## SAMRO FOUNDATION FOCUS AREAS

The SAMRO Foundation affirmed its commitment to the arts in South Africa by focusing on five strategic areas, implemented through the projects outlined in the table below:

STRATEGIC FOCUS AREAS	OBJECTIVES	PERFORMANCE FEEDBACK
Encouraging excellence in the arts	<ul style="list-style-type: none"> <li>• Return on investment</li> <li>• Brand awareness</li> <li>• Goodwill</li> </ul>	<ul style="list-style-type: none"> <li>• Growth in careers of artists who have been beneficiaries of the Foundation's initiatives</li> <li>• Appreciation messages via email or social media expressing gratitude, and impact of funding or platform on performing composer and/or author members</li> </ul>
Facilitating economic participation in the creative economy	<ul style="list-style-type: none"> <li>• Improved cooperation in sector</li> <li>• Economic growth in sector</li> <li>• Formalisation of the sector</li> <li>• Increase in platforms</li> </ul>	<ul style="list-style-type: none"> <li>• 900 artists benefited</li> <li>• 16 partner venues supported</li> <li>• 300 venues impacted</li> <li>• 80 000 audience members attended CSA events</li> <li>• 400 concerts held</li> </ul>
Promoting living cultural heritage	<ul style="list-style-type: none"> <li>• Increased awareness of southern African culture/music</li> <li>• Increased awareness of archived works</li> <li>• Increased commissioning of new works</li> <li>• International access</li> </ul>	<ul style="list-style-type: none"> <li>• Visits from academic researchers such as Christine Lucia, Thomas Pooley and Andile Khumalo</li> <li>• Client attendance at the World Choir Games and the Johannesburg Festival Orchestra</li> <li>• Commissioning of 12 new works by SAMRO members</li> <li>• Incorporation of the David Polecutt scores collection into the archive</li> <li>• Two SAMRO scholarships winners, Ntandu Ngcapu and Darren English, represented South Africa at the Amersfoort International Jazz Festival</li> </ul>
Influencing cultural and arts policy - through research and advocacy	<ul style="list-style-type: none"> <li>• Improved awareness of the music sector (internal and external)</li> <li>• Building on old research to provide a broader knowledge base</li> <li>• Representing musicians at related policy events</li> </ul>	<ul style="list-style-type: none"> <li>• Granted Christine Lucia access to archive information which will assist with the publication of her research on JP Mohapeloa</li> <li>• Participated in policy discussions including consultations for the white paper on arts and culture and the indigenous knowledge bill</li> <li>• Influenced the white paper on arts and culture to acknowledge the need for improved live music support</li> </ul>
Building capacity and Institutional strength of arts organisations	<ul style="list-style-type: none"> <li>• Improved professionalism in sector</li> <li>• Improved income generation to recipients</li> <li>• Improved compliance in the sector</li> </ul>	<ul style="list-style-type: none"> <li>• Supported numerous organisations in the music sector through micro-grants</li> <li>• Developed a refined policy to ensure effective support for stakeholders and assisted them with compliance</li> <li>• SAMRO Talks commenced to help young music entrepreneurs navigate the music ecosystem</li> </ul>

## MUSIC CONSERVATION, PRESERVATION AND PROMOTION

The SAMRO Music Archive houses approximately 64 500 scores written by South African composers and members. These scores include photographs, books, CDs and other recordings. The archive is accessible to the public and researchers for academic, media and other purposes.

### **Music industry incubator (INCUBINC)**

INCUBINC is the leading creative industry project accelerator in Africa which address the need for administrative and business support. It aims to enhance the careers of artists by promoting productivity, professionalism and profitable products in our industry.

The programme “Umhlambi Zenyathi” mentors and nurtures a defined range of new artistic enterprises, involving emerging and established artists with defined products, projects or programmes. There is a dedicated team of scouts who search for artistic potential.

## **CSA**

The SAMRO Foundation receives financial, administrative and technical support from the Norwegian Ministry of Foreign Affairs (MFA), SAMRO and Concerts Norway. This relationship resulted in the formation of CSA in 2013. CSA partners with musicians, promoters, venue-owners and audiences to build music circuits and promote the mobility of southern African artists. It focuses on live music performances at venues and schools in disadvantaged areas, as well as skills development for the music sector at large through workshops. Another focus area for CSA is research, focusing on audience development, live music environment and reviewing mapping.

Through expanding our international portfolio of projects and partners, CSA is represented at Live DMA (European network for music venues and festivals). The team will also visit Oslo, Norway, in 2018 to meet potential partners. This could benefit the southern Africa region.

CSA is constantly seeking funders in South Africa and internationally. The Norwegian Embassy extended its support by another year and we submitted funding proposals to the UNESCO-International Fund for Cultural Diversity, the National Lotteries Commission and the National Arts Council.

The CSA Mobility Fund awarded grants to 34 projects in 2018. 12 tours were supported in the SADC region and 22 in South Africa. The project continuously contributes to an income for hundreds of musicians and many support staff.

For more information, visit the CSA website at <http://www.concertssa.co.za>.



# OUR SOCIAL IMPACT CONTINUED

## Industry support – Stakeholder Hub

The SAMRO Foundation Stakeholder Hub is an initiative which consolidates the organisation’s commitment to institutional development in the arts. Through administrative backing and infrastructure, the Stakeholder Hub develops other arts organisations.

## INTERNAL

PROJECT	DETAILS AND SCOPE OF SUPPORT
Arts and Culture Trust (ACT)	ACT is South Africa’s premier independent arts and culture funding and development agency. Several focused funding and development programmes implemented by ACT support a broad range of activities nationally. Through the professional development programme the trust makes funding available to individual artists, practitioners and arts and culture organisations and institutions in the form of once-off grants.
Academic and Non-Fiction Authors Association of South Africa (ANFASA)	The SAMRO Foundation partnered with ANFASA to sponsor grants for authors with a specific interest in music research as part of the ANFASA Grant Scheme for Authors. SAMRO subsidised ANFASA’s rent for three years, but ANFASA now pays full rental costs.
CASA <sup>1</sup>	The National Music Composers’ Workshops were supported by the National Arts Council (NAC) and administered by SAMRO and the Foundation from 2013 to 2015. The funds granted to CASA were used to run four national workshops for composers and musicians. The workshops and reports to the NAC were completed and the final instalment was paid in February 2016.
Music Conference and Exhibition (MOSHITO)	Pioneered by SAMRO in 2003, MOSHITO has become an independent entity and the largest, most influential music industry trade fair and expo in Africa.
Creative and Cultural Industries Federation of South Africa (CCIFSA)	CCIFSA is a representative body set up with the assistance of the Department of Arts and Culture for the cultural and creative sectors in South Africa. It was formed as an NPO to promote and develop the social and economic interests of the cultural and creative industries by acting as a representative body for these sectors.
Musician Association of South Africa (MASA)	MASA joined the SAMRO Foundation Stakeholder Hub programme in May 2016, taking over from SACA.

<sup>1</sup> Until its dissolution earlier in 2018.

## EXTERNAL

PROJECT	DETAILS AND SCOPE OF SUPPORT
Arterial Network South Africa (ANSA)	ANSA addresses matters of networking and advocacy in the arts.
Music in Africa (MiA)	MiA is a partnership between the SAMRO Foundation, the Goethe Institute and the Siemens Foundation.
Business and Arts South Africa (BASA)	BASA offers links and support between arts organisations and businesses in the form of workshops and networking meetings throughout the year. André le Roux is a member of the board of BASA.
The African Cultural Heritage Trust	The African Cultural Heritage Trust is a national community-based non-governmental organisation (NGO) that strives to protect and promote Amasiko/Ditso (Living Heritage). With the Zindala Zombili African Music and Dance Festival, it hosts a regular pan-African showcase of traditional cultures.
The Puku Children's Literature Foundation	The Puku Children's Literature Foundation is an independent NGO whose core objective is to bridge the literacy divide that confronts the majority of South African children. It develops dynamic and innovative programmes to improve the quality of children's books and recreational materials in all South African languages through print and digital means.

## GOING FORWARD

In the next year, we will:

- Utilise all existing channels to improve communication with members
- Collaborate with the marketing and licensing department for businesses pitches
- Focus on strengthening relationships with current licensees and potential clients through licensee roundtables
- Work towards developing a group brand persona and identity

# OUR SOCIAL IMPACT CONTINUED

## TRANSFORMATION REPORT

SAMRO embraces inclusive growth and diversity in South Africa in line with the BBBEE and the Employment Equity (EE) Act, 55 of 1998.

Transformation is part of SAMRO's culture and our social and ethics committee oversees transformation within the company by monitoring our compliance with the BBBEE and EE Acts. SAMRO's human resources team has implemented policies aligned with our values. In 2018, SAMRO's transformation focus areas were:

- The improvement of BBBEE product knowledge and insight in relation to the new specialised scorecard and the elements against which SAMRO will be measured
- Collecting valid BBBEE certificates from all suppliers to improve the preferential procurement element
- Continued use of the economically active population targets in our recruitment process to ensure the applicable gaps are covered at all levels
- The integration of a smartscore system to ensure continuous planning and monitoring of our transformation agenda
- Initiated the process of collecting valid BEE certificates from all suppliers to improve the preferential procurement element

The group is dedicated to having a diverse board with the expertise and skills required to drive performance and transformation throughout the company. There has been an improvement in the management control element at group level with 14,6 (2017: 14,5) out of a score of 20.

## MANAGEMENT CONTROL

### Board of directors (12)

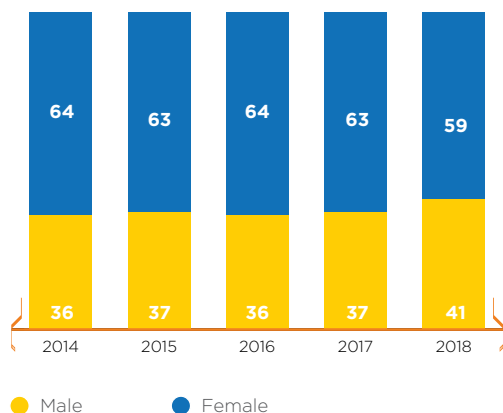


### Executive committee (5)

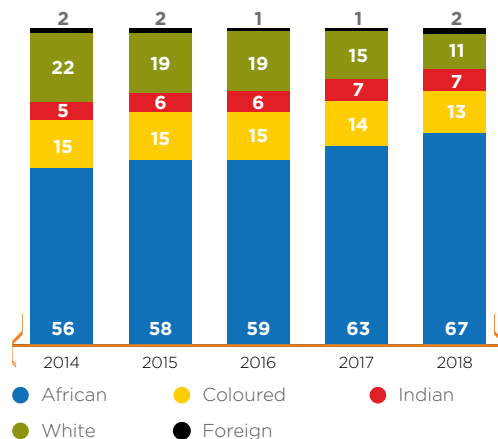


● African ● Coloured ● White ● Indian ● Foreign

**PERMANENT EMPLOYEES BY GENDER (%)**



**PERMANENT EMPLOYEES BY RACE (%)**



The promotion of diversity at senior level – especially African females – provides employees with effective role models, which in turn leads to a greater sense of ownership of the organisation and increased levels of motivation. We have continued to prioritise equity appointments, primarily African females, to contribute to meeting BBBEE targets. SAMRO is dedicated to having a diverse board with the expertise and skills required to drive performance and transformation throughout the company. We implemented a smartscore system to ensure continuous planning and monitoring of our performance.

In 2018:

- We recruited 14 interns as part of our skills development element, and spent 28,85% of the skills development expenditure on African people
- The management and control element improved to 14,6 (2017: 14,5) out of 20
- Initiating the process of collecting BEE certificates improved the preferential procurement element above the minimum threshold of 40% (the actual numbers will be available after the verification process subject to an audit process)
- Our CSI arm that supports socio-economic activities within the music industry continued to score full points on this element



# OUR SOCIAL IMPACT CONTINUED

## OUR PEOPLE

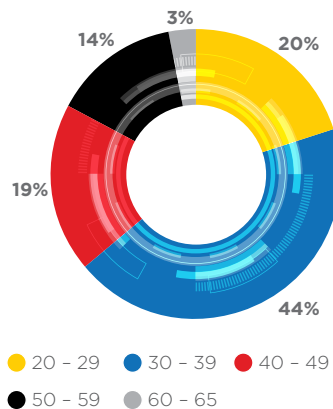
### Permanent employees



### Temporary employees



### AGE GROUP



**89%** of our permanent employees are from **previously disadvantaged** groups.

**15%** employee turnover<sup>1</sup> (2017: 13,3%)

## EMPLOYEE TRAINING

SAMRO provides ongoing training and development opportunities, sensitive health and wellness policies, and fair remuneration to our diligent and dedicated employees. **91%** of employees received training in 2018. We spent **R2,8 million** (2017: R1,4 million) on skills and organisational development. Most notably, we trained employees to deal with our new system upgrade, and on performance management and formal qualifications.

Contributions to SAMRO's retirement annuity fund for members amounted to **R4,3 million**



Approximately **63%** of SAMRO employees are members of the Commonwealth Workers Union (CWU)

<sup>1</sup> 40 people left the organisation. Excluding dismissals (none), fixed-term contracts (13) that ended and deaths (none) in the financial period, employee turnover was 19,7%.

SAMRO has a high-performance culture and we care for our workforce, focus on skills development, and respect freedom of association. We have dedicated employees who deliver quality service to members. We aim to retain our employees and enhance our status as an employer of choice.

## ATTRACTING AND RETAINING EMPLOYEES

SAMRO operates in a specialist environment which requires expert skills that are difficult to attract and retain. We offer competitive market-related salaries positioned towards the median of the scale and there are policies that assist in decreasing our employee turnover rate. SAMRO's attractive remuneration package includes medical aid, retirement planning, and death and disability benefits for permanent employees,

in addition to a competitive remuneration (page 49).

We reviewed our remuneration structure and implemented a cost to company (CTC) approach. The CTC approach is presently regarded as best practice in the southern African market and is driven by the following principles: flexibility, internal equity, and external market competitiveness and organisational strategy. SAMRO drove the conversation in order to align the organisation with South Africa's best remuneration practice

and to be able to drive accurate market comparisons and become externally competitive. The CTC approach also ensured that employees are given flexibility when reviewing their packages, allowing them to receive the maximum tax breaks on pension fund contributions and to provide choice to our employees.

## EMPLOYEE TRAINING

Investing in our employees' skills and competencies enables us to enhance the quality of service we offer our employees. We keep abreast of developments to ensure alignment with the dynamic technological and legislative environment in which we operate. We conduct regular employee development initiatives that are in line with our budget. SAMRO's training programme is guided by the annual skills development plan, which we submit to the relevant Sector Education and Training Authority (SETA). Supervisory to executive management level employees have access to management and leadership programmes.

SAMRO's partnership with Imsimbi training academy enabled us to grant opportunities to learners from the Services SETA. This allowed the learners to gain practical experience for completion of their learnerships and develop new skills during their internships. SAMRO recruited 14 of the 28 interns on a permanent basis.

## PERFORMANCE MANAGEMENT PROGRAMME

We aim to cultivate a culture of excellence. SAMRO has a high-performance initiative which outlines the criterion against which performance is measured and personal development plans for all employees. Employees' performance objectives are linked to the group's

strategic objectives and salary bonuses are directly determined by the performance review process.

There has been a significant decrease in employees performing beyond the standard level compared to last year:

### Comparative performance summary 2018 versus 2017

EXECUTIVE DIRECTORS' REMUNERATION		
Performance level	2018 %	2017 %
Above standard	24	49
Meet standard	72	49
Below standard	4	2
<b>Average score<sup>1</sup></b>	<b>2,7</b>	2,8

## Succession planning

SAMRO is committed to ensuring that specialised knowledge for certain critical positions is in place. Succession plans and talent pipelines are reviewed at various levels of the risk framework.

## FREEDOM OF ASSOCIATION

In 2018, there were no disruptions from industrial action. We continue to hold monthly dialogue meetings with the CWU in accordance with our recognition agreement.

## WELLNESS, HEALTH AND SAFETY

We are committed to ensuring compliance with internal procedures and external legislation. As outlined in legislation, SAMRO has health and safety committees. We conduct induction and training to equip our committee members for their duties. SAMRO regularly conducts occupational health and safety (OHS) risk-control audits.

Appropriate medical emergency and disaster recovery plans are in place and we aim to identify and implement improvement opportunities. We closely monitor work-time injuries. There were no serious injuries or fatalities in 2018.

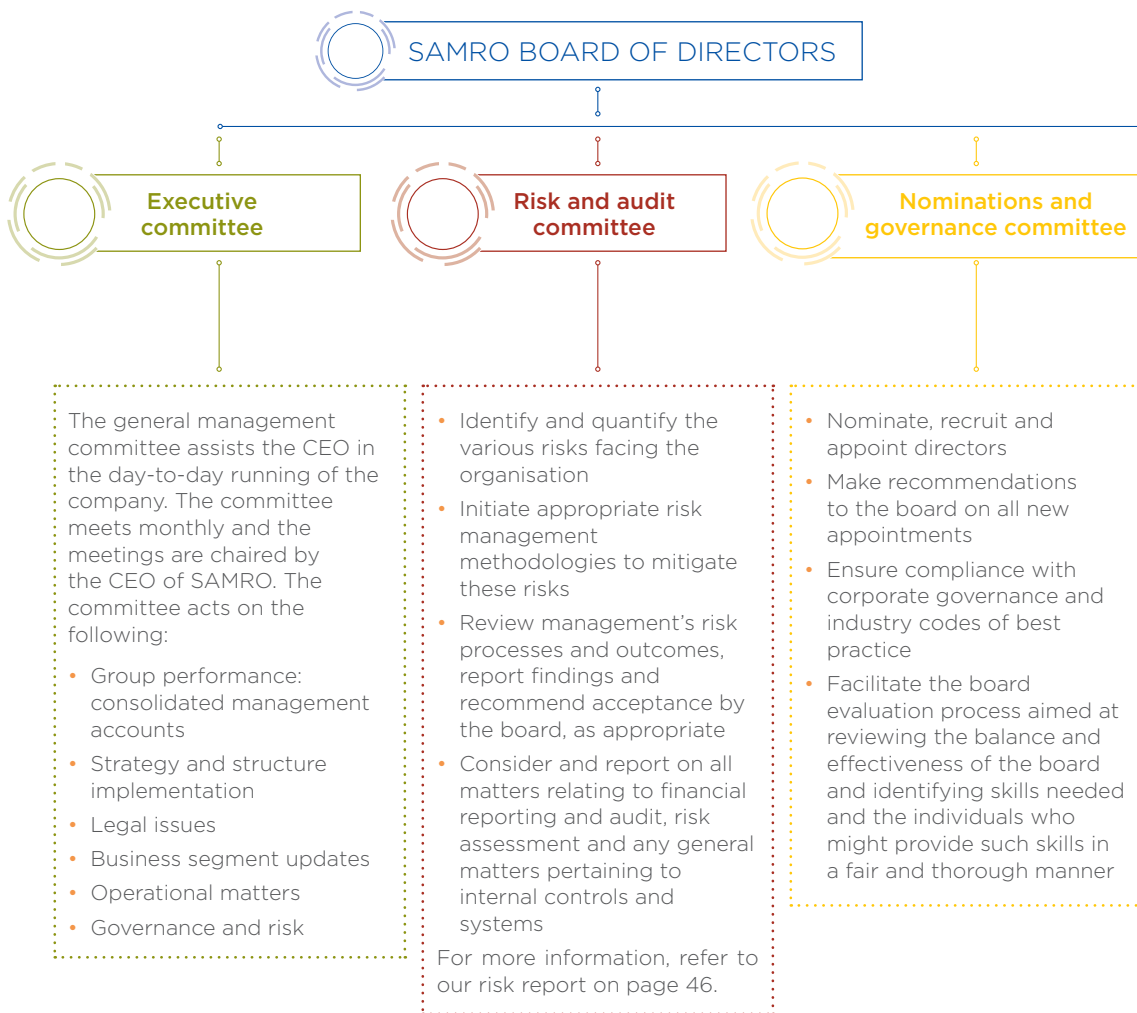
All SAMRO employees have access to SAMRO's employee wellness programme, which is facilitated by ICAS<sup>2</sup>. The programme offers an annual wellness day which provides access to voluntary HIV testing and other wellness services. ICAS also provides confidential counselling, debt management support and other facilities. We follow a preventative approach to employee health. In support of this approach we cover 60% of employees' medical aid fees. SAMRO offers a Discovery Group Medical Aid scheme. Employees are also permitted retain membership of a spouse's medical aid if they provide evidence of membership.

<sup>1</sup> The average score is measured on a scale of 0 to 4, with 0 being poor and 4 excellent. A score of 2 means the individual has met the minimum standard required.

<sup>2</sup> Independent Counselling and Advisory Services (ICAS) is a division of AXA PPP, a leading international provider of behavioural risk management services to the business community.

# HOW WE ARE GOVERNED

The board is SAMRO's custodian of good corporate governance. Our leadership is characterised by the values of responsibility, accountability, fairness and transparency.



The company's delegation of authority enables the board to delegate responsibilities to various committees. Each board committee has formal terms of reference approved by the board and reviewed annually. The terms of reference set out the purpose, membership requirements, duties and reporting procedures of each committee. (Copies of the terms of reference, including the board charter, are posted on the company's website: [www.SAMRO.org.za](http://www.SAMRO.org.za).) The governance framework cascades to our subsidiaries, DALRO and the SAMRO Foundation.



# HOW WE ARE GOVERNED CONTINUED

## EFFECTIVE AND ETHICAL LEADERSHIP

SAMRO applies the King IV guidance principles and ensures that the practices are integrated into our governance structures.

The board strives to lead ethically and effectively. As outlined in the board charter [www.samro.org.za](http://www.samro.org.za), a primary role of the board is to steer the organisation in a positive direction by overseeing the strategy formulation process and monitoring its performance.

The board is responsible for the company's performance and delegates the implementation of the strategy to the CEO and executive management.

Other specific responsibilities of the board include:

- Evaluating the performance of the CEO and board committees
- Setting a clearly defined communications policy to ensure transparent communication between the board and key stakeholders
- Ensuring the accuracy of SAMRO's financial statements
- Monitoring operational performance and management
- Upholding high standards of ethics in line with the code of ethics
- Ensuring compliance with the policies and procedures applicable to the business
- Encouraging proactive engagement with key stakeholders
- Ensuring risk management and internal controls, policies and processes
- Increasing the value to members while maximising socio-economic benefits

### 2018 BOARD AGENDA AND FOCUS AREAS

- Reviewed and approved the company's strategic objectives
- Performed a comprehensive review of the terms of reference to align with applicable legislation, sound corporate governance principles and the company's memorandum of incorporation (MOI)
- Conducted an independent board evaluation process
- Completed the recruitment process of a new CFO
- Approved the revised group delegation of authority framework

### FUTURE FOCUS AREAS

- Appointing competent and experienced company secretary
- Finalising winding up of AEMRO and pursuing criminal and/or recovery proceedings
- Re-evaluation of membership and distribution rules to allow for more impartial representation and efficient distributions
- Board competency evaluation and training
- Board composition update in order to align with membership rule updates

## KING IV

Our policies and operating procedures are guided by the highest standards of corporate governance. The board endeavours to ensure compliance with the principles of King IV.

## ETHICS

SAMRO applies high ethical standards to all its business practices and dealings with stakeholders. We have a formal code of ethics which applies to all employees within the company. Any breaches of the code of ethics are met with an appropriate sanction.

Our performance management system also aims to drive ethics in the organisation.

### KEY FOCUS AREAS

- AEMRO forensic audit findings
- Investigating fraud: Music Awards postponed due to fraud of R1,7 million
- Improving and promoting a culture of ethics and whistle-blowing within the organisation.

Donations and gifts	<p>SAMRO has a gift declaration policy because it maintains relationships with many different stakeholders, including employees, temporary staff, board members, members, business partners, suppliers, clients, consultants and/or any other entities or persons who enter into commercial transactions with SAMRO and its subsidiaries (stakeholder/s). It is important that these relationships have a strong ethical basis and any decisions affecting stakeholders are made on sound commercial grounds.</p> <p>SAMRO recognises that gifts and entertainment can help maintain relationships and build goodwill. However, there is a danger that the improper giving or receiving of gifts or entertainment can lead to a conflict of interest and can damage both SAMRO's business and reputation.</p> <p>It is important not only to be ethical but also to be seen as being ethical; third parties must never doubt our motives, values and integrity.</p> <p>It is required of all employees to disclose any form of gift(s) received from SAMRO's stakeholders.</p>
Whistle-blowing	<p>SAMRO's service allows employees to report incidents of fraud or illegal acts. The whistle-blowing policy is governed by the Protected Closures Act, 26 of 2000 (the Act), which provides protection to employees for disclosures made without malice and in good faith, in defined circumstances. In terms of the Act, employees can blow the whistle on fraud and corruption in the working environment without fear of suffering an occupational detriment as defined by the Act. SAMRO is committed to the highest standards of transparency, integrity and accountability and the board therefore supports the need for approved procedures to enable employees to exercise their rights in terms of the Act. The purpose of this policy is to provide a means by which staff can raise these concerns with the appropriate line manager, or specific appointed persons, where they have reasonable grounds for believing that there is fraud and corruption within the company.</p> <p>The company encourages all staff members to raise matters of concern responsibly through the procedures set out in this policy</p>
Collusion, bribery, fraud or thefts	<p>We adopt a zero-tolerance approach to fraud and illegal acts by taking stringent action irrespective the size of the matters and when they occur.</p>

## CORPORATE SOCIAL RESPONSIBILITY

The social and ethics committee oversees the company's corporate social responsibility activities. Our activities are discussed under our social impact on page 22. In 2018, we primarily focused on member outreach programmes such as music business education programmes.



# HOW WE ARE GOVERNED CONTINUED

## BOARD MEMBERS: **Non-executive directors**



**1 JJ MNISI**

*Chairperson*  
*Independent member*  
**Appointed to the board**

- 1 November 2010
- Independent director by invitation – appointed 26 November 2009
- Appointed chairperson 8 September 2017

**2 S KHUMALO**

*Deputy chairperson*  
*Composer member*  
**Appointed to the board**

- 1 November 2010
- Appointed chairperson 1 April 2016
- Stepped back to vice-chairperson role from 1 July 2017

**3 G LE ROUX**

*Composer member*  
**Appointed to the board**

28 November 2014

**4 L BALA**

*Composer member*  
**Appointed to the board**

27 March 2014

**5 J ZAIDEL-RUDOLPH**

*Composer member*  
**Appointed to the board**

1 January 2008

The SAMRO board is made up of 13 members as follows:

Executives	2	Publishers	3
Composers/authors	7	Independent	1

A Mafokate left the board on 5 October 2018.

## SAMRO'S LEADERSHIP

The board's skillset<sup>12</sup> enables the effective execution of its duties. Succession planning enables us to maintain an appropriate balance of skills and experience.



6	<b>SCP MABUSE</b>	<i>Composer member</i> <b>Appointed to the board</b> 25 March 1995
7	<b>JE EDMOND</b>	<i>Composer member</i> <b>Appointed to the board</b> 28 March 1987
8	<b>JJ NIEMAND</b>	<i>Composer member</i> <b>Appointed to the board</b> 30 November 2012
9	<b>R MABOTJA</b>	<i>Publisher member</i> <b>Appointed to the board</b> 1 September 2016
10	<b>R NAICKER</b>	<i>Publisher member</i> <b>Appointed to the board</b> 1 September 2016

A short curriculum vitae of each director is available at [www.samro.org.za](http://www.samro.org.za).

Board: race		Board: gender	
African	9	Men	8
White	4	Women	5

<sup>12</sup> Commerce, finance, governance, strategic thinking, leadership, marketing, legal, industrial, information and communication technology, and risk management.

# HOW WE ARE GOVERNED CONTINUED

## GROUP OPERATION AND MANAGEMENT STRUCTURE



### EXECUTIVE DIRECTORS

**1 N MIGOGO**

*CEO*  
**Appointed to SAMRO**  
1 July 2017  
**Appointed to the board**  
Appointed CEO 1 July 2017

**2 D MODIBA**

*CFO*  
**Appointed to SAMRO**  
1 July 2018  
**Appointed to the board**  
Appointed CFO 1 July 2018

## MANAGEMENT TEAM

**K SENNA**

*General manager: Rightsholder Services*

**S MHLANGA**

*Executive general manager: Licensing/Sales*

**A LE ROUX**

*Executive managing director: SAMRO Foundation  
General manager: Corporate Affairs*

**I NAPIER**

*Chief information officer  
(Resigned October 2018)*

**L SEROBE**

*Managing director: DALRO*

**G KHAMBANE**

*General manager: Human Resources*

**M KUBHEKA**

*Manager: CEO's Office*













**T WINDSCH**

*General manager: Distributions*

**M MOORE**

*General manager: Legal Services/Company Secretary  
(Resigned June 2018)*

## BOARD MEETING ATTENDANCE

DIRECTORS	ATTENDANCE
<b>NON-EXECUTIVE DIRECTORS</b>	
J Mnisi (chairperson)	
JE Edmond	
J Zaidel-Rudolph	
SCP Mabuse	
A Mafokate	
L Bala	
J Niemand	
S Khumalo	
G le Roux	
R Naicker	
R Mabotja	
<b>EXECUTIVE DIRECTORS</b>	
N Migogo	



Meetings attended



Meetings not attended

### KEY CHANGES TO THE BOARD IN 2018

A Mafokate removed from the board on 17 August 2018.  
G Le Roux removed from the board on 7 November 2018.

## DIRECTOR INDEPENDENCE

The board comprises a majority of non-executive directors. The board evaluated the rationale and meaning of the requirements of independence of directors according to King IV. An assessment of the salient factors and unique circumstances of each non-executive director is performed annually. The board is satisfied that seven of the eight non-executive directors are independent.

Mr Jerry Mnisi is regarded as independent in terms of King IV as he was not a member of the management executive team in the last three years. Despite the determination reached, the board believes that his skills, knowledge and experience remain valuable to the organisation.

### **Specific independence consideration**

The independence of non-executive directors who have served on the board for longer than nine years is also assessed annually. John Edmond, Sipho Mabuse and Jeanne Zaidel-Rudolph were evaluated this year and are eligible for rotation at the next AGM.

### **Conflict of interest**

SAMRO's induction process and directors' training sessions inform the directors of their fiduciary duty to always act in the best interests of the organisation. Directors are required to declare their interests to fellow directors to avoid any perception of conflict of interest at all board meetings. Executive committee meetings follow a similar process.

For further information and clarification on their fiduciary duties, directors can access the Boardpad, an electronic software for board documents.

## SUCCESSION PLANNING AND CONTINUING PROFESSIONAL DEVELOPMENT

SAMRO aims to ensure that new recruits are appropriately skilled to maintain the organisation's high-performance culture. We develop the critical skills required at various management and leadership levels to ensure succession in essential roles.

## BOARD EVALUATIONS

SAMRO annually evaluates its board, committees and individual directors through an external formal evaluation process. The process is overseen by the nominations and governance committee. The overall performance outlines that the board is performing its functions; however, certain areas could be enhanced to improve the overall effectiveness of the board.

The board is satisfied that the evaluation process is adding value to the effectiveness of the board.

## COMPANY SECRETARY

Ms Melissa Moore resigned as company secretary on 29 June 2018. The board is grateful for her valued contribution to the company.

iThemba Consulting was appointed to provide professional company secretarial services on 27 September 2018. The board is satisfied with the competence, qualifications and experience of iThemba Consulting's representatives and their ability to maintain an arm's-length relationship with the board. The directors of the company have unrestricted access to the company secretary for advice on matters of governance and other services.



# HOW WE ARE GOVERNED CONTINUED

## BOARD COMMITTEES

The board has four standing committees that play an important role in enhancing good corporate governance, improving internal controls and thus the performance of the company. The chairmen of the board committees and the lead client service partner of the external auditor are required to attend AGMs to answer questions raised by members. The key focus areas for each committee are outlined below.

The performance and effectiveness of each committee are evaluated annually. The board is satisfied that all four committees fulfilled their responsibilities in accordance with their terms of reference. SAMRO's budget enables board committees to seek independent professional advice at the company's expense.

### NOMINATIONS AND GOVERNANCE COMMITTEE



### RISK AND AUDIT COMMITTEE



<sup>1</sup> PwC auditors represented by the audit partner and/or senior manager.

## REMUNERATION COMMITTEE



<sup>1</sup> PwC auditors represented by the audit partner and/or senior manager.

## SOCIAL AND ETHICS COMMITTEE



SAMRO's social and ethics committee is a statutory committee mandated by section 72 of the Companies Act. The committee is responsible for the company's corporate citizenship initiatives that include promoting equality, preventing unfair discrimination, and reducing corruption. SAMRO also participates in various community development initiatives, sponsorships, donations and charitable giving.

## HOW WE ENSURE GOOD GOVERNANCE

### COMPLIANCE

The board is responsible for ensuring that the group complies with applicable laws, non-binding rules, codes and standards in the many jurisdictions where we operate. Our operations are at different levels of maturity and the rule of law exists in varying degrees.

# HOW WE ARE GOVERNED CONTINUED

Through the audit, risk and sustainability, and social and ethics committees, the board ensures that structures and systems, with appropriate checks and balances, are established to assist the board in discharging its legal responsibilities and overseeing legal compliance and ethics. Compliance risk is thus an integral part of the company's risk management process and the board delegates the task of implementing an effective compliance framework and processes to management.

The board delegates compliance to the company secretary. The company secretary reports any significant matters to the board relating to the potential consequences or risks associated with any new legislation and non-compliance with mandatory laws and rules.

- Increased compliance
- Improved internal controls and processes
- Developing and promoting a culture of ethics

No contraventions or penalties to date: this will be further reiterated/confirmed in the audit report (page 55).

## TECHNOLOGY AND INFORMATION

The risk and audit committee oversees IT governance. SAMRO's information management and services (IM&S) division applies the various elements of IT governance. IM&S is responsible for the maintenance, implementation and operational execution of all relevant IT services and policies. IM&S's general manager monitors IT service and escalates issues or risks to the monthly general managers' meeting. The policies governing IM&S at SAMRO are:

- Acceptable use
- Acquisition of computer hardware
- Email
- Information security
- Internet security
- Password based user authentication
- IT backup
- Physical access to computer room
- Software development

## Future focus areas

- Task team to assess capabilities of Zeus against current organisational needs in order to confirm need for upgrade or replacement
- Membership Rules and Board Composition Updates
- Change in distribution rules in order to accommodate composers using works that are in the public domain



# RISK REPORT

SAMRO's risk management process is designed to mitigate the company's strategic and operational risks.

## RISK POLICY AND MANAGEMENT

The company adheres to stringent corporate governance principles which require the board, through the risk and audit committee, to adequately identify, assess, reasonably manage and report on the business's risks. The committee reviews and evaluates these risks and ensures that appropriate internal controls are in place for risk mitigation.

SAMRO has a watchlist to monitor emerging risks which may become material in future. The context of how our risks impact the company is covered in our material matters section on page 14.

## KEY RISKS 2018

1. Digital service providers (DSPs) providing music royalty distribution services
2. Failure to license music users
3. Poor financial operational controls
4. Poor service delivery
5. Public broadcaster non-payment
6. Volatile membership
7. AEMRO investment
8. BEE compliance
9. Procurement fraud/mismanagement
10. SAMRO being replaced by another industry player or government agency

## RISK MANAGEMENT FRAMEWORK

SAMRO's risk management framework was designed to holistically address the company's risk by:

- Identifying the risk on a scale of one to 10
- Rating the risk in terms of probability, impact and urgency, with scoring for each criterion
- Determining how the risk is mitigated, avoided, transferred or accepted
- Allocating risk owners
- Escalating risks rated nine and above to the board
- Discussing risks rated four to eight at the general management committee meetings attended by all executives
- The general manager manages risks rated below four (operational risks)

SAMRO's risks are managed at various levels within the group, depending on the significance and severity of the risks identified.

### Risk committee

The risk committee of the board oversees the group's risk management process.

### Executive committee

The executive committee maintains and regularly monitors the group's formal risk log. The executive committee also ensures SAMRO responds effectively and appropriately within the agreed ranges of tolerance.

### General management committee

The general management committee (which includes the general managers of each business unit) formulates and oversees the risk management system and monitors the group's risk profile.

### Division heads

The division heads are responsible for the risk identification process and the development of risk management plans.

## INTERNAL CONTROL

An effective internal control framework is a critical component which enables us to evaluate and improve the effectiveness of all areas of our business.

SAMRO's internal controls are reviewed as part of the company's risk management process. The review of internal controls includes a review of all policies and procedures. We aim to verify SAMRO's adherence to and the relevance of the policies and procedures.









# REMUNERATION REPORT

The remuneration committee oversees remuneration and its main responsibilities are to:

- Perform an annual self-assessment of the effectiveness of the committee, reporting findings to the board
- Determine and approve general policy on strategic compensation issues
- Annually review the committee's charter and, if appropriate, recommend required amendments for approval by the board
- Annually appraise the performance of the CEO
- Annually review and approve the remuneration packages of the most senior executives, including performance bonuses and increases, ensuring appropriateness and alignment with the remuneration policy
- Annually review the remuneration of non-executive directors
- Review incidents of unethical behaviour by senior managers and the CEO
- Prepare an annual remuneration report for inclusion in the company's integrated report

## REMUNERATION STRATEGY AND POLICY

We rely on our remuneration strategy to attract, retain and motivate competent leaders. SAMRO's remuneration strategy is structured to motivate employees to ensure sustainable value creation for members by executing the group's strategy. SAMRO has an integrated approach to remuneration linked to the group's strategy.

SAMRO's remuneration policy and practices ensure alignment of the

remuneration and incentives of executives and employees, and the group's long-term business strategy, and aim to reward superior performance.

Primary objectives include the need to:

- Promote superior performance
- Direct employees' energy towards key business goals
- Achieve the most effective returns for employee spend
- Address diverse needs across differing cultures
- Have a credible remuneration policy overall

## OVERVIEW OF REMUNERATION NON-EXECUTIVE BOARD MEMBERS

A quarterly retainer fee is paid to non-executive directors on the date of the board meeting. They are also remunerated for their attendance at specific meetings and an annual portion subject to the performance of member liaison duties. Additional remuneration is paid to non-executive directors who form part of board committees or subsidiary boards. The chairperson and vice-chairperson of the board and the chairpersons of the committees receive a premium.

SAMRO directors' remuneration is reviewed annually against competitors and companies of similar size through an independent benchmarking process. Directors' remuneration is not directly related to the organisation's performance.

## EXECUTIVES AND EMPLOYEES

SAMRO's remuneration policy rewards high performance and aims to attract talented employees to enhance the group's value.

SAMRO offers a "salary plus allowances plus benefits" remuneration package. Employees qualify for benefits, such as car, housing and cell phone allowances over and above basic pay, pension, medical aid and other insured benefits. SAMRO's additional individual performance incentives are payable to all employees including executives.

At senior level, remuneration is linked to the group's performance rather than standardised performance-related packages.

## PERFORMANCE MANAGEMENT

SAMRO's strategy is applied through the group's performance management system. To enhance employee performance, the performance bonus scheme is based on organisational and individual performance.

Employee performance is assessed bi-annually against agreed key performance areas for the period. The assessment entails discussing the results and addressing any performance-related

# REMUNERATION REPORT CONTINUED

issues. A score is determined by specific goals, key performance indicators (KPIs) and personal competence.

The weighting of performance factors is as follows:

**Individual score**                **95%**

**Organisational score**        **5%**

**Total score**                    **100%**

Employee performance is rated and scored against the group's values of:

- Accountability
- Achievement
- Integrity
- Service excellence
- Teamwork

The bonus payable to employees is determined by the individual's score calculated as a percentage of monthly salary. Further information on performance management is shown in the human capital report on page 30.

## SERVICE CONTRACTS

The nominations and governance committee oversees all contractual arrangements between SAMRO and all board directors.

The CEO's contract was formulated according to the standard terms and conditions of employment. SAMRO's executive directors have a notice period not exceeding three months. The company's MOI outlines the appointment regulations and rotation of non-executive directors.

	<b>EXECUTIVE DIRECTORS' REMUNERATION</b>	
	<b>2018 R000</b>	2017 R000
Salaries and bonuses	<b>4 577</b>	5 577
Pension and medical aid	<b>857</b>	387
Other benefits	<b>302</b>	272
<b>Total</b>	<b>5 736</b>	6 236

Salaries and bonuses decreased due to the CFO's resignation in February 2018.

Pension, medical aid and other benefits increased after the new CEO's appointment. The previous CEO did not opt for pension and medical aid offered by SAMRO.

## DISCHARGE OF RESPONSIBILITIES

The board is satisfied that the remuneration committee discharged its responsibilities as outlined in its terms of reference.





# DIRECTORS' RESPONSIBILITY STATEMENT

The directors are required in terms of the Companies Act, 71 of 2008, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company and group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and group and places considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and group and all employees are required to maintain the highest ethical standards in ensuring the company and group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company and group is on identifying, assessing, managing and monitoring all known forms of risk across the company and group. While operating risk cannot be fully eliminated, the company and group endeavour to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company and group's cash flow forecast for the year to 30 June 2019 and, in light of this review and the current financial position, they are satisfied that the company has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the company and group's annual financial statements. The annual financial statements have been examined by the company and group's external auditors and their report is presented on pages 56 to 66.

The annual financial statements and additional schedules set out on pages 56 to 66, were prepared by Leanne Thomas CA(SA) under the supervision of Ditebogo Modiba CA(SA). These annual financial statements were approved by the board on 27 November 2018 and were signed on its behalf by:



Nothando Migogo  
Chief executive officer



Jerry Mnisi  
Chairperson

# DIRECTORS' REPORT

## INCORPORATION

The company is incorporated in the Republic of South Africa under the South African Companies Act as a non-profit company.

## NATURE OF BUSINESS

Southern African Music Rights Organisation NPC (SAMRO) carries on the business of administering the copyright in the works created by its members and other rights holders it represents.

Refer to group shareholding in note 15.1.

## OPERATING AND FINANCIAL REVIEW

The financial results of the company are set out on pages 56 to 66.

## DIRECTORS AND SECRETARY

The directors of the company are listed below and the company secretary is Claire Middlemiss, on behalf of Ithema Governance and Statutory Solutions (Pty) Ltd. The registered address and postal address of the secretary is the same as those of the company as detailed on page 69.

### NAME:

A Mofokate (removed 17 August 2018)

G Le Roux (removed 7 November 2018)

GJ Zoghby (retired 28 February 2018)

J Edmond

J Zaidel-Rudolph

JJ Mnisi

JJ Niemand

L Bala

NA Sibiyi (resigned 21 August 2017)

N Migogo (appointed 1 July 2017)

R Mabotja

R Naicker

S Khumalo

SCP Mabuse

D Modiba (appointed 1 July 2018)

## DIRECTORS' INTEREST IN CONTRACTS

No material contracts involving directors' interests were entered into in the year under review.

## DISTRIBUTION

An amount of R370,8 million was available for distribution for the year under review, this figure being before taxation, social and cultural deductions and transfers to reserves. Distributions for the group for the year, after taking into account income tax, social and cultural deductions and amounts transferred from reserves, was determined at R336,9 million (2017: R351,8 million), a decrease of R14,9 million or 4,2%.



# DIRECTOR'S REPORT CONTINUED

## DIVIDENDS

SAMRO has no share capital and thus does not declare dividends.

## GOING CONCERN

The directors have reviewed the company and group's cash flow forecast for the year to 30 June 2019 and, in light of this review and the current financial position, they are satisfied that the company and group have or had access to adequate resources to continue in operational existence for the foreseeable future.

The group generated a net loss for the year of R48,9 million (2017: R10,9 million). The company generated a net loss for the year of R25,5 million (2017: R29,6 million).

As at 30 June 2018, the group's total liabilities exceed its assets by R16,9 million and the company's total assets exceed its liabilities by R63,9 million. As at 30 June 2017, the group's total assets exceeded its liabilities by R44,7 million and the company's total assets exceeded its liabilities by R79,1 million.

## DISPOSAL OF INVESTMENT IN AEMRO

As at 30 June 2017, a decision was taken to withdraw from the venture in the UAE (AEMRO) and to dispose of the investment. Final settlement payments were effected on 1 February 2018.

## AUDITORS

PricewaterhouseCoopers Inc will continue in office as auditors in accordance with the South African Companies Act, 2008.

## CERTIFICATE BY COMPANY SECRETARY

In my capacity as company secretary, I hereby certify, in terms of the Companies Act, 71 of 2008, as amended, that for the year ended 30 June 2018, the company has lodged with the Registrar of Companies all such returns as are required of a company in terms of the Companies Act and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.



Claire Middlemiss

Company Secretary on behalf of Fluidrock Governance Group (Pty) Ltd (appointed 1 October 2018)  
27 November 2018  
Johannesburg

# INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

To the Members of Southern African Music Rights Organisation NPC

## OPINION

The summary consolidated and separate financial statements of Southern African Music Rights Organisation NPC, set out on pages 56 to 66, which comprise the summary consolidated and separate statements of financial position as at 30 June 2018, the summary consolidated and separate statements of comprehensive income, the summary consolidated and separate statements of changes in equity and the summary consolidated and separate statements of cash flows for the year then ended, and related notes, are derived from the audited consolidated and separate financial statements of Southern African Music Rights Organisation NPC for the year ended 30 June 2018.

In our opinion, the accompanying summary consolidated and separate financial statements are consistent, in all material respects, with the audited consolidated and separate financial statements, in accordance with IAS 34 "Interim Financial Reporting" and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

## SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The summary consolidated and separate financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated and separate financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated and separate financial statements and the auditor's report thereon.

## THE AUDITED CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited consolidated and separate financial statements in our report dated 29 November 2018.

## DIRECTOR'S RESPONSIBILITY FOR THE SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation of the summary consolidated and separate financial statements in accordance with IAS 34 "Interim Financial Reporting" and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary consolidated and separate financial statements are consistent, in all material respects, with the audited consolidated and separate financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

*PricewaterhouseCoopers Inc.*

PricewaterhouseCoopers Inc.  
Director: AM Motaung  
Registered Auditor  
Johannesburg  
29 November 2018

# SUMMARY CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	NOTES	COMPANY		GROUP	
		2018 R000	2017 R000	2018 R000	2017 Restated R000
<b>REVENUE</b>	3	<b>471 983</b>	465 615	<b>488 914</b>	483 656
Other income	4	<b>10 217</b>	8 299	<b>10 497</b>	4 281
Investment income	5	<b>10 985</b>	13 055	<b>13 673</b>	16 077
Other gains	6	<b>3 594</b>	21 629	<b>3 594</b>	21 629
Total revenue		<b>496 780</b>	508 598	<b>516 680</b>	525 643
Bad debts		<b>(31 648)</b>	(22 246)	<b>(32 224)</b>	(22 683)
Administration expenses		<b>(157 253)</b>	(138 085)	<b>(180 899)</b>	(168 403)
Other expenses		<b>(29 029)</b>	(49 481)	<b>(38 704)</b>	(12 128)
Social and cultural expenses	8	<b>(22 690)</b>	(24 108)	<b>(29 232)</b>	(26 286)
Distribution and grant of rights expenses	9	<b>(336 862)</b>	(351 797)	<b>(336 862)</b>	(351 797)
<b>Operating loss</b>		<b>(80 701)</b>	(77 119)	<b>(101 242)</b>	(55 654)
Royalty distributions written back	10	<b>60 194</b>	51 804	<b>60 194</b>	51 804
Finance charges	11	-	-	<b>(2 647)</b>	(2 542)
<b>Loss/(profit) before taxation</b>		<b>(20 507)</b>	(25 315)	<b>(43 695)</b>	(6 392)
Taxation		<b>(4 992)</b>	(4 303)	<b>(5 221)</b>	(4 510)
<b>Net loss</b>		<b>(25 499)</b>	(29 618)	<b>(48 916)</b>	(10 902)
<b>Other comprehensive income</b>					
Foreign currency translation reserve		-	-	<b>(153)</b>	(3 973)
Revaluation of assets		<b>13 293</b>	(25 293)	<b>(34 550)</b>	17 762*
Taxation		<b>(2 978)</b>	5 665	<b>10 418</b>	(6 390)*
<b>Other comprehensive (loss)/income for the year</b>		<b>10 315</b>	(19 628)	<b>(24 285)</b>	7 398
<b>Total comprehensive (loss)/income for the year</b>		<b>(15 184)</b>	(49 245)	<b>(73 202)</b>	(3 503)
<b>Attributable to:</b>					
SAMRO members		<b>(15 184)</b>	(49 246)	<b>(72 065)</b>	176
Non-controlling interests		-	-	<b>(1 137)</b>	(3 679)

\* **Restatement:**

Please see note 20 for details on the restatement.

# SUMMARY CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	NOTES	COMPANY		GROUP	
		2018 R000	2017 R000	2018 R000	2017 Restated R000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property and equipment	20	13 221	12 964	113 403	163 997*
Intangible assets		94 386	119 565	96 788	121 895
Investment in subsidiaries		175	175	-	-
Deferred tax		6 929	7 821	8 570	-
Available-for-sale investments	14	243 929	227 965	243 929	227 965
<b>Total non-current assets</b>		<b>358 640</b>	<b>368 490</b>	<b>462 691</b>	<b>513 857</b>
<b>Current assets</b>					
Trade and other receivables		98 430	101 253	103 102	105 334
Inventory		471	484	699	678
Related-party receivable		165 390	172 596	3 714	19 830
Taxation		-	3 785	-	3 913
Cash and cash equivalents	15	78 883	72 466	130 652	121 292
<b>Total current assets</b>		<b>343 174</b>	<b>350 584</b>	<b>238 167</b>	<b>251 047</b>
<b>Total assets</b>		<b>701 814</b>	<b>719 074</b>	<b>700 858</b>	<b>764 904</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Retained earnings		(8 491)	17 008	(85 915)	(38 105)
Fixed asset revaluation reserve	20	1 270	1 270	(2 177)	32 270*
Unrealised gains reserve		71 157	60 841	71 157	60 841
Foreign currency translation reserve		-	-	-	(3 358)
<b>Members' equity</b>		<b>63 936</b>	<b>79 119</b>	<b>(16 935)</b>	<b>51 648</b>
Non-controlling interest		-	-	-	(6 906)
<b>Total funds and reserves</b>		<b>63 936</b>	<b>79 119</b>	<b>(16 935)</b>	<b>44 742</b>
<b>Non-current liabilities</b>					
Post-employment medical benefit		22 069	24 718	22 069	24 718
Borrowings	16	-	-	28 418	-
Deferred tax	20	-	-	-	4 235*
<b>Total non-current liabilities</b>		<b>22 069</b>	<b>24 718</b>	<b>50 487</b>	<b>28 953</b>
<b>Current liabilities</b>					
Borrowings - short-term portion	16	-	-	-	27 475
Distributions payable	17	370 775	376 194	411 851	418 424
Distributions in progress	18	177 009	170 375	177 009	170 375
Current portion of post-retirement medical benefit		999	991	999	991
Related-party payable		63	8 991	-	7 150
Social and cultural obligations	19	17 751	18 018	17 421	17 704
Trade and other payables		48 617	40 668	59 848	49 090
Tax		594	-	178	-
<b>Total current liabilities</b>		<b>615 809</b>	<b>615 237</b>	<b>667 306</b>	<b>691 209</b>
<b>Total funds and liabilities</b>		<b>701 814</b>	<b>719 074</b>	<b>700 858</b>	<b>764 904</b>

\* Restatement:

Please see note 20 for details on the restatement.

# SUMMARY CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	COMPANY		GROUP	
	2018 R000	2017 R000	2018 R000	2017 R000
<b>CASH FLOWS GENERATED FROM OPERATING ACTIVITIES</b>				
Cash generated from licensing operations	<b>325 602</b>	287 014	<b>328 468</b>	276 519
Finance costs	-	-	<b>(2 647)</b>	(2 542)
Dividends received	<b>4 868</b>	6 165	<b>4 868</b>	6 165
Interest received	<b>6 117</b>	6 890	<b>8 805</b>	9 912
Cash flow from operations	<b>336 587</b>	300 069	<b>339 494</b>	290 054
Taxation paid	<b>(2 698)</b>	(379)	<b>(3 516)</b>	(739)
Royalty, grant of rights and social distributions to members and affiliated societies	<b>(275 451)</b>	(319 370)	<b>(276 604)</b>	(350 376)
Applied to social and cultural expenses	<b>(22 957)</b>	(23 605)	<b>(29 517)</b>	(27 835)
<b>Net cash flows generated/(utilised) from operating activities</b>	<b>35 481</b>	(43 285)	<b>29 856</b>	(88 896)
<b>CASH FLOWS GENERATED FROM INVESTING ACTIVITIES</b>				
Additions to property, equipment and intangible assets	<b>(9 693)</b>	(12 782)	<b>(10 577)</b>	(14 902)
(Increase)/decrease in loans (to)/from related parties	<b>(24 319)</b>	(23 072)	<b>(4 264)</b>	6 223
Proceeds on disposal of property and equipment	<b>26</b>	-	<b>54</b>	-
Proceeds on disposal of investments	<b>573</b>	55 238	<b>573</b>	55 238
Disposal of subsidiaries	-	-	<b>(6 285)</b>	(1 869)
Interest received from subsidiaries	<b>4 349</b>	4 349	-	-
<b>Net cash flows generated/(utilised) from investing activities</b>	<b>(29 064)</b>	23 733	<b>(20 497)</b>	44 690
Net increase/(decrease) in cash and cash equivalents	<b>6 417</b>	(19 552)	<b>9 359</b>	(44 206)
Effects of exchange rate changes on cash and cash equivalents	-	-	-	(3 972)
Cash and cash equivalents at the beginning of the year	<b>72 466</b>	92 018	<b>121 292</b>	169 470
Cash and cash equivalents at the end of the year	<b>78 883</b>	72 466	<b>130 652</b>	121 292

# SUMMARY CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	COMPANY			
	Retained earnings R000	Fixed assets revaluation reserve R000	Unrealised gains reserve R000	Total R000
<b>STATEMENT OF CHANGES IN FUNDS AND RESERVES</b>				
<b>Balance at 30 June 2016</b>	46 626	1 154	80 585	128 365
<b>Total comprehensive income/(loss) for the year</b>	(29 618)	116	(19 744)	(49 246)
Loss for the year	(29 618)	-	-	(29 618)
Revaluation of paintings	-	150	-	150
Revaluation of investments	-	-	(25 443)	(25 443)
Deferred tax	-	(34)	5 699	5 665
<b>Balance at 30 June 2017</b>	<b>17 008</b>	<b>1 270</b>	<b>60 841</b>	<b>79 119</b>
<b>Total comprehensive income for the year</b>	<b>(25 499)</b>	<b>-</b>	<b>10 315</b>	<b>(15 184)</b>
Loss for the year	(25 499)	-	-	(25 499)
Revaluation of paintings	-	-	-	-
Revaluation of investments	-	-	13 293	13 293
Deferred tax	-	-	(2 978)	(2 978)
<b>Balance at 30 June 2018</b>	<b>(8 490)</b>	<b>1 270</b>	<b>71 156</b>	<b>63 935</b>



# SUMMARY CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY CONTINUED

## FOR THE YEAR ENDED 30 JUNE 2018

GROUP							
Notes	Retained earnings R000	Fixed assets revaluation reserve R000	Unrealised gains reserve R000	Foreign currency translation reserve R000	Total R000	Non- controlling interest R000	Total funds and reserves R000
<b>STATEMENT OF CHANGES IN FUNDS AND RESERVES</b>							
<b>Balance at 30 June 2016</b>	(47 271)	1 154	80 585	(180)	34 288	(3 227)	31 061
<b>Total comprehensive income for the year</b>	9 166	31 116	(19 744)	(3 178)	17 360	(3 679)	13 681
Loss for the year	(8 018)	-	-	(3 178)	(11 196)	(3 679)	(14 875)
Revaluation of paintings	-	150	-	-	150	-	150
Revaluation of investments	-	-	(25 443)	-	(25 443)	-	(25 443)
Revaluation of land and buildings	20 -	43 055	-	-	43 055	-	43 055
Disposal of subsidiary	20 17 184	-	-	-	17 184	-	17 184
Deferred tax	20 -	(12 089)	5 699	-	(6 390)	-	(6 390)
<b>Balance at 30 June 2017</b>	<b>(38 105)</b>	<b>32 270</b>	<b>60 841</b>	<b>(3 358)</b>	<b>51 648</b>	<b>(6 906)</b>	<b>44 742</b>
<b>Total comprehensive income for the year</b>	<b>(47 808)</b>	<b>(34 447)</b>	<b>10 315</b>	<b>3 358</b>	<b>(68 582)</b>	<b>6 906</b>	<b>(61 676)</b>
Loss for the year	<b>(47 809)</b>	-	-	<b>(123)</b>	<b>(47 932)</b>	<b>(1 137)</b>	<b>(49 069)</b>
Revaluation of paintings	-	-	-	-	-	-	-
Revaluation of investments	-	-	<b>13 293</b>	-	<b>13 293</b>	-	<b>13 293</b>
Revaluation of land and buildings	-	<b>(47 843)</b>	-	-	<b>(47 843)</b>	-	<b>(47 843)</b>
Disposal of subsidiary	-	-	-	<b>3 481</b>	<b>3 481</b>	<b>8 043</b>	<b>11 524</b>
Deferred tax	-	<b>13 396</b>	<b>(2 978)</b>	-	<b>10 418</b>	-	<b>10 418</b>
<b>Balance at 30 June 2018</b>	<b>(85 913)</b>	<b>(2 177)</b>	<b>71 156</b>	<b>-</b>	<b>(16 934)</b>	<b>-</b>	<b>(16 934)</b>

# NOTES TO THE ANNUAL SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

AT 30 JUNE 2018

## 1 GENERAL INFORMATION

Southern African Music Rights Organisation NPC (SAMRO) carries on the business of administering the copyright in the works created by its members and other rights holders it represents.

## 2 BASIS OF PREPARATION

These summarised consolidated and separate financial statements for the year ended 30 June 2018 have been extracted from the full set of audited consolidated annual financial statements for the year ended 30 June 2018, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective or issued and early adopted, and in the manner required by the Companies Act of South Africa. The summarised consolidated and separate financial statements have been prepared using the principles of IAS 34 *Interim Financial Reporting* and should be read in conjunction with the full set of audited consolidated annual financial statements. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

	COMPANY		GROUP	
	2018 R000	2017 R000	2018 R000	2017 R000
<b>3 REVENUE</b>	<b>471 983</b>	465 615	<b>488 915</b>	483 656
<b>Music rights</b>				
Performing rights	<b>461 641</b>	452 054	<b>461 641</b>	452 054
Total SAMRO territory	<b>461 641</b>	452 054	<b>461 641</b>	452 054
Royalties from affiliated societies	<b>10 342</b>	13 561	<b>10 342</b>	13 561
<b>Licence and royalty income</b>	<b>471 983</b>	465 615	<b>471 983</b>	465 615
Reprographic administration fees	-	-	<b>12 976</b>	12 321
Rental income	-	-	<b>3 956</b>	5 720
<b>Total revenue</b>	<b>471 983</b>	465 615	<b>488 915</b>	483 656
<b>4 OTHER INCOME</b>	<b>10 217</b>	8 299	<b>10 498</b>	4 281
Administration fees	<b>152</b>	5	<b>153</b>	5
Interest on loans and cash balances	<b>2 751</b>	1 148	<b>2 808</b>	1 210
Interest from subsidiary companies	<b>4 349</b>	4 349	-	-
Administration, computer and management fees from subsidiary companies	<b>2 965</b>	2 797	-	-
SAMRO Foundation project funding	-	-	<b>7 537</b>	3 066
<b>Total other income</b>	<b>10 217</b>	8 299	<b>10 498</b>	4 281
<b>5 INVESTMENT INCOME</b>	<b>10 985</b>	13 055	<b>13 673</b>	16 077
<b>Available-for-sale investments</b>				
Dividends	<b>4 868</b>	6 165	<b>4 868</b>	6 165
Interest from debentures and loan stock	<b>4 029</b>	4 234	<b>4 029</b>	4 234
Interest from bonds and notes	-	-	-	-
Interest from short-term investments	<b>2 088</b>	2 656	<b>4 776</b>	5 678
<b>Total income from available-for-sale investments</b>	<b>10 985</b>	13 055	<b>13 673</b>	16 077
<b>6 OTHER GAINS</b>	<b>3 594</b>	21 629	<b>3 594</b>	21 629
Gain on disposal of investments	<b>3 594</b>	21 629	<b>3 594</b>	21 629
<b>Total other gains</b>	<b>3 594</b>	21 629	<b>3 594</b>	21 629

# NOTES TO THE ANNUAL SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONTINUED

## AT 30 JUNE 2018

	COMPANY		GROUP	
	2018 R000	2017 R000	2018 R000	2017 R000
<b>7 OPERATING LOSS</b>				
Operating loss includes the following items:				
Accommodation costs	3 191	2 946	3 803	3 238
Depreciation	2 358	2 405	5 342	3 076
Amortisation	26 691	5 993	26 794	6 079
Operating costs	9 018	10 563	10 495	13 047
Professional fees	2 259	728	4 073	2 570
IT costs	3 669	4 397	3 909	4 690
Employee benefits	93 677	92 350	107 155	114 554
Marketing costs	2 848	8 460	3 273	8 795
Disposal of subsidiary	-	-	18 029	-
Other costs	5 093	3 568	7 052	5 183
<b>Auditors' remuneration</b>				
Fees - current year	1 912	1 701	2 366	2 075
Fees - underprovision previous years	189	156	177	156
	<b>2 102</b>	1 857	<b>2 543</b>	2 231
Bad debt provision	31 648	22 246	32 224	22 683
Investment management fees	1 151	1 365	1 151	1 365
(Profit)/loss on disposal of property and equipment	158	102	158	103
Impairment loss*	27 978	37 353	19 624	-
<b>The impairment loss relates to:*</b>				
The investment in Arab Emirates Music Rights Organisation (AEMRO)	9 366	37 353	-	-
Intangible and other assets	5 381		6 393	
Loan to Performers Organisation of South Africa Trust	13 231	-	13 231	-
	<b>27 978</b>	37 353	<b>19 624</b>	-
As at 30 June 2017, a decision was taken to withdraw from the venture in the UAE (AEMRO) and to dispose of the investment. Final settlement payments were effected on 1 February 2018.				
<b>7.1 EMPLOYEE BENEFITS</b>	<b>93 677</b>	92 350	<b>107 155</b>	114 554
Personnel costs include:				
Salaries and bonuses	75 705	73 557	86 069	92 425
Social security levies	991	1 082	1 073	1 164
Pension costs on defined contribution plan	9 699	8 882	10 530	9 727
Training	585	560	600	670
Recruitment	1 278	1 188	1 278	1 255
Other employment costs	8 059	7 672	10 246	9 904
	<b>96 318</b>	92 941	<b>109 795</b>	115 145
Post-employment benefits	(2 641)	(591)	(2 641)	(591)
	<b>93 677</b>	92 350	<b>107 155</b>	114 554
<b>8 SOCIAL AND CULTURAL EXPENSES</b>	<b>22 690</b>	24 108	<b>29 233</b>	26 286
Social	8 622	9 161	8 622	9 161
Cultural	14 068	14 947	20 611	17 125
	<b>22 690</b>	24 108	<b>29 233</b>	26 286

	COMPANY		GROUP	
	2018 R000	2017 R000	2018 R000	2017 R000
<b>9 DISTRIBUTION AND GRANT OF RIGHTS PAYABLE</b>	<b>336 862</b>	351 797	<b>336 862</b>	351 797
Licence and royalty	<b>313 216</b>	310 180	<b>313 216</b>	310 180
Grant of rights	<b>23 645</b>	41 617	<b>23 645</b>	41 617
<b>Total distributions</b>	<b>336 862</b>	351 797	<b>336 862</b>	351 797
<b>10 ROYALTY DISTRIBUTIONS WRITTEN BACK</b>	<b>60 194</b>	51 804	<b>60 194</b>	51 804
Undistributable income written back	<b>60 194</b>	51 804	<b>60 194</b>	51 804
<b>11 FINANCE CHARGES</b>	-	-	<b>2 647</b>	2 542
Interest on borrowings	-	-	<b>2 647</b>	2 542
<b>Total finance costs</b>	-	-	<b>2 647</b>	2 542
<b>12 KEY MANAGEMENT EMOLUMENTS</b>	<b>18 308</b>	22 144	<b>32 699</b>	40 454
<b>From the company and its controlled subsidiaries for:</b>				
<b>Directors</b>				
Current emoluments				
- Non-executive directors - fees	<b>1 937</b>	3 109	<b>2 189</b>	3 419
- Non-executive directors - other	<b>9</b>	25	<b>9</b>	25
- Salaries	<b>4 577</b>	5 576	<b>17 108</b>	20 604
- Pension and medical aid contributions	<b>857</b>	387	<b>1 508</b>	989
- Bonuses and other fringe benefits	<b>302</b>	272	<b>668</b>	639
<b>Total directors' current emoluments</b>	<b>7 682</b>	9 369	<b>21 482</b>	25 676
Post-retirement benefits				
- Estimated post-retirement benefits	-	-	-	-
<b>Total directors' emoluments</b>	<b>7 682</b>	9 369	<b>21 482</b>	25 676
<b>Paid by:</b>				
- Company	<b>7 682</b>	9 369	<b>7 682</b>	9 370
- Subsidiaries	-	-	<b>13 800</b>	16 306
<b>Total paid</b>	<b>7 682</b>	9 369	<b>21 482</b>	25 676
<b>Other key management</b>				
Current emoluments				
- Salaries and bonuses	<b>8 339</b>	10 089	<b>8 829</b>	11 697
- Pension and medical aid contributions	<b>1 598</b>	1 792	<b>1 665</b>	2 048
- Other fringe benefits	<b>738</b>	914	<b>773</b>	1 054
<b>Total other key management current emoluments</b>	<b>10 675</b>	12 795	<b>11 267</b>	14 799
Post-retirement benefits				
- Estimated post-retirement benefits	<b>(49)</b>	(21)	<b>(49)</b>	(21)
<b>Total other key management emoluments</b>	<b>10 626</b>	12 774	<b>11 218</b>	14 778
<b>Total key management emoluments</b>	<b>18 308</b>	22 144	<b>32 699</b>	40 454

NOTES TO THE ANNUAL SUMMARY CONSOLIDATED  
AND SEPARATE FINANCIAL STATEMENTS CONTINUED  
AT 30 JUNE 2018

	COMPANY		GROUP	
	2018 R000	2017 R000	2018 R000	2017 R000
<b>13 CAPITAL EXPENDITURE INCURRED</b>	<b>9 693</b>	12 782	<b>10 578</b>	14 903
Property and equipment	<b>2 801</b>	1 961	<b>3 511</b>	3 260
Software development	<b>6 892</b>	10 821	<b>7 067</b>	11 643
	<b>9 693</b>	12 782	<b>10 578</b>	14 903
<b>14 AVAILABLE-FOR-SALE INVESTMENTS</b>	<b>243 929</b>	227 965	<b>243 929</b>	227 965
At cost	<b>152 539</b>	149 868	<b>152 539</b>	149 868
Market revaluation	<b>91 390</b>	78 097	<b>91 390</b>	78 097
	<b>243 929</b>	227 965	<b>243 929</b>	227 965
<b>15 CASH AND CASH EQUIVALENTS</b>	<b>78 883</b>	72 466	<b>130 652</b>	121 292
Cash on hand and balances at banks	<b>43 256</b>	45 508	<b>95 023</b>	94 334
Short-term investments	<b>35 627</b>	26 958	<b>35 627</b>	26 958
	<b>78 883</b>	72 466	<b>130 652</b>	121 292
<b>16 BORROWINGS</b>				
Nedbank mortgage bond	-	-	<b>28 417</b>	27 475
	-	-	<b>28 417</b>	27 475
The loan from Nedbank is secured by a cession and pledge of the share portfolio. The term of the loan is 60 months. The outstanding capital amount is repayable as one bullet payment after year 5 on 3 July 2023. The interest rate is prime less 0,75%.				
<b>17 DISTRIBUTIONS PAYABLE</b>	<b>370 775</b>	376 194	<b>411 852</b>	418 424
Royalty distributions	<b>313 216</b>	310 180	<b>313 216</b>	310 180
Grant of rights	<b>23 645</b>	41 617	<b>23 645</b>	41 617
Current amount per income statement	<b>336 862</b>	351 797	<b>336 862</b>	351 797
Social benefits	<b>8 212</b>	8 751	<b>8 212</b>	8 751
For distribution current year DALRO	-	-	<b>41 077</b>	42 230
For distribution current year POSA Trust	-	-	-	-
Prior period amounts	<b>119 125</b>	179 701	<b>119 125</b>	179 701
	<b>464 199</b>	540 249	<b>505 276</b>	582 479
Distributions and advances	<b>(93 424)</b>	(164 055)	<b>(93 424)</b>	(164 055)
Total for distribution	<b>370 775</b>	376 194	<b>411 852</b>	418 424
<b>18 DISTRIBUTIONS IN PROGRESS</b>	<b>177 009</b>	170 375	<b>177 009</b>	170 375
Shares in musical works	<b>19 007</b>	15 663	<b>19 007</b>	15 663
Musical works	<b>158 002</b>	154 712	<b>158 002</b>	154 712
	<b>177 009</b>	170 375	<b>177 009</b>	170 375

	COMPANY		GROUP	
	2018 R000	2017 R000	2018 R000	2017 R000
<b>19 SOCIAL AND CULTURAL OBLIGATIONS</b>				
Balance at the beginning of the year	17 751	18 018	17 421	17 704
Utilisation during the year	18 018	17 515	17 704	19 253
Current funding for the year	(22 957)	(23 605)	(29 517)	(27 835)
<b>Balance at the end of the year</b>	<b>22 690</b>	<b>24 108</b>	<b>29 232</b>	<b>26 286</b>
<b>19.1 SOCIAL OBLIGATIONS</b>				
<b>Other social funds not included in distributions</b>				
Balance at the beginning of the year	17 751	18 018	17 421	17 704
Utilisation during the year	18 018	17 515	17 704	19 253
Current funding for the year	(22 957)	(23 605)	(29 517)	(27 835)
<b>Balance at the end of the year</b>	<b>17 751</b>	<b>18 018</b>	<b>17 421</b>	<b>17 704</b>
<b>Copyrights training fund</b>				
Balance at the beginning of the year	8 259	9 188	8 259	9 188
Utilisation during the year	(9 032)	(10 090)	(9 032)	(10 090)
Current funding for the year	8 622	9 161	8 622	9 161
<b>Balance at the end of the year</b>	<b>7 850</b>	<b>8 259</b>	<b>7 849</b>	<b>8 259</b>
<b>Total social funds</b>	<b>7 850</b>	<b>8 259</b>	<b>8 283</b>	<b>8 496</b>
<b>19.2 CULTURAL OBLIGATIONS</b>				
<b>SAMRO Foundation and related provisions</b>				
Balance at the beginning of the year	7 774	6 342	5 351	4 710
Utilisation during the year	(13 925)	(13 515)	(14 759)	(14 306)
Current funding for the year	14 068	14 947	14 068	14 947
<b>Balance at the end of the year</b>	<b>7 917</b>	<b>7 774</b>	<b>4 660</b>	<b>5 351</b>
<b>Bequests and donations</b>				
Balance at the beginning of the year	1 985	1 985	2 084	2 084
Utilisation during the year	-	-	-	-
Current funding for the year	-	-	-	-
<b>Balance at the end of the year</b>	<b>1 985</b>	<b>1 985</b>	<b>2 084</b>	<b>2 084</b>
<b>Bilateral agreement funds</b>				
Balance at the beginning of the year	-	-	1 490	2 091
Utilisation during the year	-	-	(1 001)	(1 857)
Current funding for the year	-	-	1 608	1 256
<b>Balance at the end of the year</b>	<b>-</b>	<b>-</b>	<b>2 097</b>	<b>1 490</b>
<b>Bursary funds</b>				
Balance at the beginning of the year	-	-	283	268
Utilisation during the year	-	-	-	-
Current funding for the year	-	-	14	15
<b>Balance at the end of the year</b>	<b>-</b>	<b>-</b>	<b>297</b>	<b>283</b>
<b>Total cultural funds</b>	<b>9 902</b>	<b>9 759</b>	<b>9 138</b>	<b>9 208</b>
<b>Total social and cultural funds</b>	<b>17 751</b>	<b>18 018</b>	<b>17 421</b>	<b>17 704</b>



# NOTES TO THE ANNUAL SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS CONTINUED

## AT 30 JUNE 2018

### 20 PRIOR PERIOD ERROR

#### Restatement:

In the 2017 financial period SAMRO House directors decided to change the accounting policy from the cost model to the fair value model. An independent valuer was engaged to perform a valuation on the SAMRO House building to establish the fair value of the building in both the 2017 and 2018 financial periods. However in the 2018 financial year, it was ascertained that there was an error in 2 assumptions included in the valuation in the prior period. The first arose as a result of a calculation error made in the floor space of the SAMRO House building which amounted to R10 million overstatement in the property value. The second error was as a result of an incorrect inclusion of an additional R12 million in the calculation of the parking space. This has resulted in the Investment property being over valued by R22 million as at 30 June 2017.

The impact of the restatement has been summarised below:

The effect on the financial statements:	Before restatement	Adjustment	After restatement
Revaluation of land and buildings	65 055	(22 000)	43 055
Deferred tax	(18 215)	6 160	(12 055)
Revaluation reserve	46 840	(15 840)	31 000

### 21 CHANGE IN ACCOUNTING ESTIMATE

During the year management decided to amend the useful life of the custom built SQL Database from 50 years to 5 years to better reflect the current economic life of the system as compared to other internally generated software. On this basis it was determined that the database costs should be amortised at a rate of 20% per year, which is in line with other entities within the industry.

The effect of the change in the useful life of the database is that it increased the amortisation expense from R5.2 million to R25.7 million.

### 22 SUBSEQUENT EVENTS

During the latter part of the financial year, management became aware of the fact that the SABC is going through financial challenges. This resulted in the SABC not being able to pay SAMRO licence fees that have been invoiced.

The impact of the non-payment by the SABC has been considered in the going concern assessment of SAMRO and the group. Management has reviewed the cash flow forecasts and decided to reduce the distribution payments resulting from the 2018 financial year.

The SABC licence income make up about 33% of the radio and television distribution. Therefore, a large portion of the 2018 financial year distributions will be affected by this non-payment.

As at 30 June 2018, the SABC has an outstanding licence fee balance of R55.5million. Therefore, the radio distribution will decrease by R24.5million and the TV distribution will decrease by R31 million.

Continuous efforts are still in progress to engage with the SABC management in order resolve the delayed and slow payment of the increasing outstanding balance; so that future distributions are not negatively affected.

# ABBREVIATIONS AND ACRONYMS

<b>AEMRO</b>	Arab Emirates Music Rights Organisation
<b>AGM</b>	Annual general meeting
<b>ANSA</b>	Arterial Network South Africa
<b>BASA</b>	Business and Arts South Africa
<b>BBBEE</b>	Broad-based black economic empowerment
<b>BIEM</b>	Bureau International des Sociétés Gérant les droits d'Enregistrement et de Reproduction Mécanique (Mechanical rights equivalent of CISAC)
<b>CAMS</b>	Copyright Asset Management and Services
<b>CAPASSO</b>	Composers, Authors and Publishers' Association
<b>CASA</b>	Composers' Association of South Africa
<b>CCIFSA</b>	Cultural and Creative Industry Federation of South Africa
<b>CCMA</b>	Commission for Conciliation, Mediation and Arbitration
<b>CISAC</b>	International Confederation of Societies of Authors and Composers
<b>CMO</b>	Collective management organisation
<b>CSA</b>	Concerts SA
<b>CSI</b>	Corporate social investment
<b>CWU</b>	Communication Workers Union
<b>DALRO</b>	Dramatic, Artistic and Literary Rights Organisation (Pty) Ltd
<b>dti</b>	Department of Trade and Industry
<b>DSPs</b>	Digital service providers
<b>EGM</b>	Extraordinary general meeting
<b>IT</b>	Information technology
<b>ICT</b>	Information and communication technology
<b>IFRRO</b>	International Federation of Reprographic Reproduction Organisations
<b>IM&amp;S</b>	Information management and services
<b>KPI</b>	Key performance indicator
<b>MASA</b>	Musician Association of South Africa

## ABBREVIATIONS AND ACRONYMS CONTINUED

<b>MiA</b>	Music in Africa
<b>MOI</b>	Memorandum of incorporation
<b>MOSHITO</b>	Music Conference and Exhibition
<b>MPA</b>	Music Publishers Association
<b>NAC</b>	National Arts Council
<b>NGO</b>	Non-governmental organisation
<b>NORM</b>	National Organisation for Reproduction Rights in Music in Southern Africa Limited
<b>NPC</b>	Non-profit company
<b>NPO</b>	Non-profit organisation
<b>POSA</b>	Performers Organisation of South Africa
<b>PR</b>	Performing rights
<b>RISA</b>	Recording Industry of South Africa
<b>SACA</b>	South African Cultural Association
<b>SADC</b>	Southern Africa Development Community
<b>SAMIC</b>	South African Music Industry Council
<b>SAMPA</b>	South African Music Promoters' Association
<b>SAMPRA</b>	South African Music Performance Rights Association
<b>SAMRO</b>	Southern African Music Rights Organisation
<b>SENA</b>	SAMRO Endowment for the National Arts
<b>SETA</b>	Skills Education Training Authority
<b>SRAF</b>	SAMRO Retirement Annuity Fund
<b>undoc</b>	Musical works for which the rights holders are not known and that have not yet been documented
<b>VAT</b>	Value added tax

# CORPORATE INFORMATION

<b>Country of incorporation and domicile</b>	South Africa
<b>Registration number</b>	1961/002506/08
<b>Registered office</b>	5th Floor SAMRO Place 20 De Korte Street Braamfontein 2001 Johannesburg
<b>Postal address</b>	PO Box 31609 Braamfontein 2017
<b>Telephone</b>	+27 712 8000
<b>Facsimile</b>	+27 86 674 4391
<b>International</b>	+27 11 712 8039
<b>Hotline (during working hours)</b>	+27 86 117 2676
<b>Email</b>	customerservices@samro.org.za
<b>SMS</b>	45141 @R1 per SMS
<b>Website</b>	www.samro.org.za
<b>Facebook</b>	SAMROSouthAfrica
<b>Twitter</b>	@SAMROMusic
<b>Instagram</b>	Samromusic
<b>CEO</b>	N Migogo
<b>CFO</b>	D Modiba
<b>Bankers</b>	Standard Bank Absa Bank
<b>Auditors</b>	PricewaterhouseCoopers Incorporated
<b>Legal advisors</b>	Spoor & Fisher Webber Wentzel Terina Singh
<b>Investment advisors</b>	Investec Nedbank Wealth Old Mutual Multi Managers







## IN TRIBUTE TO OUR MEMBERS WHO HAVE PASSED ON

Lentsoe Matthew Mokgosi  
Bhekabantu Petros Madlala  
Ratlali Esaiah Marokoane  
Robinson Joshua Mfanafuthi Malinga  
Bheki Raymond Mchunu  
Ramakhobotla John Mekoa  
Moalusi John Letwaba  
Nyoniyezwe Theophilus Bophela  
Thokozani Mlungisi Malinga  
Bushman Mthombeni  
Jonathan Colin Buckley  
Zamukwakha Mchunu  
Anthony Motaung  
Bejani David Mashaba  
Julian Maurice Carver  
Bethuel Ngubane  
Mduduzi Nsibande  
Chikapa Enoch Phiri  
Neo Makgabo  
Cornelius Petrus Steyn  
Simphele Mbongeni Sibiya  
Paulus Molefe Tsosane  
Glenn Robert Edward Veale  
Khansi Emily Zwane  
Amos Dhladhla  
Errol Charles Dyers  
Daniel De Wet Gerber  
Lemmy Chauke Mabaso  
Meiti Lina Mabena  
Dibe Enos Aphane  
Petrus Morake  
Sepalong Albert Moroatsehla  
Nompumelelo Khuzwayo  
Theresa Johanna Looock

Michael Barry Laatz  
Thapelo Prayer Kuselo  
Mathula Calmon Mona  
Linda Mkhize  
Motlogeloa Stefaans Molefe  
Barend Daniel Bierman  
Makhosonke Andry Mbuyisa  
Cliford Siyabonga Mpunzana  
Bongani Blessing Cele  
Nkosinathi Njabulo Nxumalo  
Jimmie Earl Perry  
Thapelo Zachia Soto  
Cornelius Kori Sebowe  
Vukayibambe Thomas Shange  
Gregory James Smith  
Lorraine Alison Shannon  
Guiseppe Cotumaccio  
Nchipe Phillip Tabane  
Jabulani Joseph Thusi  
Jabulani Tsambo  
Hessel Scholtemeijer Van Der Walt  
Annalise Wiid  
Brian Zondeka  
Mavis Danisile Khambule  
Gregory Charles Doyle  
Morris Kubheka  
Tembudzani Sarah Masindi  
Humbulani Colbert Muthude  
Israel Matsheka  
Siyasanga Kobese  
Prince Zandi Petshane

# IN TRIBUTE TO OUR MEMBERS WHO HAVE PASSED ON



## **HHP**

Birth date: 14 September 1980

Deceased date: 24 October 2018



## **PRO KID**

Birth date: 25 June 1981

Deceased date: 8 August 2018



## **ROBERT MALINGA**

Birth date: 8 November 1968

Deceased date: 25 December 2017



## **SIR BABZIN**

Birth date: 23 February 1981

Deceased date: 17 August 2018

REST PEACEFULLY, FOREVER YOURS IN MUSIC

[WWW.SAMRO.ORG.ZA](http://WWW.SAMRO.ORG.ZA)