SAMRO

Southern African Music Rights Organisation

Integrated Annual Report 2012

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SCOPE AND BOUNDARY

After publishing its first integrated report in 2011, SAMRO commissioned an external review of the content and structure of the report. As a result of the review, this report contains significant adjustments aimed at providing information that is relevant, coherent, material and complete.

Although SAMRO is still in the process of clarifying its legal form in terms of the new Companies Act No 71 of 2008 as amended (the Act), the organisation recognises that it has a public interest score of above 350 as defined by the Act. Taking into account SAMRO's turnover, number of employees, third party liability and members; it has to adhere to integrated reporting standards as set out by the Act and the King Code of Governance Principles for South Africa 2009 (King III).

In preparing the report, SAMRO has collected and reviewed all internal data and reports that relate to the financial year from 1 July 2011 to 30 June 2012. The report includes commentary by the chairperson of the board, the CEO and CFO as well as sections pertaining to sustainability initiatives, governance, remuneration and risk. These disclosures support the principle that an integrated report should provide stakeholders with the ability to make an informed decision about SAMRO's potential to sustain its value creation activities. The report endeavours to show that the organisation creates value in an ethical way and that it does not profit at the expense of the environment or communities.

SAMRO's financial statements have been fully audited and assured by PricewaterhouseCoopers Inc. The non-financial information included in the report has not been subject to external assurance, with the exception of the broad-based black economic empowerment (BBBEE) rating, which has been verified by Empowerdex.

During the financial year SAMRO changed its membership conditions to include non-South African members. The group does not have any physical operations beyond South African borders, but is affiliated with a number of international collective management societies that collect licensing income on behalf of SAMRO in their territories. SAMRO plays a similar role on behalf of other collective management societies in South Africa, and makes regular distributions to these in return.

Highlights

- Revenue increased by 7.8% to R351.6 million;
- SAMRO celebrated 50 years with a celebration event, the publishing of a book, the Builders Awards and a SAMRO documentary which is to be broadcast in February 2013;
- Distributions with a total value of R246 million were made during the financial year.

Distributions for 2012

Distribution type		Date
D49	Royalty Adjustment Sequence 4	12 July 2011
D50	Foreign Sequence 1	19 July 2011
D50	Foreign Suspense Sequence 1	10 August 2011
D49	Radio and General Sequence 2	23 August 2011
D50	Rights Holder Correction	14 September 2011
D50	Royalty Adjustment Sequence 1	29 September 2011
D50	Cinema Film Sequence 1	9 November 2011
D49	Supplementary Undoc Sequence 2	28 November 2011
D49	Supplementary Non Society shares Sequence 2	28 November 2011
D49	Royalty Adjustment Sequence 2	2 December 2011
D50	Non Royalty Revenue (NRR)	13 December 2011
D50	Foreign Suspense Sequence 2	13 December 2011
D50	Foreign Sequence 2	13 December 2011
D50	Mechanical Rights Television Sequence 1	15 February 2012
D50	Radio and General Sequence 1	1 March 2012
D50	Television Sequence 1	28 March 2012
D50	Performance Adjustment Sequence 1	17 April 2012
D50	Supplementary Undoc Sequence 1	3 May 2012
D50	Royalty Adjustment Sequence 5	11 May 2012
D50	Mechanical Rights Television Sequence 2	13 June 2012
D50	Supplementary (Undoc works) Sequence 2	27 June 2012
D50	Supplementary (Warsaw Rules) Sequence 1	27 June 2012
D50	Supplementary (Non Society Shares) Sequence 2	27 June 2012
D50	Royalty Adjustment Sequence 3	28 June 2012
D50	Royalty Adjustment Sequence 4	28 June 2012

For a full list of distributions please see the SAMRO website (www.samro.org.za)

COMPANY PROFILE

The South African Music Rights Organisation (SAMRO), whose members comprise southern African composers, authors and music publishers, was established as a company Limited by Guarantee in 1961 and while not a "non-profit" company, delivered its services to its members on a not for profit basis. SAMRO's objective is to protect the intellectual property of composers and authors, as well as to ensure that composers and authors talents are adequately credited both locally and internationally for music usage. The organisation is the primary representative of music performing rights in southern Africa. As such, SAMRO is affiliated to most global collecting societies for public performance or mechanical reproduction rights, who administer performing rights on behalf of SAMRO in their countries. SAMRO represents in excess of 12 000 South African members and over 1.4 million composers across the globe.

SAMRO plays a vital role in the administration of works and the distribution of royalties; and provides copyright protection for composers and authors' works, through the collection of licence fees from television broadcasters, radio stations, in-store radio stations, pubs, clubs, retailers, restaurants and all other businesses who broadcast music.

Types of Rights administered by SAMRO

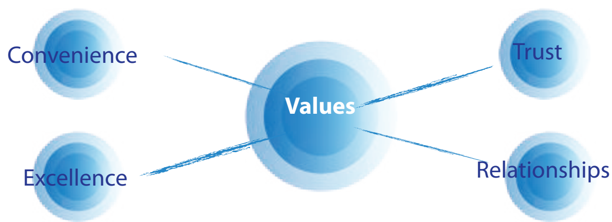
Performing Rights - A performing rights licence allows musical works to be broadcast, performed in public and transmitted via a diffusion service. The licence fees collected as a result of this usage are paid as royalties to composers, music publishers and affiliated societies.

Mechanical Rights - A mechanical rights licence permits the fixation and/or reproduction of musical works on any data storage medium. Composers, music publishers and affiliated societies receive royalties from licence fees collected from such fixation and/ or reproduction of musical works.

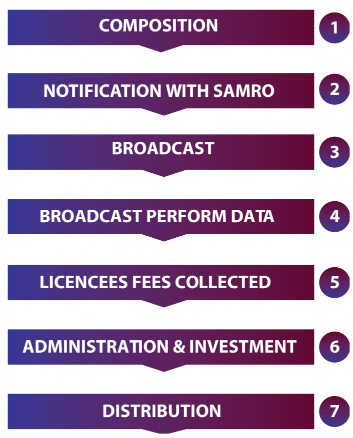
Needletime ("Pay-for-Play" or "Public Playing") Rights - Needletime rights refer to the remuneration of music performers and producers for the public performance/use of their recorded performances.

Purpose Statement

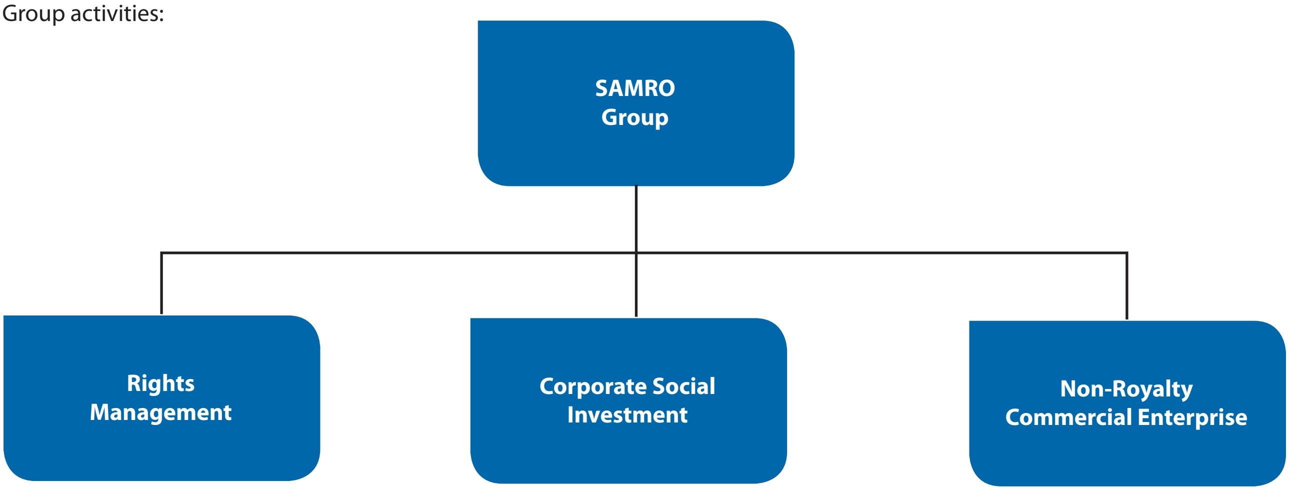
To Create Value for the Creators and Users of Music.



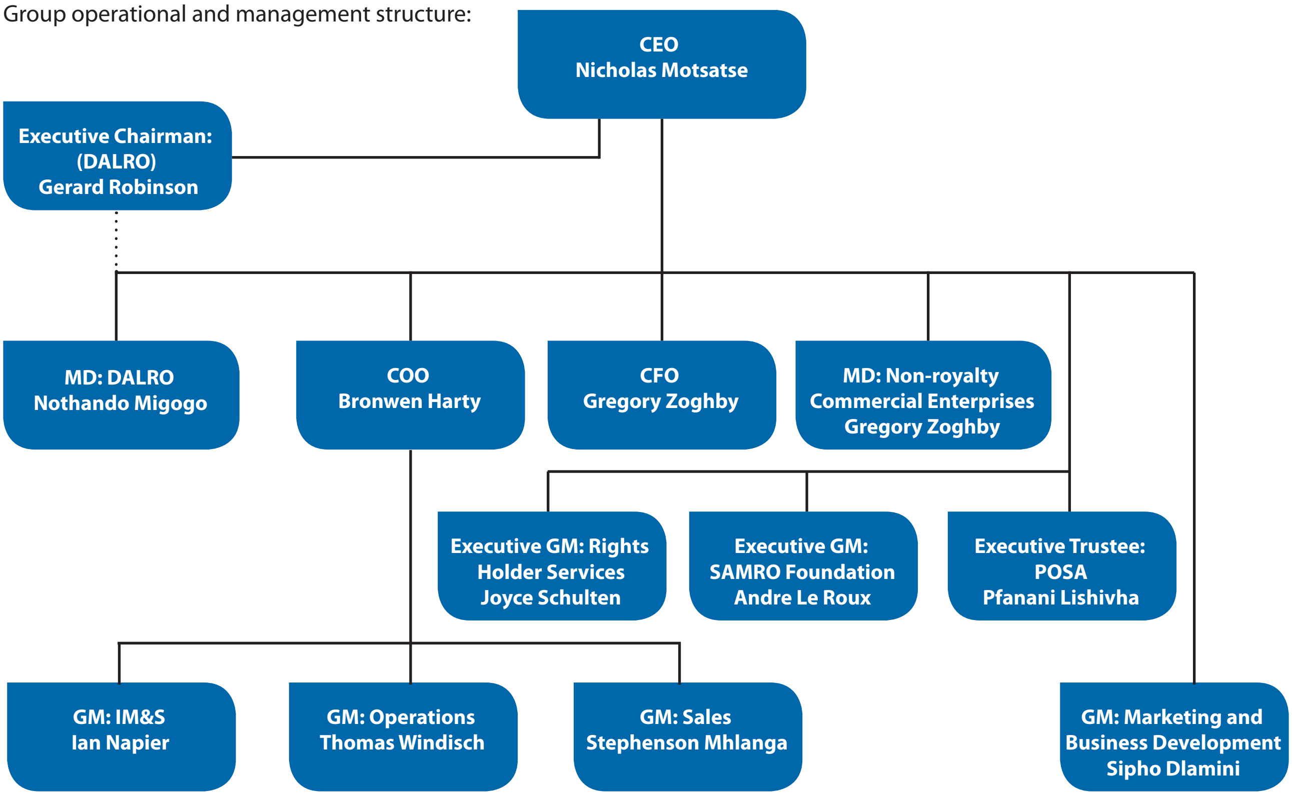
Revenue – value chain



Group activities:



Group operational and management structure:



COMPANY PROFILE

Business model

SAMRO, The Southern African Music Rights Organisation Group, is a membership based company, whose core function and that of its subsidiaries is the administration of various types of intellectual property works in Copyright, governed by the Amended Copyright Act of 1978. SAMRO also owns a property holding company.

The organisation's main revenue is derived from licensing music authors' rights. This includes the licensing of musical works (SAMRO repertoire) for:

• broadcast
• performance in public
• transmission through a diffusion service
• reproduction

In addition, the organisation, through its subsidiary – Dramatic, Artistic and Literary Rights Organisation (DALRO) – licenses the reproduction of literary, artistic works and dramatical musical works, and offers a range of related services.

Since 2008, the organisation has been accredited to administer the rights of performers when the sound recordings in which they participated are performed. SAMRO formed a dedicated trust, the Performers Organisation of South Africa Trust (POSA) to administer these rights in compliance with the relevant Act and Regulations.

Composers and music publishers assign their rights to SAMRO for purposes of licensing and in return SAMRO remits the royalties to them after collecting the licence fees from users of copyright works and deducting administration costs.

SAMRO provides the same service to composers and music publishers from foreign territories through a system of bilateral agreements for reciprocal representation with similar organisations throughout the world.

Strategy summary

SAMRO has three strategic pillars:

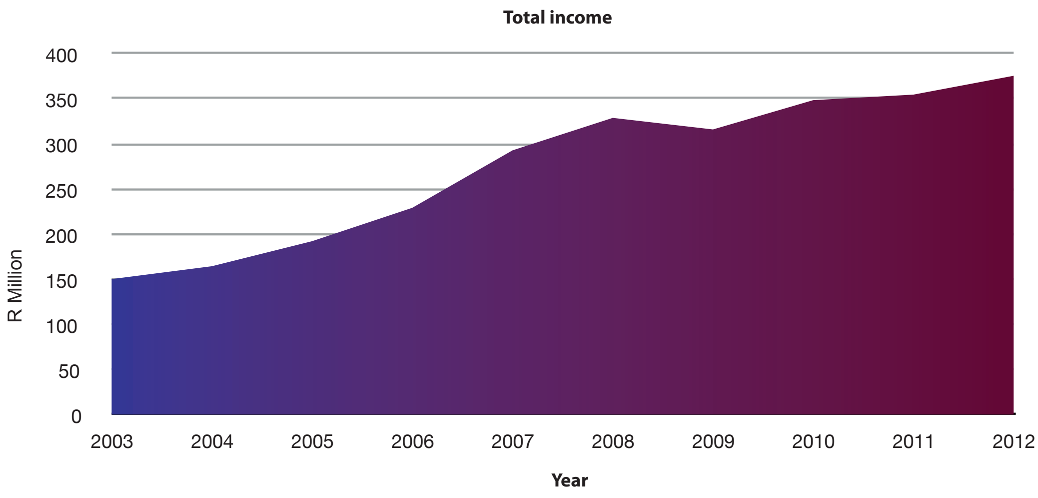
• Copyright Asset Management and Services (CAMS)
• Single Music Rights Licence (SMRL)
• Limited Diversification

Strategic pillar objectives	Focus for 2012 and 2013
Fulfilling our role as a copyright asset management and services (CAMS) organisation	To be an effective one stop shop for copyright asset management To provide a widely accepted copyright asset valuation model To combat piracy of copyright works
Pursuing the issuing of single music rights licences (SMRL) to music users	To establish a single Mechanical Rights administration in collaboration with NORM
Diversifying the revenue stream in a limited way by turning some of the non-core cost centres into profit centres	To grow new business, rental and investment income To grow rental income in SAMRO House To provide IT services to other societies and music organsiations

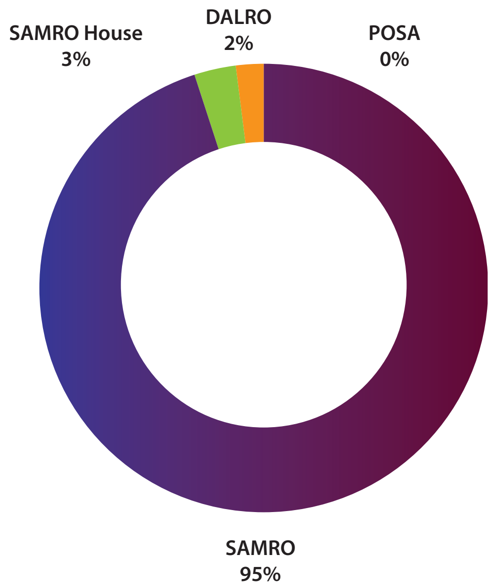
Propellers of our strategy

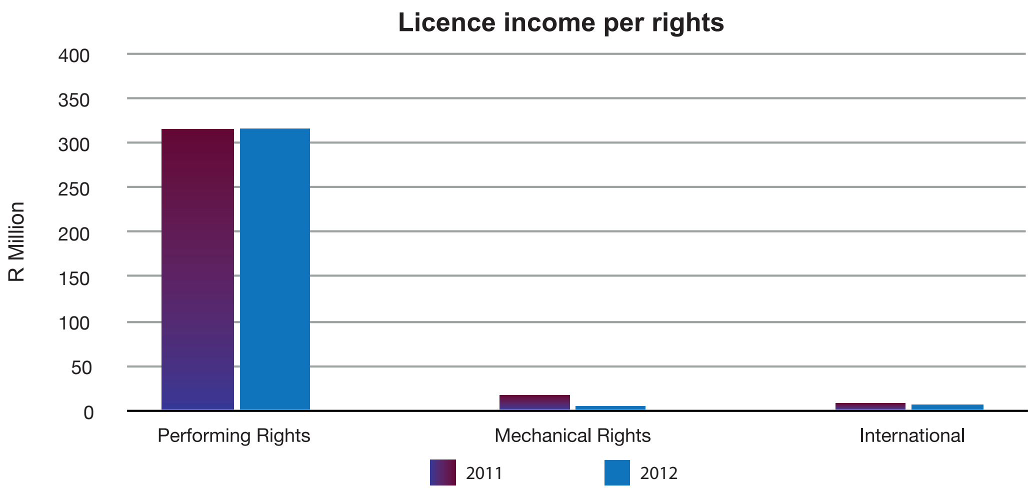
• retained profitable rights holders and licensees
• appropriate systems
• strong positive brand
• revenue and asset growth
• responsiveness to customer needs
• appropriately skilled and motivated employees
• culture of innovation and receptiveness to change
• positive working relationship with relevant government departments

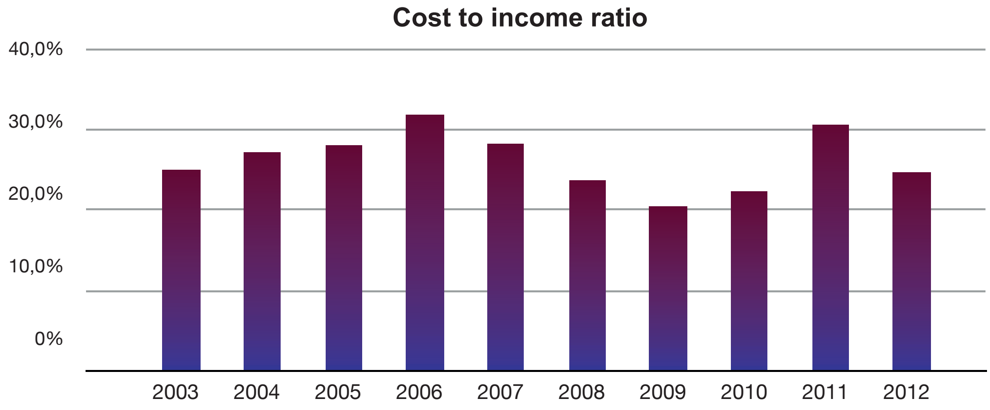
SAMRO Group 2012 – contribution to revenue

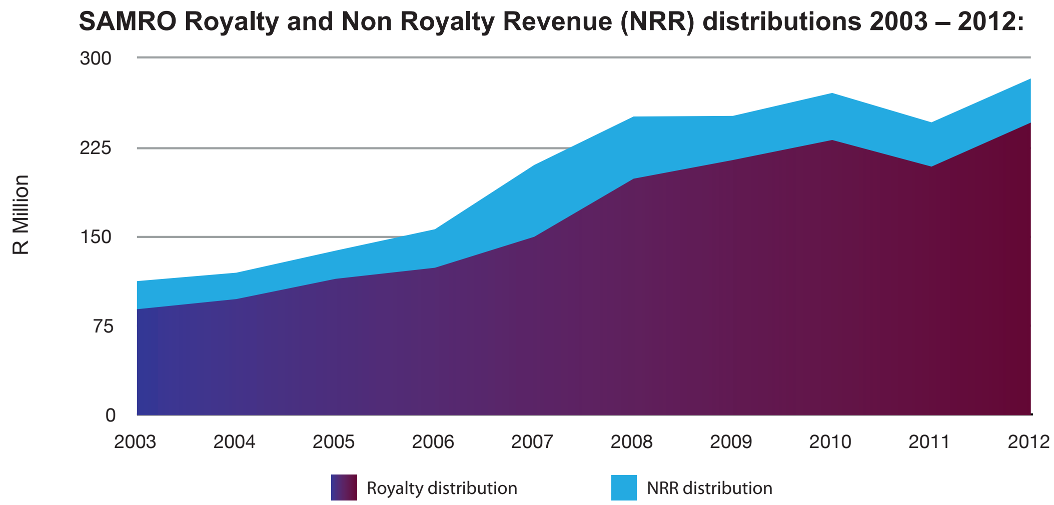


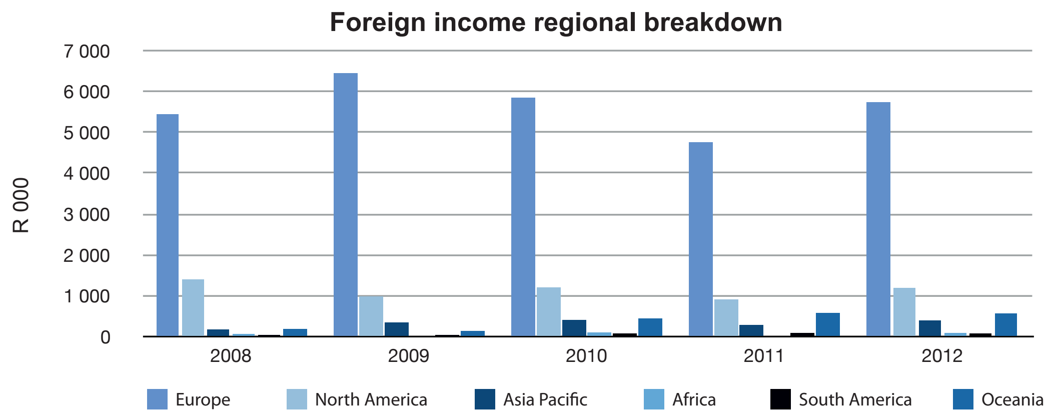
SAMRO Group total income 2003 - 2012:






Cost to income ratio
40,0%
30,0%
20,0%
10,0%
0%
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012


SAMRO Royalty and Non Royalty Revenue (NRR) distributions 2003 – 2012:
R Million
300
225
150
75
0
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
Royalty distribution
NRR distribution


Foreign income regional breakdown
R 000
7 000
6 000
5 000
4 000
3 000
2 000
1 000
0
2008
2009
2010
2011
2012
Europe
North America
Asia Pacific
Africa
South America
Oceania

MATERIAL ISSUES

SAMRO's material issues have been derived from a combined consideration of the operational risk register and broader trends in the group's operating environment. Through its affiliations with collective management societies in other parts of the world, SAMRO stays closely in touch with international trends, which inform the material issues that are relevant to the organisation.

Material issue	Risk	More information
Membership	Possibility of alternative right collection options emerging	Chairperson, CEO and sustainability reports
Reputation	Negative perceptions about SAMRO affecting membership and revenue	Chairperson and CEO reports
Legislation changes	Business model relies on existing legislation	Chairperson, CEO and CFO reports
Cost	Fixed cost base requires revenue growth	CEO and CFO reports
Piracy and revenue	Digital service providers and new distribution channels	CEO report
Licensing	Licensing of community broadcasters not sustainable	CFO report
	Lack of adequate copyright legislation for new media	CEO report
Data integrity	Correct and timely distributions rely on accurate data from users	CEO and CFO reports
IT systems	System infrastructure and migration	CEO and CFO reports
	Limited internet penetration among members	CEO and CFO reports
Compliance	Compliance capacity and structure	CEO reports
Customers	Non-payment by licensees	CFO report
Employees	Increased union activity	CEO and sustainability reports
	Lack of appropriate IT skills	CEO and sustainability reports



ABBREVIATIONS AND DEFINITIONS

AIRCO	Association of Independent Record Companies
BIEM	Bureau International Des Sociéties Gérant Les Droits D'Enregistrement et de Reproduction Mécanique (Mechanical Rights equivalent of CISAC)
BBBEE	Broad-based black economic empowerment
CASA	Composers' Association of South Africa
CISAC	International Confederation of Societies of Authors and Composers
CRD	Common Royalty Distribution
CWUSA	Communications Workers' Union of South Africa
DALRO	Dramatic, Artistic and Literary Rights Organisation
dti	Department of Trade and Industry
IFRRO	International Federation of Reprographic Reproduction Organisations
IPLAB	Intellectual Property Law Amendment Bill
MMFSA	Music Managers Forum of South Africa
MR	Mechanical Rights
NORM	National Organisation for Reproduction Rights in Music in Southern Africa Limited
POSA	Performers Organisation of South Africa
PR	Performing Rights
SAMRO	Southern African Music Rights Organisation
SAMPA	South African Music Promoters Association
SAMPRA	South African Music Performance Rights Association
SENA	SAMRO Endowment for National Arts
SRAF	SAMRO Retirement Annuity Fund

Definitions

Needletime Rights are promulgated in legislation, in the form of the Performers Protection Act which came into effect in 2008. These rights refer to the remuneration of music performers and producers for the public performance and/or use of their recorded performances.

Mechanical Rights (also known as reproduction rights) applies when a musical work is legally affixed and/or reproduced from one medium to another for public use. Examples of this are 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.

DIRECTORATE

AE Emdon (69)
B Mus (Wits)
Appointed 28 March 1987. Publisher member.

Annette studied voice training. She was a member of the Witwatersrand choir under Prof John Blacking and a soloist at Wits University Opera Productions. She was also a timpanist for the Johannesburg Symphony Orchestra. As a SAMRO board member she represented the organisation at the General Assembly of the International Confederation for Societies of Authors and Composers (CISAC) and also acted as chairperson of the SAMRO Endowment for the National Arts (now SAMRO Foundation). Anette is one of the managing partners of Accent Music, the local representative of Boosey and Hawkes.

MN Motsatse (47)
B Theol Degree (Fort Hare), Postgraduate Certificate Programme in Marketing Management (Wits Business School)
Appointed 1 January 2003. Executive member.

Nick has a varied experience spanning teaching, human resource development, business and management consulting and marketing communications. Prior to joining SAMRO he was the managing director of Manning Selvage and Lee, a marketing consulting firm which was part of the Leo Burnett group of companies. As a SAMRO representative he has served in one of the two vice-chairperson posts of the International Confederation of Societies of Authors and Composers (CISAC).

TS Kekana (54)
B Juris, LLB, LLM (University of Limpopo)
Appointed 1 January 2008. Composer member.

Steve is a lecturer at UNISA in the Mercantile Law department. He is also a member of the Church Square Bar Association of Advocates. He is a musician and songwriter with well over 43 albums and 34 years in the music business.

J Edmond (76)
Appointed 28 March 1987. Publisher member.

John is a music publisher with 45 years' experience and a composer/singer for more than 51 years – many of those as a professional musician in countries such as Holland, the UK, USA and Australasia. He represented South Africa at the World Song Festival in Japan in 1970. John was managing director of Gallo Music from 1968 to 1985. John is also the CEO of Roan Antelope Music, chairman of the Leeupoort Farmers Union, a member of Wildlife Ranching SA and the founder and chairman of Leeupoort Raptor Conservancy. John served on the SRAF Board of Trustees from 1985 to 1987. He was elected to the board in 1987 and also served on the SENA Board for many years. John registered his first song of more than 500 with SAMRO on 9 March 1966. John is a licensed pilot and hosts bush flying courses at his own aerodrome at Kunkuru Lodge.

NA Sibiya (46)

Appointed 1 November 2010. Composer member.

Abe is the managing director of Urban Rhythm Factory Music Publishing, CEO of One Gospel TV channel, CEO of Mtommbo Audio Solutions, head of Southstone Records and a singer/songwriter in his own right, having performed live internationally from 1988 to 2006. His experience in television includes scriptwriting, music direction, drama music scores, jingle compositions and TV show design. He is also an ordained minister of religion, leader of his community, and board member of the African Christian Media Broadcasters. He has managed one of the biggest libraries for local content music and has led initiatives to educate musicians in southern, west and east African music administration on television.

GJ Zoghby (53)

B Com (Wits), B Compt (Hons) (Unisa)

Appointed 1 March 2008. Executive member.

Gregory completed his articles with Aitken and Carter before joining Standard Bank in its international division. He moved on to become financial manager of African Life Assurance and was later deployed in the group to manage operations. He was appointed chief operating officer of SAMRO in 2008 and chief financial officer in 2012.

CFE Woods (58)

Appointed 11 December 2008. Composer member.

Fred has more than 35 years experience in the music, advertising and television industries, having been involved as a professional musician, composer, music producer, music publisher and sound engineer. Fred is vice chairman of the SRAF Board of Trustees and CEO of Red Igloo Music. He is a prolific composer and producer of theme and incidental music and is the creator of two internationally renowned production music libraries: Cute Music and Strange Fruit Music. Fred has won several local and international music awards.

S Khumalo (55)

BA Music (Zululand), BA (Hons) History of Music (Wits), Higher Diploma in Personnel Management

Appointed 1 November 2010. Composer member.

Sibongile is a former head of the Federated Union of Black Arts' (FUBA) music department and the Funda Arts Centre's co-ordinator. She has worked with various artistic institutes, including the Madimba Institute of African Music. She was a board member and chairperson of the Festival (Artistic) Committee of the Grahamstown National Arts Festival and served on the board of Opera Africa. As the winner of the Standard Bank Young Artist Award for Music in 1993, the FNB Vita Award in 1999 and several SAMA awards, she has recorded numerous albums and performed worldwide. She is involved with the Khongisa Academy for the Performing Arts.

DIRECTORATE

SCP Mabuse (61)

Appointed 28 March 1987. Composer member.

Sipho is a professional composer and musician who has toured and performed in many countries, including the USA, Spain, Germany, Russia, the UK and Belarus. Sipho was a trustee of SENA and former chairman of the SAMRO Retirement Annuity Fund. He also held a post on the FUBA Music School board. He was the owner-manager of Kippies Jazz club, was a member of the Music Industry Task Team (MITT) and a member of the National Arts Council of the Department of Arts and Culture. He also served on the board of the Soweto Old Age Home.

J Zaidel-Rudolph (64)

B Mus (cum laude), M Mus (cum laude), D Mus (Pretoria), D Ed (Honorary – Pretoria), LTCL, FTCL, UPLM, LRSM (Performers Licentiate – Royal Schools of Music)

Appointed 1 January 2008. Composer member.

Jeanne has held academic posts for 36 years and has performed as an accompanist for many choirs and singers. She was head of the Performing Arts Workshop from 1983 to 1986 and has also been involved in initiatives for both curriculum development and concerts of South Africa music and composition workshops. She was a visiting professor, artist and composer-in-residence in the USA, in Ohio and New York, USA, attending festivals and conferences as a composer and lecturer.

P Mnomiya (52)

M Mus (University of KwaZulu-Natal)

Appointed 15 September 2011. Composer member.

Phelelani is a multi-genre composer who is mostly known for his choral compositions. He also composes opera works, popular gospel music as well as Western Art Classical music. He is a lecturer at the University of KwaZulu-Natal (UKZN) and is currently working on his PhD. He has conducted the KZN Philharmonic Orchestra and has a well-rounded understanding and appreciation of music.

CG de Villiers (56)

BA (Hons) Communication Science (OFS)

Appointed 24 November 2003. Composer member.

Coenie lectured at the University of the Free State before joining Anglo American as public affairs manager. He was also managing director of Eliance Media for the Bidvest Group and director of O2 Communication. He is currently a director of Brandwealth Strategic Advertising. Coenie was culture director for ATKV and anchors Kwela, a magazine programme on Kyknet. He has released 18 albums and performed worldwide. Coenie has received many awards, including three SAMA and two VONK awards. In 2009 he was awarded the Centenary Medal of Honour by the SA Academy of Arts and Sciences. He is a patron of MES , a community development organisation in inner cities.

J Mnisi (57)
B Com (Hons), MBA, Diploma in Company Direction
Appointed 16 September 2010. Board member by invitation.

Jerry has well over 21 years' experience in the financial services and asset management industry and has held various senior roles, including that of marketing and strategy director. Jerry has headed up Stanlib's Institutional Distribution from November 2010.

CHAIRPERSON'S REPORT

Outgoing Chairman
Annette Emdon

Dear Member

Introduction

We are all confronted by change daily and as human beings we often adapt without even noticing. In an industry and a country, changes often take longer to be identified, absorbed and eventually regulated in some form. South Africa typically lags the rest of the world in social and economic trends and impacts, as was clear for example from the global economic crisis, the impact of which we experienced later than the rest of the developed world.

With a business model that was devised in the mid-nineteenth century, SAMRO has been doing well since its establishment in 1961. However, if we consider global and industry trends within our business environment, there is reason for concern about the future. In most cases, international reforms in legislation are going against the interests of collective management societies, with recent examples being countries and regions such as the USA, Canada and Europe. We are starting to see courts delivering judgements that are not friendly towards collective management societies and in some cases, create exceptions that nullify the licensing of authors' rights.

We have our own particular challenges in terms of legislation in South Africa. The impact of the new Companies Act is set out in more detail in the CEO's report. The Intellectual Property Law Amendment Bill is being considered in a revised form, but is nevertheless still creating unintended consequences and unnecessary complications. We have appealed directly to the President in this regard and remain optimistic that a reasonable compromise can be found.

The Copyright Act is increasingly falling out of step with the trading environment where online usage of copyright works is proliferating. More specifically, our law does not adequately provide for the licensing of performances of musical works when downloaded. We have been engaging with government and other stakeholders for the inclusion of the "Communication to the Public Right" in our law since 2001 - unfortunately without any success or progress. Furthermore, other countries have already successfully extended the rights of composers beyond 50 years to 70 years or more. In our country we have not been able to keep track with global benchmarks.

> *"SAMRO takes its industry role seriously."*

SAMRO takes its industry role seriously. We believe that the organisation is in a position to participate in the growth and transformation of the cultural landscape of South Africa.

Where we are going

If we consider the music industry, we see lags that are similar to what is happening in social and economic spheres. For example:

- When the sale of CDs was already declining significantly in the rest of the world from the early 2000's, the industry in South Africa was still experiencing growth. Only in the last two or three years have we started seeing a downward trend.

In keeping with global trends, it is anticipated that CD sales will start falling rapidly in future before the income from online use starts compensating for the losses experienced as a result of falling sales of physical product.

- Internationally, there has been a strong trend towards live performances, which has only started to become evident in South Africa in recent years. We now see significant growth in foreign artists performing in South Africa, and our own musicians are increasingly touring overseas. As an industry we have not yet embraced the true potential of this trend, despite the work done by a few big promoters.

- We do not yet have live music circuits that operate on a continuous basis. We have several very successful music festivals, but these are once-off annual events and while their importance cannot be over-emphasised, they do not offer a sustainable income for local composers and performers.

There is a huge opportunity in South Africa to develop live performances – starting with the creation of the right type of venues that could offer weekly events for smaller audiences.

Audience development is integral to the sustainable future growth and prosperity of the music industry and its members. It is as important as the work that the SAMRO Foundation is doing in nurturing and equipping new talent for the future through its involvement in primary and secondary music education.

SAMRO has taken the lead in many instances, and has clearly stated its willingness to collaborate with other industry players to ensure that we develop an integrated strategy to explore and utilise these opportunities to the long term benefit of all stakeholders.

The fact that SAMRO managed to grow its revenue by 7.8% during a difficult year is a positive reflection on the growth experienced in the music and broadcasting industries. For us and our members, the distribution of royalties optimally remains an immediate priority. While this will always be the main focus of SAMRO, the board believes that the sustainability of such a priority depend to a large degree on the extent to which the organisation is able to create value for its key stakeholders – its members and licensees. It is for this reason that we have defined our purpose as: To create value for the creators and users of music.

“We have our own challenges in terms of legislation in South Africa. ”

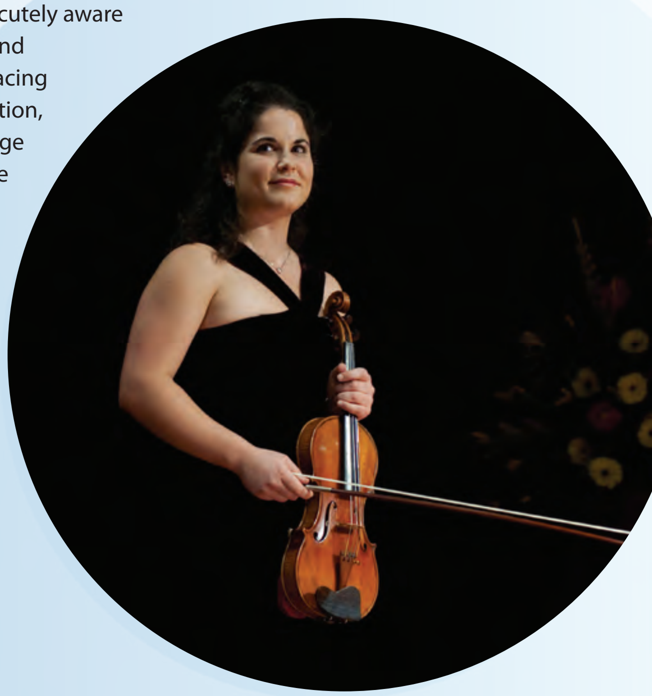
In support of this value add, SAMRO has joined the South African Federation Against Copyright Theft (SAFACT). SAFACT's focus in the past has been mostly on physical products, particularly piracy of film and DVDs. However, our participation has brought additional focus to music and the challenge of addressing digital piracy.

SAMRO represents more than 12 000 composers, performers and publishers. They receive up to 25 distributions per year, which in 2012 will amount to a total of nearly R283 million – up from R246 million in the previous year. SAMRO is also part of a well-established global network of collective management organisations, the International Confederation of Societies of Authors and Composers (CISAC), as well as the International Association of Mechanical Rights Societies (BIEM).

We celebrated SAMRO's 50th anniversary in the past year - in many ways and in the company of our stakeholders. My personal highlight was the Overseas Scholarship competition held in September 2011 where former president Thabo Mbeki acted not only as the guest speaker, but also inspired the composition of a new song by one of our first scholarship winners and a prolific composer, Prof Peter Klatzow, based on president Mbeki's highly acclaimed speech “I am an African” which premiered at the event.

In continuing to serve our members, SAMRO prides itself on the highest standards of corporate governance. Our board remains committed to providing effective leadership based on an ethical foundation. We are responsible to all our stakeholders, and take their interest into account within an economic, social and environmental context.

We remain acutely aware of the risks and challenges facing the organisation, and encourage our executive team to find innovative ways of



constantly and confidently and in new ways.

To remain relevant and to ensure the effective implementation of the five year strategy initiated last year (see page 6 for details), SAMRO's operational and management structure was changed. This has resulted in new appointments and new positions. We are positive about the quality of management at SAMRO and wish the strengthened team all of the best.

Thanks and appreciation

During the year, Prof Khumalo retired from the board after 18 years. We would like to thank him deeply for his contribution and commitment to the wellbeing of SAMRO. His position has been taken up by Mr Phelelani Mnomiya, whom we congratulate and welcome.

As an outgoing chairperson, I salute every employee, member and stakeholder who has been part of the score that we have been writing as an organisation over the past year. Your contribution is crucial to our future success and sustainability.

On a personal note, this is my last report as the Chairman of the Board. While I shall remain on the board, I am pleased to hand over the chairmanship to a worthy and capable successor in Mr Abe Sibiya. I am grateful for the support and encouragement I have received over the years from you, our members, affiliates and my colleagues on the board. Thank you for affording me one of the most fulfilling times and aspects of my career.

Annette Emdon
CHAIRPERSON

CHIEF EXECUTIVE OFFICER'S REPORT

Chief Executive Officer
Nick Motsatse

It is unusual for an organisation that has prospered for 50 years to be forced to redefine its nature and identity, but in many ways this was at the core of SAMRO's 2012 financial year. As a result of the new Companies Act, SAMRO had to find a legal form that would allow it to continue operating as it has been for 50 years while at the same time strengthening its operational capacity by changing IT systems, creating a new management structure and engaging more constructively with its employees. The 2012 financial year was an intensely challenging year.

Operating environment

We have to recognise that the global economic crisis is still far from over. South Africa's business confidence is lower than it was a year ago; however, it is still higher than the rest of the world. Despite the fact that SAMRO continues performing well above some of its counterparts in the world, who are achieving average growth rates of about 2%, we are faced with a number of challenges. The continued slow growth is impacted by limiting macro-economic factors such as political uncertainty, a lack of appropriate skills and regulatory challenges.

The World Intellectual Property Organisation (WIPO) acknowledges that collective management societies such as SAMRO offer a valuable service to the world of music and other creative arts. By managing their rights, the organisation is rewarding creators for their work, and the creators in turn are more inclined to develop and apply their talents in an environment that provides adequate copyright and related rights protection and an efficient system for the management of rights. This situation encourages creators to contribute to the development of the cultural sector, adds to growth in Gross Domestic Product (GDP), attracts foreign investment and generally creates income generating opportunities particularly for young people.

Together, these factors have a favourable impact on national economies - cultural industries contribute up to 6% of the gross national product of some major countries. Income from the collective management of copyright and related rights accounts for a substantial part of that percentage.

Therefore, we believe that SAMRO and its members play an important role in growing the South African economy, creating business and employment opportunities, and contributing towards sustainable growth.

Strategy

We have to continually review and adjust our strategy given the economic uncertainties that remain on the horizon and the particular challenges that are emerging for collective management societies (as highlighted in the chairperson's report). We developed a five year strategy in the previous financial year that we started implementing during this year.
Two factors impacted our strategy directly during the year. These are:

1. The increased uncertainty about the sustainability of our business model, and
2. Technological dynamics which bring radical change to our competitive landscape.

At SAMRO we have to make ourselves more relevant and meet the real needs of creators and publishers. This means that we have to change the way we view and offer our services. We are in a position to offer value added services, especially in promoting the recognition of copyright as an asset. The modern creator wants their intellectual property to be an asset that grows in value and also provides annuity income. Annuity income has traditionally been at the core of SAMRO's service, but can be further optimised through the application of improved tariff levels and internal efficiencies.

Growth in asset value is a new focus area for SAMRO and we regard it as an opportunity for innovation.

SAMRO's five year strategic plan was approved by the board in 2011 and is reviewed annually. However, the executive committee reviews the plans derived from the strategy on a quarterly basis, spending time on unpacking the detailed objectives and measurements – a monitoring process that applies specific tools to track progress.

During the financial year we ensured that we have the right structure to support our strategy (see the diagram on page 5) and started a process to ensure that our skills profile is aligned with our plans. We developed a clear methodology linking the strategy to business plans, budgets and to individual performance management (see the sustainability report for more detail). Ultimately, our aim is to grow revenue, as this will benefit our cost ratio and drive the optimisation of operational capacity at our disposal.

Performance

SAMRO's licensing revenue increased by 7.8% to R337.4 million in 2012. This was mainly due to improved performance from public broadcasting.

The single most challenging financial issue SAMRO had to deal with during the financial year was the final clearing of a bad debt legacy. SAMRO could no longer account for income on a cash basis, due to a change in accounting requirements implemented in 2008. This resulted in accumulated debts having to be written off in the past few years.

Our performance was further affected by increased customer engagement as a result of issues related to the licensing of Needletime Rights. While these mostly relate to separate rights, rights users are increasingly agitated by the proliferation and fragmentation of licensing fees, and are trying to find ways to cut down on licensed music use. Cost remains an issue and has to be continually addressed by the SAMRO management team. For a long time, the organisation has run on capacity created in the seventies and eighties – for example, its human resources and technological systems. These require major overhauls that cannot be addressed in one cycle, and therefore have to be carefully managed in terms of cost. It is a key goal over the next two to three years to drive cost down significantly (see the CFO report on page 28 for more detail).

"SAMRO's licensing revenue increased by 7.8% to R337.4 million in 2012. This was mainly due to improved performance from public broadcasting."

Operating units

As part of its operational restructuring during the financial year, SAMRO created three business units:

- Rights management
- SAMRO Foundation
- Non-royalty commercial enterprises

There are three subsidiaries under rights management:
- SAMRO
- DALRO
- POSA

In the previous section, I have dealt with the performance of SAMRO as the major contributor to group revenue. The following is a summary of the major highlights for the other two subsidiaries during the 2012 financial year:

DALRO

DALRO was established in 1967 and is a wholly owned subsidiary of the group. Its initial focus was on administering all copyright for creators that do not warrant standalone organisations (such as photographic and dramatic rights). It has however, over an extended period of time, developed a strong focus on the administration of reprographic rights, which has over the years become the main source of revenue for DALRO. Recently, the organisation has focused on developing other revenue streams in copyright licensing and related fields. Consequently, tariff and licensing instruments were developed for the licensing of reprographic rights to private and public sector businesses, particularly media monitoring services. In addition, licensing schemes were also developed for the licensing of visual works of art as well as the licensing of the adaptation of books for film and television productions. DALRO concluded an agreement with the Australian Reprographic Rights Organisation, Copyright Agency Limited (CAL), for the purchase of an online content licensing portal called RightsPortal. RightsPortal will enable DALRO to optimize online licensing automating permissions and transactions. Considerable effort was also expended in developing an online content aggregator for school text books called EduPortal. Even though none of these new initiatives generated any significant revenue in 2012, there is great promise for the years ahead.

DALRO has performed well over the past financial year, with an income of just more than R10 million, up 14.3% from last year.

POSA

POSA was established in 2009 following SAMRO's accreditation for the administration of Needletime Rights on behalf of music performers.

It was established in compliance with the accreditation requirement that the board must be controlled by performers themselves. SAMRO's application for accreditation was borne out of a quest to support the ultimate goal of being able to issue a single music rights licence to users of music, thus optimising and streamlining the licensing process for the benefit of rights holders, key among which are composers and music publishers. It is however common knowledge in the music industry in South Africa that the licensing of Needletime rights and the distribution of Needletime royalties have been bogged down in various legal actions. The result has been, that since the coming into effect of the Needletime legislation and its regulations in 2008, no royalties have been paid to performers. This remains a serious point of concern. The board and management are monitoring the situation and exploring ways to resolve the problem.

Legislation

Change in the legislative environment is the external factor that impacts our strategy and business model most significantly. In particular, the new Companies Act 71 of 2008, which became effective on 1 May 2011, resulted in an extensive adaptation process for SAMRO.

Until 1 May 2011, SAMRO was a Company Limited by Guarantee - a corporate form that emanates from the 1926 Companies Act and was continued in the Companies Acts of 1965 and 1973. However, the new Companies Act 71 of 2008 specifically does not allow the 'Companies Limited by Guarantee' corporate form to continue. Such companies were required to elect either to become a 'profit company' or a 'non-profit company'. The board and management had to find the appropriate legal form for SAMRO which might result, ironically, in a radical change to ensure that we would be able to continue operating and offering the services to our members in the same way as the previous 50 years.

The proposed major overhaul in our corporate form will culminate in a decision at the Annual General Meeting (AGM) in November 2012. At the meeting we plan to propose that SAMRO be converted to a co-operative.

This decision has demanded extensive management time and resulted in significant legal expenses. Therefore, it is crucial that we resolve this matter at the AGM and avoid it further impacting on our ability to focus on our core business.

Certainty about our legal form will also provide management with more clarity and focus in applying the principles of King III in a way that is appropriate to our context and operations.

Other pieces of legislation that were on the agenda during the 2012 financial year include the Intellectual Property Law Amendment Bill (IPLAB). This Bill has been under discussion for more than three years, with SAMRO giving extensive input. We were recently informed that the Bill has been sent back to parliament by the President on the basis that insufficient consultation took place, particularly with the Council of Traditional Leaders. While this is a welcome development, we remain concerned about the content of the Bill and its core proposition – the protection of traditional works within existing copyright legislation. SAMRO has stated its support for the intent of the legislation; however, we strongly disagree with the approach and believe that traditional knowledge will best be protected by a *sui generis* legislation i.e. self-contained legislation of its own kind.

An important principle around tariffs for broadcast was established when the judge presiding over the Copyright Tribunal hearing gave his judgment in a matter between the National Association of Broadcasters (NAB) and the SAMPRA. The judge confirmed the principle of basing the broadcast tariff on a percentage of gross revenue, regardless of audience figures. While it is debatable as to whether the ultimate 7% on full music content broadcast is adequate or not, the principle as well as the amount have created an opportunity to open negotiations with broadcasters.

SAMRO, in a joint licensing approach with the National Organisation for Reproduction Rights in Music (NORM), has also been able to negotiate a payment of more than R10 million from the SABC for mechanical rights for the period from September 2009 to March 2011.

SAMRO continues discussion with NORM about the establishment of a joint venture as a single body for the administration of mechanical rights.

Court cases

During 2012 there was reduced litigious action compared to the previous years. Feedback on material actions are as follows:

- We have reached a settlement agreement with the Brenda Fassie estate in terms of the royalty dispute after a new executor was appointed during arbitration. Having considered the reports by the two forensic teams that did an 18 month audit at SAMRO, he agreed that there was no basis to continue and that SAMRO was not at fault. The settlement has since been made an arbitration order and an order of the court.

- Other court cases related to Needletime rights in which SAMRO was cited in certain matters without being a major respondent in any of the cases.

We continue to enforce the rights of our composers and where necessary take matters to court. We consider it our responsibility to combat the infringements of the rights of our members.

Transformation

We believe that the music industry has been a leading force in the bigger transformation process in South Africa. We actively participate in forums, especially through the SAMRO Foundation, where we can support and initiate a transformation agenda (see the Sustainability report on page 41 for more detail).

Internally, a transformation priority for SAMRO has been to ensure diversity (in race and gender) and empowerment on all levels – starting at the top. The new management structure has been an ideal opportunity to implement both aspects of transformation. I am especially proud of the number of women that we have appointed in senior management positions. In many of these cases we have been able to promote internal candidates with the desired competency, skills and potential. We shall continue to foster internal candidates that are identified as potential successors, especially for our general managers. We are also aware of the fact that our employees have experienced a year of major change, and we have therefore implemented an extensive change management plan. More detail about this is set out in the sustainability section of this report.

SAMRO completed its first BBBEE rating in 2011 as set out in the previous annual report. The group achieved a level 4 status and is now in the process of completing its second rating.

SAMRO signed a recognition agreement with the Communications Workers' Union during the financial year. Although there were teething problems in terms of the relationship, we remain optimistic that the presence of a union will add value to the organisation.

Future prospects

At our core SAMRO's first priority is to ensure that the composers, lyricists, publishers and performers who entrust the organisation with the fruits of their creative labours are provided with a service ethos second to none. While this will remain the focal point of SAMRO's activities, the board has identified the need to ensure sustainability in a rapidly changing environment. To that extent, SAMRO will grow its portfolio of services to its members in order to harness value-added opportunities, especially in the application of new technology.

The management of costs will be a major focus area for SAMRO in the short term. We are confident that the activation of our new IT system (which is set out in more detail in the CFO report), coupled with the streamlining of operations, will contribute to cost savings over the medium term, and will result in significant business efficiencies. Effective administration is a core and deeply entrenched competency of SAMRO, but one that can still be further optimised.

We plan to drive the improvement of data reporting from our users. This is currently at the root of the high levels of queries that SAMRO has to process on a daily basis. We need to ensure accuracy and completeness of information supplied. My personal ideal is to find technological solutions that will allow for seamless data integration between relevant stakeholders. The quality and integrity of information is crucial to the sustainable success of our operation.

Another important area of focus for the next three years will be the revision of SAMRO's tariffs. Our tariff percentages are considerably low, thus limiting the revenue growth potential and resulting in increasing cost pressures. A three year plan is being put in place and discussions with users are set to commence soon.

Acknowledgements

SAMRO's performance over the past year would not have been possible without the exceptional commitment and hard work of the

executive team.

I want to thank them for taking on the challenges that we face.

I also salute our employees who continued to engage with us constructively during a year of many changes. Our board has been a solid support base and a guide in all the decisions that we had to make, and continue to keep the interests of our members at the forefront of what we do.

Nick Motsatse
CHIEF EXECUTIVE OFFICER


SMYLe
PORTIA

CFO REPORT

Chief Financial Officer
Greg Zoghby

- Total licence and royalty revenue increased by 7.8% to R337.4 million
- Total group income increased by 3.6% to R393.5 million
- Cost ratio reduced from 30.6% to 24.6%
- Distributions totalling R246 million were made – with the distribution for 2012 up 15.0% to R282.9 million
- Income from new licences increased by 42.8% to R16.1 million

Performance

SAMRO

SAMRO's revenue increased encouragingly in a year characterised by difficult trading conditions – a revenue direction that goes against the falling trend for collective management societies over the past five years in the rest of the world. Total licence and royalty revenue increased by 7.8% from last year to R337.4 million (2011: R313.0 million). 92.5% of income was generated by performing rights licences (2011: 97.3%), which contributed a slightly higher R312.1 million compared to R304.7 million in 2011. Both foreign licensing and mechanical rights income improved considerably – the latter due to a retrospective once-off payment of R10 million from the SABC. Foreign income increased after four years of very little activity and now comprises 2.4% of total licence income. This is a positive development that is the result of a combination of factors:

- arrear payments following court cases in several countries;
- international markets stabilising; and
- a concerted effort from our side to focus on driving income in this category.

Licensing income from broadcasting is also showing a positive trend for the first time in years. The main contributor was TV (40.3% of licensing income) which exceeded revenue from radio (28.4%) and general licensing (23.8%).

New business, consisting mainly of new licences, generated income of more than R16 million, up from R11.2 million in 2011 (+ 42.8%). During the year there was also a focused drive to reassess SAMRO's biggest licences, which resulted in a growth of 11% in renewals.

Income from investments declined from R33.8 million in 2011 to R30.4 million (better than projected, but down on prior year), mainly as a function of reduced interest rates and reduced trading.

The most significant financial challenge during the year was the final clearing of a debt legacy caused by the changes in financial accounting rules in 2008. Bad debts had accumulated due to SAMRO's historical practice of recognising revenue on a cash basis and not writing off debt unless the premises had been inspected, a process which did not move quickly enough. The company has been actively managing its debtors in line with the new approach. The necessary provisions were made and in the last year we have seen a decrease in the number of debtors from 30 000 to approximately 12 000. At the end of the financial year, debtor days were at 86 days compared to 105 in 2011.

The fact that the write-offs and write backs were necessary had a negative impact on net income and was an indication of poor debt management, albeit dating back many years. Processes are now in place to monitor and cancel accounts proactively that cease playing music.

Total administration expenses of R102.7 million were slightly higher than anticipated but satisfactory when compared to

the previous year's R100 million. The cost ratio was 24.6%, an improvement of 6.0% on 2011. Employee numbers have increased from 208 to 223 during the year, due to the conversion of contract employees to permanent as required by legislation. Personnel costs remain the most significant contributor to total expenditure at 60.9%, up on last year's 58.1%. These costs still compare favourably with international collective management society benchmarks.

Despite the fact that SAMRO had to commission several opinions and research relating to its legal status in terms of the Companies Act during the year, legal fees were marginally up, while overall professional fees declined by 6.8% compared to the previous year.

The social and cultural expenses for 2012 decreased to R17.5 million (4.7% of total revenue) primarily due to a large bequest made to SAMRO in 2011 not repeated in 2012.

Financial ratios	2012	2011
Licence income as % of total income	89.8%	88.3%
Expenditure as % of total income	24.6%	30.6%
New business as % of general licence revenue	11.5%	10.0%

The other units in the SAMRO group performed as follows:

DALRO

DALRO experienced significant growth during the year with licence income and royalty fees increasing by 21.3% to R38 million. Copyright and admin fees increased by 11.6% to R9.4 million while total income increased by 14.3% to R10.6 million. Operating expenses were higher than planned for, driven by legal costs, product development and sponsorships, resulting in a loss of R2.2 million for the year. Significant costs were expanded in developing EduPortal, online content aggregator for school textbooks. This development holds great promise for future revenue. DALRO launched an extensive digitisation process during the year and now offers catalogues for musicals and plays online.

With the appointment of Ms Nothando Migogo as the Managing Director and Mr Gérard Robinson as Executive Chairman of DALRO in July 2011, the organisation has new focus and results are expected to improve in the next year.

POSA

POSA is a trust established to administer Needletime rights on behalf of recording artists that have assigned these rights to SAMRO. POSA administers the Needletime rights of its more than 7 000 members. POSA had no income for the year due to the fact that SAMPRA, the society accredited to collect licence fees on behalf of performers, did not distribute any royalties during 2011. Expenses for the trust have been approved by the board – the bulk of which was legal costs in an attempt to address the situation. The board is confident that we shall be able to deal with the sustainability of POSA during the next financial year.

SAMRO House

An important element in the drive to improve non-royalty revenue, SAMRO House showed a healthy 18.2% growth in income. This was mainly a result of increased rental payments and investment income following the sale of the property in Juta Street and the subsequent interest earnings. Expenses were higher than last year due mainly to an increase in electricity expenses as the building moved towards full tenancy and management fees.

15 Melle Street

The company is in the final process of deregistration at the Companies and Intellectual Properties Commission (CIPC).

Distribution of royalties

SAMRO paid 25 distributions during the financial year (see page 3 for detail of payment dates and categories) totalling R246 million - the full distribution approved from the 2011 financial year. A total of 33 153 payments were made to members according to usage by licensees in terms of the rights administered by SAMRO. The number of payments is similar to previous years, and confirms that the beneficiaries of distributions remain reasonably broad-based.

Total distributions from the 2012 financial year reflect an increase of 15% to R282.9 million. Whereas SAMRO aims to ensure a distribution rate above inflation, the group also has to manage its reserves to ensure that payments to members remain sustainable over the long term.

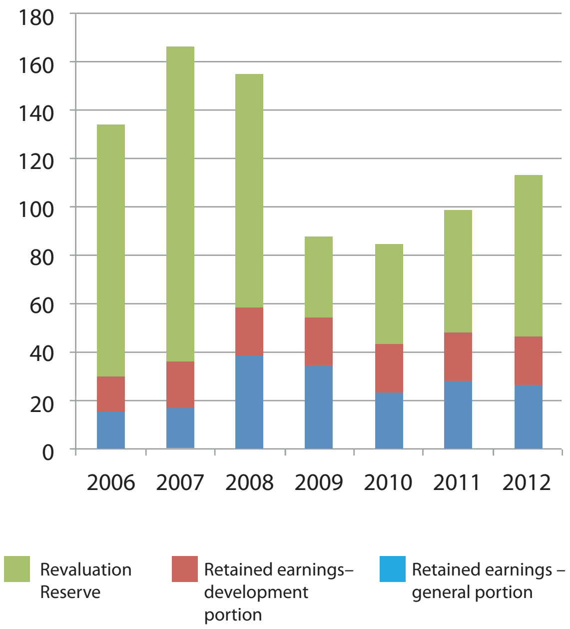


Reserves

Without a reserve facility in place, SAMRO would not be able to secure future distributions in years when income is under pressure. The group has been actively managing its reserve capacity, as can be seen from the graph below. Although there are two reserves reflected on the balance sheet, namely, the unrealised gains reserve and retained earnings, retained earnings comprises two components – the development portion and the general portion. The three elements of reserves are:

- Development portion of the retained earnings reserve contains the money reserved specifically to fund the replacement of the computer system as well as the development of new business;
- Revaluation reserve is the reserve that arises when an investment increases in value and is still held in the books (in other words it is an unrealised surplus on investments that are still held and not sold);
- General portion of the retained earnings reserve is the reserve into which small amounts are reserved in those years when there has been good growth in revenue to supplement future distributions such as the R10.7 million release in 2010 that was distributed to members.

SAMRO reserves (R million) 2006 – 2012:



Information Technology

SAMRO's core information technology system was developed in the 1980s and proved to be very robust – it has been running more than seven distributions per year effectively for decades. It was, however, built for a different set of requirements than what we face today and has been struggling to keep up with the demands of a digital era. As a result we had to start looking at options to replace the system in a way that would meet the needs of our customers and members in a sustainable, efficient manner.

During the past financial year we finalised an agreement with our Dutch counterpart, Buma-Stemra, for the licensing of their system. This agreement included a service contract with Accenture, who implemented this world class system successfully in the Netherlands. The activation date for the new system is in January 2013.

The new system is the largest investment for the past financial year at R19 million. System migration risks have been managed actively during the development and implementation process.

Strategic imperatives

SAMRO's business plan directly addresses the material risks that the group faces by implementing its strategy. The three pillar strategy requires two main focus areas from a financial perspective:

- cost management;
- revenue diversification.

Cost management

Compared to other collective management societies of our size, SAMRO should have a cost ratio of below 30% of revenue. We are currently at 24.63% and our target is to drive costs down to below 20% of licence revenue. Having completed the necessary capacity improvement initiatives in the past two years we are now in a position to focus very specifically on costs and expect to see a further improvement in 2013.

Non-royalty revenue

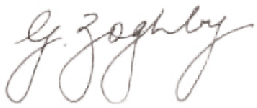
Occupancy levels at SAMRO Place for 2012 were at 93.4% and started delivering on our target to improve income from sources other than licensing. This will continue to improve during 2013. Investment income remains uncertain with global economic conditions not expected to pick up soon.

Future prospects

New business represented 4.3% of total income for 2012. This is a clear indication that the market is not saturated and that we need to focus on improving SAMRO's sales representation, especially in the coastal regions. The bulk of sales are already driven by telesales, and we shall continue to motivate the sales team to identify potential licensees.

As indicated in the CEO report, SAMRO will reconsider its tariff levels in the next two years. There is a need to be more transparent in the determination of tariffs, especially as the industry uses SAMRO tariffs as a benchmark. To ensure compatibility with the new IT system, SAMRO also has no choice but to simplify tariffs.

We will continue to remain focused on growing our partnership with members in the effective exercising of their rights.



GJ ZOGHBY
Chief Financial Officer

GOVERNANCE REPORT

The SAMRO board is committed to ethical behaviour in all its dealings and subscribes to the principles of good corporate governance. In setting the ethical tone and guiding the strategy of the organisation we look to the principles of the King Report on Governance Principles for South Africa, 2009 (King III).

The impact of the Companies Act 71 of 2008 as amended ("Companies Act") on our business has been covered in the CEO section of this report. Unfortunately, the ongoing uncertainty regarding SAMRO's legal form has affected our ability to fully apply King III in all recommended respects. However, we are in the process of analysing which guidelines are applicable given the nature of our organisation. Future integrated reports will more fully discuss which principles we apply and explain those that are not deemed appropriate for our operating model.

This governance report outlines:

- the structures that the board has put in place to fulfil its mandate and to ensure the organisation complies with internal policies and procedures; and
- the legislative framework in which we operate.

In directing the strategy and operations of the organisation we take into account our impact on the broader stakeholders of the group, both internally and externally. Our strategy considers the long-term financial, social and environmental impact of the organisation and the likely short-term influences in these areas.

SAMRO's new constitution will replace the existing Memorandum and Articles of Association. At the Annual General Meeting on 30 November 2012, members will be requested to vote on the proposed conversion to a co-operative. A "yes" vote will also include a vote for the new constitution for the co-operative. A "no" vote will result in SAMRO defaulting to a non-profit company by 1 May 2013. The current constitutive documents will then be regarded as the Memorandum of Incorporation (MOI) of SAMRO.

The Board of Directors

The SAMRO board guides and controls the company, setting the strategic direction and taking responsibility for the implementation of strategy. Its pronouncements and actions establish the ethical tone of the organisation.

The roles and responsibilities of the board are set out in the board charter, available from the company secretary. Given the envisaged changes, the Board Charter will be updated accordingly. The board has put in place policies and procedures to ensure the organisation's compliance with laws, regulations and good business practice. In discharging their responsibilities, the board communicates with members and the broader stakeholder groups that we impact and that impact us, often through management.

The board delegates the authority to run the organisation to the CEO, and has established board committees to govern and discharge certain responsibilities. However, the board remains ultimately accountable to its members for the performance of the organisation and accepts responsibility for this role.

Specific responsibilities of the board include:

- monitoring operational performance and management;
- risk management and internal controls, policies and processes;
- evaluating the performance of the CEO and board committees;
- setting clearly defined communications policy to ensure transparent communications between itself and key stakeholders;

• increasing the value of members while maximising socio-political benefits;
• ensuring the recording and accuracy of SAMRO's financial statements.

The board and subcommittees regularly review governance documents and processes to ensure these remain relevant to the group.

The board meets at least four times a year and attendance at the meetings held during the financial year was as follows:

Directors	Date first appointed in current position	Date last appointed	Meetings (4) Attendance	Category
AE Emdon	28 March 1987	11 December 2008	4	Non-executive
TS Kekana	1 January 2008	26 November 2010	3	Non-executive
JSM Khumalo*	10 September 1993	26 November 2010	1	Non-executive
CG de Villiers	24 November 2003	24 November 2003	3	Non-executive
JE Edmond	28 March 1987	24 November 2006	3	Non-executive
J Zaidel-Rudolph	1 January 2008	1 January 2008	4	Non-executive
CFE Woods	11 December 2008	11 December 2008	4	Non-executive
SCP Mabuse	25 March 1995	26 November 2004	3	Non-executive
NA Sibiya	1 November 2010	1 November 2010	4	Non-executive
S Khumalo	1 November 2010	1 November 2010	2	Non-executive
P Mnomiya**	15 September 2011	15 September 2011	1	Non-executive
MN Motsatse	1 January 2003	1 January 2003	4	Executive (CEO)
GJ Zoghby	1 March 2008	1 March 2008	4	Executive (CFO)

**Retired from the board 24 November 2011*
*** Appointed to the board on 15 September 2011*
Mr J Mnisi attends board meetings as an independent member by invitation


GOVERNANCE REPORT

SAMRO has a unitary board structure comprising 12 directors: ten non-executive directors, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). Three directors are women and seven of the directors are historically disadvantaged South Africans.

The board considers matters and acts as a body to ensure that deliberations are balanced without individuals becoming dominant in decision making. The board believes that the diversity, background and experience of its directors are appropriate to effectively govern the company.

SAMRO's current Articles of Association stipulate that at least half of the directors must be composers or authors and not less than one third publishers. Accordingly, board members are nominated by either composer members or publisher members and are elected at the AGM. Due to the broad base of members that participate in this process, there is adequate diversity in the members elected, offering relevant industry experience, qualifications and a variety of disciplinary and social backgrounds. The diversity of the board also ensures that various music genres are represented.

Each new director receives comprehensive orientation training explaining SAMRO's business model and operating environment as well as their rights, duties and responsibilities as a director. This training is also open to long-serving directors should they require it.

At every AGM, the two longest-serving directors retire from office, but can make themselves available for re-election and re-appointment.

Details of the remuneration of executive and non-executive directors can be found in the Remuneration Report on page 37.

Company secretarial services were outsourced during the financial year, but the recruitment of an internal resource is now in its final phase. Company secretarial resources were available to directors through the Chief Financial Officer to provide them with guidance on the performance of their duties. Directors have access to external independent professional advice at the organisation's expense and are provided with ongoing training in their duties when necessary.

The last board evaluation was done in 2010. We intend for this to become an annual event.

The Chairperson

The chairperson is elected by the board, holding office for a period of three years and is eligible for re-appointment for as long as this person remains qualified to act as a director. The chairperson presides over all meetings of the board and has the casting vote should there be an equality of votes in a board meeting. The chairperson is a non-executive director of the company.

The Chief Executive Officer (CEO)

Authority for the day to day management of the organisation is delegated to the CEO. This is subject to certain areas where the board must be consulted prior to effecting decisions, such as significant budget deviations, membership elections and promotions.

The process for evaluating the performance of the CEO was revised during the past financial year to align the evaluation with the group's performance management programme. The CEO was evaluated against criteria that include:

- relationship with the South African music industry;
- international relationships;
- relationship with the board;
- management of SAMRO internally (employees);
- management of SAMRO externally (stakeholders);
- revenue and budgets;
- growth in distributions.

The Company Secretary

The duties of the company secretary are performed by the CFO who is available to advise directors on their fiduciary duties. Although the company secretary is a director, the board is confident that due to his experience and standing, he is able to maintain an arms-length relationship with the other members of the board in his role as company secretary.

The responsibilities of the company secretary include:

- assisting the nominations and governance committee with the appointment of directors;
- assisting with the induction and training of directors;
- providing guidance to the board on the duties of directors and good governance;
- ensuring board and committee charters are kept up to date;
- preparing and circulating board papers and ensuring the


preparation and circulation of minutes of board and committee meetings;
- assisting with the drafting of yearly work plans;
- eliciting responses, input and feedback for board and board committee meetings;
- assisting with the evaluation of the board, board committees and individual directors.
- ensuring compliance with all relevant legislation.

An external company secretarial service provider was engaged during the year to undertake a compliance audit for the group and rectify gaps which may have been identified. This process was completed and all necessary statutory submissions have been made.

Board Committees

The board delegates certain of its duties to various board committees while retaining overall responsibility for the organisation. As a result of the choice made by members at the AGM in November 2012, the board will review the efficacy and role of all Board Committees and where necessary, effect changes. This review will be guided by SAMRO's longstanding principle of adhering to the highest possible standards of corporate governance.

The board committees operate under formal terms of reference which are approved by the board. The current committees are:

The executive committee

The executive committee meets monthly and consists of the following members:

- CEO
- CFO
- COO
- Executive General Manager: SAMRO Foundation
- Executive General manager: POSA
- Executive General manager: Rights Holders Services
- MD: DALRO

It is responsible for the day to day running of the company and is chaired by the CEO of SAMRO. The executive committee considers and acts upon the following:

- Group performance - consolidated management accounts;
- Strategy and structure implementation;
- Legal issues;
- Business segment updates;
- Governance and risk.

Nominations and governance committee

The nominations and governance committee comprises of four non-executive directors and the CEO. The nominations and governance committee is chaired by the board chairperson and

Director	Meetings (1)	Category
AE Emdon	1	Non-executive
TS Kekana	1	Non-executive
J Zaidel-Rudolph	1	Non-executive
CFE Woods	1	Non-executive
MN Motsatse	1	Executive (CEO)

Responsible for:
- recommendations to the board on all new appointments;
- nomination, recruitment and appointment of directors – including the continuation of services of any director who has reached the age of 70;
- facilitating the board evaluation process aimed at reviewing the balance and effectiveness of the board and identifying skills needed and the individuals who might be seen to be providing such skills in a fair and thorough manner; and
- ensuring compliance with corporate governance and industry codes of best practice.



Risk committee

The risk committee comprises three non-executive directors. The CEO, CFO and an independent non-executive director attend by invitation. The committee meets at least four times per year and is chaired by an independent member who attends board meetings by invitation. The auditors also attended these committee meetings.

Director	Meetings (4)	Category
CG de Villiers	3	Non-executive
JE Edmond	3	Non-executive
SCP Mabuse	3	Non-executive
J Mnisi	3	Independent, by invitation
MN Motsatse	4	Executive
GJ Zoghby	4	Executive

Responsible for identifying and quantifying the risks facing the organisation and initiating appropriate risk management methodologies to mitigate these risks. The risk committee reviews management's risk processes and outcomes, reports its findings and recommends acceptance by the board, as appropriate.

Other responsibilities of the risk committee include:
- reviewing and reporting to the board on the appropriateness of risk funding methodologies, including insurance;
- ensuring that risk management is included in the audit programme;
- ensuring that the organisation's approach to risk management remains relevant to changes in the risk of the company;
- ensuring that an external risk review is conducted as part of the normal annual audit;
- reviewing the expertise, resource and experience of the company's finance function;
- recommending the appointment of the external auditor and overseeing the external audit process.

The CEO reports to the risk committee on any perceived deficiencies in risk management.

The external auditor attends meetings of the risk committee by invitation and has the opportunity to engage with the committee without management being present, if necessary. The risk committee satisfied itself as to the independence of the external auditors, PricewaterhouseCoopers Inc. SAMRO has a policy in place governing the provision of non-audit services by the external auditor.

Further information on the activities and deliberations of the risk committee can be found in the Risk report on page 39.

Internal control

The board recognises the importance of implementing a sound internal control framework in order to manage and monitor compliance with our internal policies and procedures and external regulatory requirements. The organisation currently has no internal audit function and relies on close management supervision to monitor internal controls and compliance with company policies and procedures. This deficiency is being addressed and once the corporate form is settled, an internal audit function will be established.

Internal controls are reviewed annually as part of our risk management reviews, including a review of all policies and procedures and verification of adherence to and the relevance of the policies and procedures.

The risk committee conducted an assessment of the finance function of the organisation and concluded that there were sufficient resources, skills and experience to meet the needs of the company.

IT Governance

Aspects of IT governance are also overseen by the Information Management and Services (IMS) unit at SAMRO. This unit is responsible for the operational execution, maintenance and implementation of all relevant information technology services and policies. The general manager for IMS monitors the service and any issues or risks are raised at the monthly General Managers' meeting. The policies governing IMS at SAMRO are:

- acceptable use
- acquisition of computer hardware
- e-mail
- information security
- internet security

• password
• IT backup
• physical access to computer room
• software development
• software

Remuneration and equity committee
The remuneration and equity committee comprises two non-executive directors, as well as the CEO and an independent non-executive director designate, both of whom attend by invitation. The committee is chaired by the chairperson of the board.

Director	Meetings (4)	Category
AE Emdon	2	Non-executive
JE Edmond	2	Non-executive
J Mnisi	2	Independent, by invitation
MN Motsatse	2	Executive

Responsible to ensure (in consultation with executive management) that directors and senior managers are rewarded appropriately for their contributions in line with the organisation's remuneration policies.

The committee did an evaluation of the CEO during the year and also provided input into the performance management programme.

Corporate ethics, donations and gifts
SAMRO is committed to building and sustaining an ethical culture and therefore adopts a zero-tolerance approach to fraud and illegal acts.

The group's values are incorporated into the performance management system, thus entrenching certain behaviours and attributes into the organisation.

A whistle blowing initiative was introduced a few years ago and will be marketed more actively in the year to come. No incidents were reported in past year.

The group does not have a formal donations policy, and the majority of social investments and donations are handled by the SAMRO Foundation. However, the group, contributed towards two projects during the year:
• MES Waste to Wow project in Hillbrow;
• Blind South Africa.

No donations were given to political parties.

Although SAMRO does not have a policy on corporate gifts and entertainment, employees are required to declare any gifts to the value of R500 or more.

Conflicts of interest
Each director is informed of their fiduciary duty to act in the best interests of the organisation at all times. To avoid any perception of a possible conflict of interest, directors are called upon to declare any interests to their fellow directors at all board meetings.

REMUNERATION REPORT

The remuneration and equity committee comprises two non-executive directors and is chaired by the chairperson of the board. An independent board member attends all meetings by invitation. Executive directors and certain members of management also attend meetings by invitation as appropriate. This committee met twice during the financial year.

The main responsibilities of the remuneration committee are to:

- Determine and approve general policy on strategic compensation issues;
- Prepare an annual remuneration report for inclusion in the company's integrated report;
- Review and approve annually the remuneration packages of the most senior executives, including performance bonuses and increases, ensuring they are appropriate and in line with the remuneration policy;
- Annually appraise the performance of the chief executive;
- Review the remuneration of non-executive directors of the board and its subcommittees annually;
- Review incidents of unethical behaviour by senior managers and the chief executive;
- Review annually the company's code of ethics and business conduct;
- Review annually the committee's charter and, if appropriate, recommend required amendments for approval by the board;
- Perform an annual self-assessment of the effectiveness of the committee, reporting these findings to the board of directors.

Remuneration strategy and policy

SAMRO's remuneration strategy aims to attract, motivate and retain competent leaders in its drive to create sustainable value for the creators and users of music. We aim to attract innovative, skilled employees to grow the value of the group and to recognise excellent performance.

Our remuneration policy and practices align the remuneration and incentives of executives and employees with the group's long-term business strategy.

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; and to
- have a credible remuneration policy overall.

SAMRO has adopted an integrated approach to reward strategy, encompassing a balanced design, in which reward components are aligned with SAMRO's five year strategy.

Overview of remuneration

Non-executive Board members

Non-executive directors of SAMRO receive a quarterly retainer paid on the date of the board meeting, an attendance fee paid on the date of the board meeting subject to attendance at the meeting and an annual portion subject to the performance of certain member liaison duties. This remuneration is augmented by compensation for services on the subcommittees of the board and boards of subsidiaries. A premium is payable to the chairperson and vice-chairperson of the board, as well as to the chairpersons of the subcommittees.

Remuneration is reviewed annually, with reference to competitors and companies of similar size to SAMRO. Independent advice is acquired to review directors' remuneration as part of the annual salary benchmark initiative. This remuneration is not linked to the company's performance.

Director	Directors fees R000	Other R000	Total R000
AE Emdon	34	-	42
TS Kekana	21	-	20
JSM Khumalo	8	-	14
CG de Villiers	20	-	19
JE Edmond	22	21	43
J Zaidel-Rudolph	21	-	26
CFE Woods	21	-	20
SCP Mabuse	19	-	25
NA Sibiya	21	-	20
S Khumalo	14	-	13
P Mnomiya	5	13	18
J Mnisi	47	-	47
TOTAL	253	34	287

Executive and employees

SAMRO's remuneration policy strives to attract, motivate and retain competent and committed leaders in its drive to create sustainable value for its members. We aim to recognise excellent performance and attract competent, innovative entrepreneurs to grow the value of the group.

Packages are structured on a salary plus allowances plus benefits basis (which incorporates basic pay, car, housing and cell phone allowances, pension, medical aid and other insured benefits). In addition, executives qualify for individual performance incentives. At senior level we avoid standardised packages and aim to tailor the compensation structure to the needs of the business.

SAMRO participates in an annual salary benchmark survey to ensure that remuneration remains fair and relevant. This survey compares data with over 800 South African organisations employing around 1.5 million economically active employees.

Performance management system

A new performance management system was implemented during the financial year to align with the objectives of SAMRO's five year strategy. The annual 13th cheque was restructured, with a portion enhancing the employee's salary and the remainder applied through a bonus scheme linked to performance of the company, the team and the individual – all aimed at driving superior performance in the organisation.

Employee performance is reviewed twice per year. Individuals are rated based on key performance areas agreed for the period. These are discussed, reviewed and any performance issues are addressed. A score is calculated based on specific goals, key performance indicators and personal competencies. An individual's final bonus score is determined using the following split:

Individual goals score	70%
Individual competency score	15%
Team score	10%
Organisational score	5%
Total score	**100%**

Key performance indicators also include competencies which are linked to the group's values. The following competencies are measured for all employees:

- Communication;
- Results orientation;
- Ownership;
- Continuous self-improvement.

The individual employee's total score determines the bonus allocated, which is calculated as a percentage of monthly salary.

Service contracts

The CEO's contract is subject to standard terms and conditions of employment. Non-executive directors are subject to the regulations regarding appointment and rotation in terms of the company's Articles of Association.

No executive director has a notice period of more than one year. The CEO's service contract does not include pre-determined compensation as a result of termination that would exceed one year's salary and benefits.

Executive directors remuneration	2012 R000	2011 R000
Salaries and bonuses	3 953	3 306
Pension and medical aid	690	614
Bonuses and other benefits	481	517
TOTAL	5 124	4 437

Discharge of responsibilities

The remuneration and equity committee determined that, during the financial year, it had discharged its responsibilities as outlined in its terms of reference. The board concurred with this assessment.

RISK REPORT

The SAMRO risk committee takes pleasure in submitting this report for the 2012 financial year. The name, role and charter of the committee will be reviewed once SAMRO members have approved a new legal form and accepted the new Memorandum of Incorporation to ensure that it fully applies the relevant legislative and governance requirements.

The SAMRO risk committee is a sub-committee of the board and comprises of three non-executive directors. The chairperson of the risk committee is an independent member invited by the board. The committee has been mandated by the board to consider and report back to the board on all matters relating to financial reporting and audit, the risk assessment and any general matters pertaining to internal controls and systems.

The risk committee held four meetings during the past financial year (see the governance report on page 34 for attendance and membership details).

All members of the risk committee act independently as described in section 94 of the Companies Act 71 of 2008 as amended ("the Companies Act"). The chief executive officer, the chief financial officer, the company secretary, the external audit partners and other employees attend meetings by invitation. In addition, other members of executive management are invited to attend various meetings on an ad hoc invitational basis. Members of the risk committee are re-appointed every year in accordance with the Companies Act, 71 of 2008, as amended. Details of the qualifications of the non-executive members of the risk committee appear in the directorate section of this integrated report on pages 12-15.

Responsibilities of the risk committee

The committee's responsibilities include:

- reviewing and approving the company's integrated report, including the annual financial statements for presentation to and approval by the board;
- reviewing the viability of the company and the group on a going-concern basis and making relevant recommendations;
- receiving all the external auditors' reports directly from the external auditors;
- approving the external auditor's terms of engagement and remuneration and tabling the resolution to the AGM with regard to appointment and remuneration of external auditors.

Risk management

SAMRO is exposed to financial, operational and reputational risks that can have a detrimental impact on the business. Effective risk management of all operational aspects of the business is vital to ensure delivery of the group's strategic objectives and the achievement of sustainable growth.

Risk policy

SAMRO is committed to best corporate governance practices and identifies and manages risk actively in terms of the relevant rules and regulations. The organisation's risk profile is based on a structured, formal and planned approach to risk management. Identification, management and reporting of risks are embedded in business activities and processes.

Risk governance is managed at various levels within the group, including the executive committee, the general management committee (which includes the general managers of all the different units) and the risk committee of the board - depending on the seriousness of the risk identified. The general management committee formulates, oversees and manages the risk management system and monitors the group's risk profile. It identifies major risks and reports at the appropriate level in the group. Each divisional head is responsible for identifying and developing risk management plans.

A risk register is maintained and is monitored regularly. Actions are identified to control these risks within agreed ranges of tolerance.

SAMRO is exposed to a wide range of risks, some of which may have material consequences. These include:

- the regulatory environment
- industry competition
- international trends
- compliance
- technology
- innovation
- business interruption.

RISK REPORT

Risk framework

The SAMRO risk management framework is designed to ensure that significant risks and related incidents are identified, documented, managed, monitored and reported in a consistent and structured manner across the group.

SAMRO's risk management process addresses the following:
- identification of the risk;
- rating of the risk in terms of probability, impact and urgency - with scoring for each criteria;
- how the risk is being mitigated, avoided, transferred or accepted;
- allocation of who owns the risk and who manages the risk;
- risks rated 9 and above are taken to the board;
- risks rated 7 and higher are reviewed in monthly executive meetings;
- risks rated 4 to 10 are discussed at the general management committee meetings;
- risks rated below 4 are operational risks and managed by the general manager in the area of the risk.

Material issues and how we manage these

Some material risks are outside our control and other factors besides those listed in the material issues table on page 9 may affect the overall performance of the business. Despite our structured approach to risk identification, some risks may be unknown at present. Other risks, currently regarded as immaterial, may become material. Audit, risk and quality control functions assist in the monitoring of the system of internal control.

The main risks tabled during the year at the risk committee were:

Risk	What we are doing about it
Poor data quality	Cleaning up of data in various areas (including membership and licensee data) in preparing for the migration to the new computer system was completed During the year under review. This is also necessary in view of the data migration to a new system
Rights holder queries	Focus was maintained on the query elimination drive
Compliance with the Companies Act	Meetings with various legal advisors and groups of members took place during the year to resolve the matter. It will be addressed during the annual general meeting on 30 November 2012

SUSTAINABILITY REPORT

The past 50 years have demonstrated the sustainability of our organisation in its previous form. While SAMRO is undergoing a period of rapid change in legal form, we retain our focus on building an organisation that can continue to sustainably meet the needs of our stakeholders into the future.

The activities of SAMRO are built around the sustainability of the music and artistic communities. Helping the creators and publishers the ongoing value of their creative works positively impacts their livelihood and assists them to keep on creating music. The funds we reinvest in the music industry through the efforts of our corporate social responsibility vehicle, the SAMRO Foundation, helps the industry develop its roots. Our focus on nurturing budding talent from primary school to tertiary studies embodies the Foundation's philosophy of 'From roots to fruits' and ensures the vibrancy of the next generation of creative talent – whom we eventually encourage to become SAMRO members.

Although SAMRO was built around meeting a primarily financial need, we recognise the importance of considering a broader range of issues, including our impact on employees and other communities within and around the organisation as well as the environment.

We are conscious of our fiduciary role as administrator and distributor of funds on behalf of our members. It is therefore important that we adhere to the highest standards of corporate governance to demonstrate our commitment to operating in a way that engenders the highest levels of trust. We subscribe to the principles of the King Report on Governance Principles for South Africa, 2009 (King III). Our approach to governance is fully reported on in our governance report on pages 30-35.

Music is ultimately about people and we take a stakeholder inclusive approach to our strategy and operations. We are primarily accountable to our members and our organisation is organised around how best to meet their needs. We add value through the commitment and hard work of our employees and see them as crucial stakeholders in our organisation. The SAMRO Foundation's investments have an important positive impact on the broader musical community of South Africa.

Our operations take place in an office environment, therefore our impact on the environment is relatively small and contained. We nevertheless recognise our responsibility to manage our environmental footprint as carefully as possible.

Stakeholder engagement

SAMRO's key stakeholders are listed in the table on page 42.

SAMRO's relationship with government is an extremely important one, especially given that copyright legislation is the reason for SAMRO's existence. We engage with government departments on many levels to give an industry perspective to evolving legislation. SAMRO is assisting the State Archive with investigations into a music museum.

Other engagements with stakeholders during the period under review include:

Customer perception survey

SAMRO conducts an annual survey to better understand the concerns and needs of its major stakeholders. This year's survey canvassed:

- 180 telephonic interviews with licensees
- 182 telephonic interviews with members
- questionnaires and in depth interviews with ten publishers

The survey showed that the SAMRO brand was well known and that stakeholders generally have a good affinity towards the brand although there is a need to more clearly articulate the organisation's message and mandate. Stakeholders' main concerns were around transparency, compilation and timeousness of payments as well as the registration of works. The survey also solicited many recommendations from stakeholders which are being considered for implementation.

Following the survey, a resource was appointed to lead the customer experience drive from the CEO's office and employees received focused training. Relevant departments have adopted customer service charters arising from the training and customer experience champions have been appointed.

Stakeholder Group	Stakeholders	Engagement
Members	More than 12 000 music composers, songwriters, performers, publishers and non-fiction authors	Distribution of funds, query resolution, workshops, events, website, newsletters
Licence holders (users)	Broadcasters and music users in venues used by the public or a section of the public	Interactions with key accounts, telesales , website, newsletter
Employees	Employees, management, labour unions	Performance reviews, bargaining agreements, website, newsletters, meetings
Government	Government departments including the Department of Trade and Industry, Portfolio Committee on Trade and Industry, Department of Arts and Culture	Providing industry input into the formulation of evolving legislation that may affect our members
Industry peers and affiliates	Including International Confederation of Societies of Authors and Composers (CISAC), international Association of Mechanical Rights societies (BIEM), Business and Arts South Africa (BASA), South African Federation Against Copyright Theft (SAFACT) and Moshito Music Conference and Exhibition	Conferences, meetings , board positions, founding and/or incubation
Media	Newspapers, television, radio, magazines	Press releases, events, responses to queries
General public	General public	Workshops, events, website

SAMRO Stakeholder Hub

SAMRO has a responsibility to facilitate the growth of other organisations in the industry. To this end, we established a Stakeholder Hub which currently offers administrative infrastructure and support to four organisations:

- The Composers Association of South Africa (CASA)
- The Academic and Non-Fiction Authors of South Africa (ANFASA)
- The Arts and Culture Trust (ACT)
- The Music Managers Forum of South Africa (MMFSA)

During the year CASA held its first workshop with 120 attendees.

Moshito music conference

SAMRO continues to support Moshito as the most significant industry body. With two seats on the board, SAMRO contributes to the strategic and governance discussions and developments at Moshito. In addition, SAMRO remains one of the most active exhibitors and sponsors of specific activities.

The South African Coalition on Cultural Diversity

In October 2011 SAMRO hosted a conference on the convention of cultural diversity - how to promote and protect cultural goods and services. Attended by 150 representatives from around the world, including the Department of Arts and Culture and the Visual Arts Network of South Africa, the outcome of the conference was a country report which has been submitted to UNESCO.

Klein Karoo Nasionale Kunstefees (KKNK)

SAMRO provides strategic direction, particularly in terms of transformation, to the KKNK, one of the largest cultural festivals in the country.

Book launch and documentary

A book commemorating the people, personalities, music and events that shaped SAMRO's first 50 years will be launched in January 2013. This will be followed by the broadcast of a documentary commemorating SAMRO's 50th birthday, which will help raise the profile of the organisation in the broader community, in February 2013.

SAMRO 24/7

During the year SAMRO launched a 24-hour communication hub, offering assistance to members via telephone, email, SMS, fax and social media. This was followed up by a Facebook survey which showed a positive response from more than 70% of the people surveyed.

Copyright media training workshop

A one and a half day workshop was held in October 2011 to increase the understanding of the complex world of music rights administration. The workshops were attended by arts and business journalists and featured interactive talks, demonstrations and the opportunity for journalists to interact with SAMRO employees on an informal basis.

Music value chain workshops

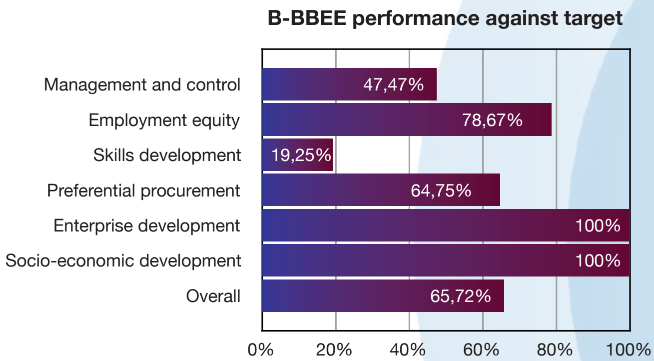
SAMRO, in partnership with the Eastern Cape's Department of Arts and Culture, conducted a series of workshops on the music value chain. These workshops were conducted in all the districts of the Eastern Cape with 315 musicians in attendance.

TRANSFORMATION

SAMRO is committed to transformation and sees it as a strategic imperative. As a South African group, we are required to comply with the Broad-Based Black Economic Empowerment Act and the Employment Equity Act.

SAMRO completed its first BBBEE verification in July 2011 and was rated at a level four. The group is currently undergoing its second rating, therefore the numbers reported are the same as in the 2011 integrated report.

Our overall score was 65.72%, with the following performance against the dti targets:



SAMRO supports black economic empowerment partners through its preferential procurement and enterprise development programmes. We are proud of our continued high levels of support for developing small enterprises as evidenced by our 100% score in the enterprise development category. In addition to these empowerment initiatives, SAMRO supports the music composing and publishing industry through its role as administrator of performing and mechanical rights.

By protecting and administering their music rights, SAMRO enables local composers and music publishers the opportunity to focus on growing their businesses and creating employment.

HUMAN CAPITAL

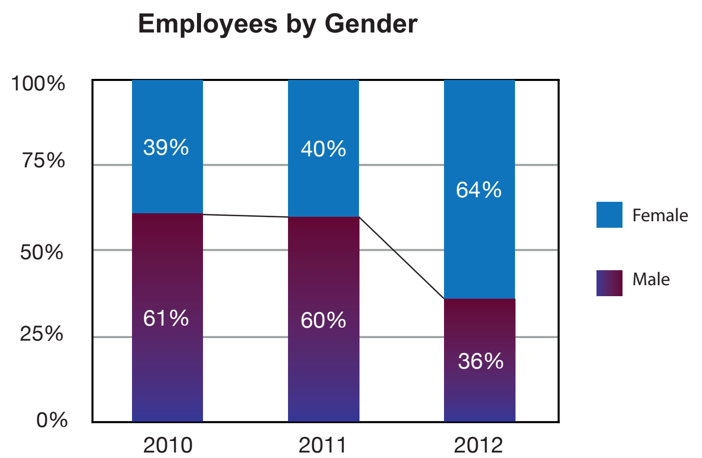
Our employees are critical to our success as an organisation. By ensuring that our employees are motivated and efficient, we can better meet the needs of our members, entrenching relationships and building trust. Our renewed focus on performance management is an important part of our cost management programme, especially in relation to query resolution.

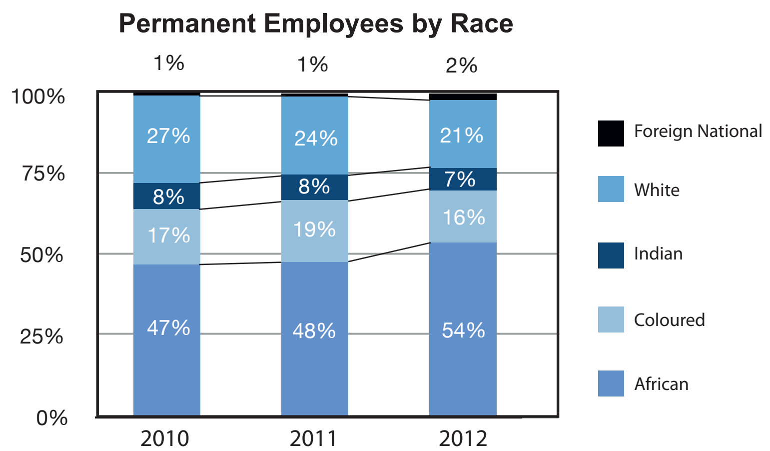
Our human capital procedures are designed to identify, employ and retain the calibre of people we need to achieve our objectives and implement training initiatives to ensure their continued development. SAMRO seeks to ensure that the working environment is safe and has programmes in place to help employees to manage their health.

SAMRO plays an important role in economic growth in South Africa, contributing directly to job creation through its group operations (all human capital numbers reflect the entire group). Employee turnover was 8.07% for the year (11.06% in 2011) reflecting some stabilisation in the workforce.

The group also creates indirect employment by providing composers and publishers with a revenue stream from their music rights, thereby enabling these individuals to earn revenue from their creative endeavours.

SAMRO employs 223 permanent (2011: 208) and 31 temporary employees (2011:19), who have been brought in to assist with various aspects of the migration to the new computer system.





SAMRO complies with relevant labour legislation and regularly submits the required statutory reports. Employees are engaged through representative forums with functions that include:

- promoting the interests of all employees
- enhancing efficiency in the workplace
- consulting with the employer to reach consensus
- participating in joint decision-making
- promoting skills development.

We are committed to ensuring that our workforce is representative of the country's demographic profile and value diversity in our workforce. We monitor progress against our five-year diversity and employment equity plan and achieved our targets again in 2012. Historically disadvantaged South Africans comprised 77% of our workforce in the current year (2011: 75%). Our overall employment equity performance against the BBBEE requirements is also discussed in the transformation section of this report on page 43.

SAMRO recognises the rights of its employees to freedom of association and collective bargaining. During the year the group entered into a recognition agreement with the Communication Workers' Union (CWU) which represented 52.5% of qualifying employees at the year-end.

Attraction and retention

SAMRO aims to attract and retain employees of the appropriate calibre through offering competitive salaries and additional benefits such as retirement benefits for full-time employees, death and disability benefits.

During the year a new performance management system was rolled out and the benefits from the revised approach are already evident.

A change management policy was introduced during the year to manage rapid change within the organisation and all management have been trained in the management of change. Change management programmes were launched in all main projects.

Intellectual property rights management is a complex subject and succession planning receives special attention due to the concentration of knowledge within certain roles in the organisation. Each role is analysed and a profile developed around the job, rather than the individual in that job. A gap analysis is then performed with employees a level below that position, thus creating a growth plan to close the existing gap. Succession plans and talent pipelines are reviewed at various levels of the risk framework.

Skills development

SAMRO has a number of skills development initiatives in place across the organisation that aim to ensure that our management and employees continue to develop their skills. Investing in skills development is a priority given the strategic importance of intellectual property to our sustainability in a competitive market (see material issues on page 9).

We conduct our training in line with the annual skills development plan submitted to the relevant SETA. In the most recent skills development reporting period, which ran from April 2011 to March 2012, SAMRO invested R1.2 million in skills development (2011: R1.4 million). The prior year included training for all employees in migrating to our new email platform.

Our skills development initiatives include:

- Management and Leadership Programmes supplied to candidates from the supervisory to executive management levels. 38 managers attended programmes relevant to their areas of expertise during the year under review.
- SAMRO's partnership with Wits University aims to develop administrative skills in the music industry. Since its inception in 2009, the Business Principles for Songwriters and Publishers course has seen nine SAMRO employees, independent composers and music publishers attend the course. SAMRO currently provides bursaries for ten attendees a year.

Health and Safety

SAMRO incorporates the necessary procedures into operational processes to ensure that our employees enjoy a safe working environment and the resources to best manage their health. Health and safety is managed at an operational level through health and safety committees, where required and in line with legislation. Health and safety training is supplied to committee members.

Regular occupational health and safety risk-control audits are conducted to ensure that procedures are adhered to and to ensure compliance with the relevant legislation. Areas for improvement highlighted in the audits are implemented as required.

Appropriate medical emergency and disaster recovery plans are in place.

The group monitors injuries on duty and aims for the lowest possible harm rate in terms of serious injuries or deaths on duty. Significant matters are reported to and monitored by the SAMRO risk committee. There was one injury on duty in the current year (one in 2011, which was not classified as serious). There have been no deaths on duty in the group.

The group has several employee wellness programmes in place that take a preventative approach to employee health, ranging from programmes to assist employees with adopting a healthy lifestyle to HIV/Aids tests. Professional and independent psychosocial support is provided for employees.

SAMRO offers a range of wellness and work/life services to all employees on site.

SAMRO employees are members of the Discovery Health Medical Aid Scheme. Membership is mandatory for all full-time employees, as well as their eligible dependants, unless they belong to their spouse or partner's medical scheme. SAMRO contributes 60% of the monthly medical aid contributions.

The group is aware of the social and economic implications of the HIV/Aids pandemic and has a comprehensive programme in place to address these risks. The programme includes information and awareness campaigns, free voluntary testing, free counselling and medical treatment programmes.

VALUE ADDED STATEMENT

	GROUP	
	2012	2011
	R000	R000
Music licence and royalties	**337 353**	313 028
Reprographic licence and royalties	**38 327**	31 364
Administration and other fees	**14 668**	14 516
Cost of generating revenue	**(47 090)**	(46 187)
Value added	**343 258**	312 721
Income from investments	**32 284**	43 562
Distribution adjustment	**26 463**	14 484
Wealth created	**402 005**	370 767
Value distribution		
Members		
Music royalty distributions	**245 864**	211 165
Reprographic royalty distributions	**38 327**	31 364
Non-royalty distributions	**37 074**	34 908
SRAF and members funeral benefit	**8 158**	8 303
Endowment for the national arts	**9 325**	10 172
Other social and cultural allocations	**609**	607
Employees		
Salaries, wages and benefits	**73 062**	66 788
Providers of capital		
Finance costs	**1 966**	2 555
Government		
Taxation paid	**(3 898)**	3 610
Reinvested in the group		
Depreciation and amortisation of capital items	**5 475**	4 757
Transferred to reserves	**1 858**	164
Retained earnings	**(15 815)**	(3 626)
Total	**402 005**	370 767

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation, integrity and fair presentation of the group and separate financial statements of SAMRO. The financial statements presented on pages 56 to 92 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act of South Africa, and include amounts based on judgements and estimates made by management.

The directors consider that in preparing the financial statements, they have used the most appropriate accounting policies, consistently applied and supported by reasonable prudent judgements and estimates, and that all IFRS that they consider to be applicable have been followed. The financial statements fairly present the results of operations for the year and the financial position of the group and company at year-end in accordance with IFRS.

The directors are responsible for ensuring that accounting records are kept. The accounting records should disclose, with reasonable accuracy, the financial position and results of the group and company to enable the directors to ensure that the financial statements comply with the relevant legislation.

The group operates in an established control environment, which is documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute assurance that assets are safeguarded and the risks facing the business are being controlled. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The going concern basis was adopted in preparing the financial statements. The directors have no reason to believe that the group will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These financial statements support the viability of the group and the company.

The financial statements have been audited by the independent auditors, PricewaterhouseCoopers Inc, who was given unrestricted access to all financial records and related data, including minutes of all meetings of members, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

The audit report of PricewaterhouseCoopers Inc is presented on page 50.

The financial statements were approved by the board of directors on 29 November 2012 and are signed on its behalf by:

Abe Sibiya
CHAIRMAN

Molefi Nicholas Motsatse
CHIEF EXECUTIVE OFFICER

CERTIFICATE BY THE 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 2012, the Company has lodged with the Registrar of Companies all such returns as are required of a company in terms of this Act and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

G. Zoghby

GJ Zoghby
COMPANY SECRETARY
JOHANNESBURG
29 November 2012

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated and separate financial statements of Southern African Music Rights Organisation set out on pages 56 to 92 which comprise the statements of financial position as at 30 June 2012 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Southern African Music Rights Organisation as at 30 June 2012, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2012, we have read the Directors' Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: KJ Dikana
Registered Auditor
Johannesburg
29 November 2012

DIRECTORS' REPORT

To the members

Your directors have pleasure in submitting their fifty first annual report and SAMRO's audited financial statements for the year ended 30 June 2012.

Principal activities of the group

The SAMRO Group is the largest copyright collective administration group in Southern Africa. It has traditionally administered Performing Rights in musical works on behalf of its members and affiliated societies. In 2006, SAMRO commenced the administration of Mechanical Rights on behalf of its author and publisher members and its affiliated societies. SAMRO was accredited to administer Needletime Rights on behalf of performers in 2008 and has, as a result of that accreditation, set up a dedicated Needletime administration operation in a form of a trust, the Performers Organisation of South Africa (POSA).

Financial review

FINANCIAL HIGHLIGHTS

Total group income	**– R384.3 million (2011 – R371.1 million)**	**+3.6%**
• Licence & royalty income	– R337.4 million (2011 – R313.0 million)	+7.8%
• Literary rights income	– R9.4 million (2011 – R8.4 million)	+11.6%
• Rental income	– R4.8 million (2011 – R4.8 million)	0.0%
• Investment income	– R32.3 million (2011 – R34.6 million)	-6.6%
• Other income	– R0.6 million (2011–R1.2 million)	-50.0%
Licence and royalty income	**– R337.4 million (2011 – R313.0 million)**	**+7.8%**
• Broadcast	– R247.5 million (2011 – R203.4 million)	+21.7%
• General	– R80.3 million (2011 – R101.4 million)	-20.9%
• Foreign	– R8.1 million (2011 – R6.6 million)	+21.7%
Literary rights collected		
• Reprographic reproduction	– R35.7 million (2011 – R29.1 million)	+22.7%
• Other licences	– R2.33 million (2011 – R2.26 million)	+3.3%

Group review

INCOME

Total group income for the year increased from R371.1 million for the year ended June 2011 to R384.3 million for the year ended June 2012, an increase of R13.2 million or 3.6%. Group licence and royalty income for the year amounted to R351.6 million as compared to R326.3 million in 2011, an improvement of R25.3 million or 7.8%.

Once again the largest contribution to overall group income was from music rights, especially the broadcasting of musical works. The contribution to gross income from television, both free-to-air and pay services amounted to R151.3 million (2011 – R113.7 million) and R95.6 million (2011 – R89.4 million) from radio. General licence income, which represents diffusion and public performance of musical works (including cinema) amounted to R80.3 million (2011 – R101.4 million).

DIRECTORS' REPORT

ADMINISTRATION EXPENSES

Group expenses in 2012 amounted to R125.6 million as compared to R117.7 million in 2011, an increase of 6.7%.

DISTRIBUTION

The amount distributable for the year under review, before taxation, social and cultural deductions and transfers to reserves, increased to R283.2 million as compared to R265.3 million in 2011. 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 R282.9 million compared to R246.1 million in 2011, an increase of R36.9 million or 15.0%.

REVIEW OF OPERATIONS FOR SAMRO AND SUBSIDIARIES

INCOME

SAMRO – MUSIC RIGHTS

The total licence and royalty Income of SAMRO for the past year increased by R24.3 million to R337.3 million from R313.0 million in 2011. Domestic licence income for the year increased by R22.9 million to R329.3 million from R306.4 million in 2011, an improvement of 7.5%. Income from broadcasting this year increased by R44.2 million to R247.5 million from R203.4 million in 2011. General licence income (excluding cinema) decreased by R22.7 million to R74.4 million from R97.1 million in 2011.

Income received from foreign affiliates for the year increased by R1.5 million to R8.1 million from R6.6 million in 2011. Total non-royalty income decreased by R2.7 million to R38.0 million from R40.7 million in 2011. Income received from investments decreased by R3.4 million to R30.4 million from R33.8 million in 2011. This year, the cost of distributions represents 24.6% (2011 - 30.6%) of SAMRO's total income.

DALRO – LITERARY RIGHTS

The Dramatic, Artistic and Literary Rights Organisation (Pty) Ltd (DALRO) continued to show growth in reprographic licensing largely driven by blanket licensing activities in the tertiary education sector. This year, the wholly-owned subsidiary has again increased its licence royalty stream. DALRO's total licence and royalty fees invoiced increased by R6.7 million to R38 million from R31.3 million in 2011, an improvement of 21.4%. The reprographic reproduction fees invoiced by DALRO continued to show growth during the year. Blanket licensing as opposed to transactional licensing, represented 72.3% of DALRO's reprographic reproduction fees invoiced, as compared with 69.8% in 2011. The total other licence fees invoiced by DALRO for the year under review increased by 2.2% to R2.3 million in comparison to R2.25 million in 2011. Administration charges to cover expenses represented 24.8% of Licence and Royalty fees invoiced compared with 26.9% in 2011.

SAMRO HOUSE HOLDINGS

SAMRO House Holdings (Pty) Ltd is the property holding company with its asset being SAMRO House (Pty) Ltd. During the year under review SAMRO House Holdings (Pty) Ltd owned one building, 20 De Korte Street, the current headquarters of SAMRO.

SAMRO HOUSE

SAMRO House (Pty) Ltd remains the property company that owns the Braamfontein headquarters of SAMRO. Rental revenue increased by 21.7% compared to 17.4% in 2011. Operating costs increased during the year largely driven by significantly higher electricity and rates charged by the municipality.

GRATIA ARTIS

Gratia Artis (Pty) Ltd remains dormant and no commercial activity took place within this wholly-owned subsidiary.

SAMRO IP TECHNOLOGIES

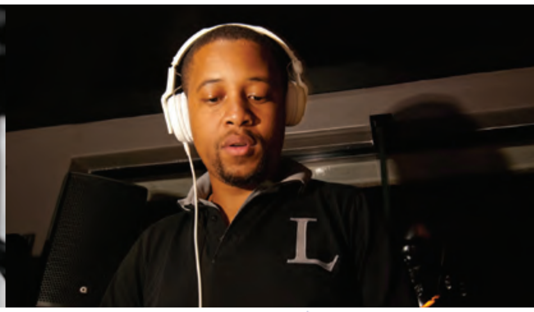
SAMRO IP Technologies (Pty) Ltd remains dormant and no commercial activity took place within this wholly owned subsidiary.

POSA

The Performers Organisation of South Africa has continued to sign up members. Unfortunately, SAMPRA, the society accredited to collect licence fees on behalf of performers, have yet to distribute any royalties to rights holders. POSA has therefore not yet received royalties and has thus been unable to distribute any royalties to its members; however, various means to try and remedy this situation are currently being pursued.

FIFTEEN MELLE STREET

SAMRO holds 59% of the shares in the property company Fifteen Melle Street (Pty) Ltd, which at the year-end was in the process of being deregistered, and after the year-end was deregistered by the Companies and Intellectual Property Commission (CIPC).

Amount distributable

SAMRO

Amount available for distribution to SAMRO members and affiliated societies for the year is R282.9 million compared with R246.1 million in 2011, an increase of 15%.

DALRO

DALRO's distributions to rights holders in literary and dramatic works reached R37.9 million as compared to R31.6 million in 2011, an improvement of R6.3 million or 19.9%. As DALRO operates as an agency, the value of reprographic and other licence income collected as well as the amount distributed are not reflected on the statement of comprehensive income, but are disclosed in the distribution notes to the annual financial statements.

TAXATION

Taxation recovery for the year amounted to R3.1 million (2011 – R3.9 million tax charge).

DIVIDENDS

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

REVIEW OF GROUP'S FINANCIAL POSITION

There has been no significant change in the nature of the group's assets or liabilities during the year.

SHARE CAPITAL

SAMRO, formerly a company Limited by Guarantee is in transition to a new company form. Although it has been listed by the Companies Intellectual Property Commission as a private company until the transition period is over, it has no share capital, and no shares can therefore be issued. No debentures have been issued, and no wholly owned subsidiary issued any shares or debentures during the accounting period.

FIXED ASSETS

The replacement of the fleet of motor vehicles for the sales staff who are required to visit licensees around the country commenced in the prior year and was completed in the current year.

INTANGIBLE ASSETS

Investment in software and information management systems development is reflected as an intangible asset on the balance sheet.

INVESTMENTS

Investments are classified as available for sale investments and have been valued at their market value in compliance with International Financial Reporting Standards (IFRS).

SUBSIDIARY AND ASSOCIATE COMPANIES

The following figures reflect the nature of business, issued share capital and the effective holding in subsidiary and associate companies.

Name of company	Nature of business	Issued share capital		Effective holding	
Subsidiaries		2012	2011	2012	2011
SAMRO house holding (Pty) Ltd	Investment holding	1000	1000	100	100
SAMRO house (Pty) Ltd	Property holding	200	200	100	100
DALRO (Pty) Ltd	Rights administration	2	2	100	100
Gratia Artis (Pty) Ltd	Dormant	2	2	100	100
Fifteen Melle Street (Pty) Ltd	Property holding	600	600	59	59
SAMRO IP Technologies	Holding	1000	1000	100	100

DIRECTORS' REPORT

DIRECTORS' REMUNERATION

For details of non-executive and executive directors' remuneration please see the remuneration report on page 37.

DIRECTORS' INTEREST IN CONTRACTS

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

MANAGEMENT BY THIRD PARTY

No part of the business or any subsidiary is managed by a third person or company in which a director has an interest. Dramatic, Artistic and Literary Rights Organisation (Pty) Limited (DALRO) and SAMRO House (Pty) Limited pay service fees to SAMRO for administrative, accounting, secretarial and management services rendered by SAMRO.

COMPOSITION OF SAMRO'S BOARD OTHER COMMITTEES

Composition of the Board and the Risk and Remuneration Committees of SAMRO is reflected in the corporate governance section on page 30 of this integrated report.

DIRECTORS

During the year under review the casual vacancy created by the resignation of Prof. JSM Khumalo as a member of the board of directors was filled by P Mnomiya.

Composers/Lyricists:

T S Kekana, S C P Mabuse, P Mnomiya (appointed 15 September 2011), J Zaidel-Rudolph, C G de Villiers and S Khumalo.

Publishers:

A E Emdon, J E Edmond, N A Sibiya, C F E Woods

Executive directors:

M N Motsatse, G J Zoghby

Auditors

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

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

	Note	COMPANY 2012 R000	COMPANY 2011 R000	GROUP 2012 R000	GROUP 2011 R000
REVENUE	2	**337 353**	313 028	**351 558**	326 268
Other income	3	**7 680**	7 680	**464**	1 277
Investment income	4	**17 550**	14 249	**19 450**	15 004
Other gains	5	**12 834**	19 569	**12 834**	28 558
		375 417	354 526	**384 306**	371 107
Administration expenses		**(98 026)**	(88 266)	**(121 059)**	(105 679)
Other expenses		**(4 681)**	(11 743)	**(4 571)**	(12 054)
Social and cultural expenses	7	**(17 483)**	(18 475)	**(18 091)**	(19 082)
Royalty distributions	8	**(282 938)**	(246 073)	**(282 938)**	(246 073)
Operating loss	6	**(27 711)**	(10 031)	**(42 353)**	(11 781)
Royalty distributions written back	9	**26 463**	14 484	**26 463**	14 484
Finance charges	10	**-**	(348)	**(1 966)**	(2 555)
(Loss)/profit before taxation		**(1 248)**	4 105	**(17 856)**	148
Taxation	11	**3 106**	(3 941)	**3 898**	(3 610)
Net profit/(loss)		**1 858**	164	**(13 958)**	(3 462)
Other comprehensive income					
Net gain on available for sale financial assets		**8 147**	8 533	**8 147**	8 533
Other comprehensive income for the year		**8 147**	8 533	**8 147**	8 533
Total comprehensive income for the year		**10 005**	8 697	**(5 811)**	5 071
Attributable to:					
SAMRO				**(5 811)**	5 071
Non controlling interests				**-**	-
Total comprehensive income for the year				**(5 811)**	5 071

	Note	COMPANY 2012 R000	COMPANY 2011 R000	GROUP 2012 R000	GROUP 2011 R000
ASSETS					
Non-current assets					
Property and equipment	13	**15 998**	17 556	**122 865**	116 330
Intangible assets	14	**24 758**	5 633	**24 758**	5 633
Investment in subsidiaries	15.1	**175**	175	**-**	-
Deferred tax	16	**20 240**	14 657	**21 429**	15 054
Available for sale investments	17	**259 883**	238 252	**259 883**	238 252
Total non-current assets		**321 054**	276 273	**428 935**	375 269
Current assets					
Trade and other receivables	19	**60 407**	83 621	**66 429**	83 193
Inventory	20	**549**	309	**675**	453
Loans to related parties	15.2	**134 414**	115 587	**-**	-
Taxation receivable		**434**	1 217	**-**	674
Cash and cash equivalents	32	**99 531**	78 805	**139 917**	119 187
Total current assets		**295 335**	279 539	**207 021**	203 507
Total assets		**616 389**	555 812	**635 956**	578 776
EQUITY AND LIABILITIES					
Capital and reserves					
Retained earnings		**50 381**	48 523	**5 175**	19 133
Unrealised gains reserve		**58 113**	49 966	**58 113**	49 966
Members' equity	21	**108 494**	98 489	**63 288**	69 099
Non- controlling interest		**-**	-	**716**	716
Total equity		**108 494**	98 489	**64 004**	69 815
Non current liabilities					
Post employment medical benefit	22	**25 261**	21 384	**25 261**	21 384
Borrowings	23	**-**	-	**-**	27 478
Total non-current liabilities		**25 261**	21 384	**25 261**	48 862
Current Liabilities					
Royalty distributions payable	24	**299 304**	270 270	**326 285**	293 447
Royalty distributions in progress	25	**99 846**	90 988	**99 846**	90 988
Current portion of post retirement medical benefit	22	**721**	612	**721**	612
Loans from related parties	15.3	**78**	5 854	**-**	-
Social and cultural obligations	26	**24 313**	29 884	**29 654**	34 296
Trade and other payables	27	**58 372**	38 331	**62 433**	40 756
Borrowings	23	**-**	-	**27 304**	-
Taxation		**-**	-	**448**	-
Total current liabilities		**482 634**	435 939	**546 691**	460 099
Total equity and liabilities		**616 389**	555 812	**635 956**	578 776

COMPANY

	Note	*Retained earnings*	*Members medical fund*	*Unrealised gains reserve*	*Total*
		R000			
Balance at 30 June 2010		**43 359**	**5 000**	**41 433**	**89 792**
Total comprehensive income for the year		**164**	**-**	**8 533**	**8 697**
Profit for the year		164	-	-	164
Revaluation of investments		-	-	8 533	8 533
Transfer from members medical reserve		5 000	(5 000)		-
Balance at 30 June 2011		**48 523**	**-**	**49 966**	**98 489**
Total comprehensive income for the year		**1 858**	**-**	**8 147**	**10 005**
Profit for the year	21.1	1 858	-	-	1 858
Revaluation of investments	21.3	-	-	8 147	8 147
Balance at 30 June 2012	21	**50 381**	**-**	**58 113**	**108 494**

GROUP

	Note	*Retained earnings*	*Members medical fund*	*Unrealised gains reserve*	*NDR*	*Total members equity*	*Non-controlling interest*	*Total equity*
					R000			
Balance at 30 June 2010		**17 595**	**5 000**	**41 433**	**10 293**	**74 321**	**716**	**75 037**
Total comprehensive income for the year		**(3 462)**	**-**	**8 533**	**-**	**5 071**	**-**	**5 071**
Loss for the year		(3 462)	-	-	-	(3 462)	-	(3 462)
Revaluation of investments		-	-	8 533	-	8 533	-	8 533
Transfer from members medical reserve		5 000	(5 000)	-	-	-	-	-
Sale of investment properties		-	-	-	(10 293)	(10 293)	-	(10 293)
Balance at 30 June 2011		**19 133**	**-**	**49 966**	**-**	**69 099**	**716**	**69 815**
Total comprehensive Income/(loss) for the year		**(13 958)**	**-**	**8 147**	**-**	**(5 811)**	**-**	**(5 811)**
Loss for the year	21.1	(13 958)	-	-	-	(13 958)	-	(13 958)
Revaluation of investments	21.3	-	-	8 147	-	8 147	-	8 147
Balance at 30 June 2012	21	**5 175**	**-**	**58 113**	**-**	**63 288**	**716**	**64 004**

STATEMENT OF CASH FLOWS

	Notes	COMPANY 2012 R000	COMPANY 2011 R000	GROUP 2012 R000	GROUP 2011 R000
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES					
Cash generated from licensing operations	28	**292 117**	245 300	**278 131**	242 004
Finance costs	10	**-**	(348)	**(1 966)**	(2 555)
Interest from subsidiaries	31.1	**4 349**	3 954	**-**	-
Dividends received	4	**4 040**	4 019	**4 040**	4 019
Interest received	4	**13 510**	10 230	**15 410**	10 986
Cash flow from operations		**314 016**	252 493	**295 615**	254 454
Taxation paid	29	**(1 691)**	(1 152)	**(1 355)**	(1 728)
Royalty non-royalty and social distributions to members and affiliated societies	30	**(228 707)**	(252 493)	**(224 902)**	(247 205)
Applied to social and cultural operations	26	**(23 053)**	(17 599)	**(22 733)**	(16 798)
Net cash flows utilised from operating activities		**60 565**	(8 089)	**46 625**	(11 277)
CASH FLOWS GENERATED FROM INVESTING ACTIVITIES					
Additions to property and equipment	13,14	**(23 979)**	(3 884)	**(34 465)**	(8 759)
Increase in loans to subsidiaries	31.1	**(24 603)**	(8 837)	**-**	-
Proceeds on disposal of property and equipment		**874**	619	**874**	13 804
Net proceeds from disposal of investments	31.2	**7 840**	7 652	**7 840**	7 652
Net cash flows generated from investing activities		**(39 867)**	(4 450)	**(25 751)**	(12 697)
CASH FLOWS GENERATED FROM FINANCING ACTIVITIES					
Financing activities					
Decrease in borrowings		**-**	-	**(172)**	(23)
Bequests and donations		**28**	810	**28**	810
Net cash flows generated from financing activities		**28**	810	**(144)**	787
Net increase / (decrease) in cash and cash equivalents		**20 726**	(11 729)	**20 730**	2 207
Cash and cash equivalents at the beginning of the year		**78 805**	90 534	**119 187**	116 980
Cash and cash equivalents at the end of the year	32	**99 531**	78 805	**139 917**	119 187

General information

SAMRO ('the company') and its subsidiaries (together, 'the group') is an organisation dedicated to the collective management of copyright in musical works of authors and publishers.

1.1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.2 Basis of preparation

The consolidated financial statements of SAMRO have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1.4.

1.3 Consolidation

Subsidiaries

Subsidiaries are entities (including special purpose entities) which are, directly or indirectly, controlled by the Group. Control is established where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The acquisition method of accounting is used to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired as well as liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income. A subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date that the control ceases.

Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group. All intergroup transactions, balances and unrealised gains and losses on transactions between Group companies have been eliminated.

1.4 Significant accounting judgments, estimates and assumptions

The preparation of the group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgments

In the process of applying the group's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The group has entered into commercial property leases on its investment property portfolio. The group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Estimates and assumptions

The key assumptions concerning the future and other key

sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

1.4.1 Recognition of licence revenue

Licence revenue arises out of annual invoiced blanket licence assessments, except for major broadcasters, which are assessed on a monthly basis. Management assess the outstanding invoiced licence revenue and a provision for doubtful debts is raised based on the likelihood of collection of the full amount due in order to reflect the fair value of outstanding debt.

1.4.2 Determination of social and cultural allocations, transfers to/from reserves and amounts for distribution

In the determination of the amounts for distribution, management, together with the board, use their judgment to determine the amounts to be set aside for future development and social and cultural provisions. The amounts for distribution are consequently determined.

1.4.3 Carrying value of property and equipment

In determining the carrying value of property and equipment, management exercise their judgments in the estimation of useful lives and residual carrying values of individual and groups of assets.

1.4.4 Carrying value of trade and other receivables

The group assesses its trade receivables and held to maturity investments and/or loans and receivables for impairment at 30 June each year. In determining whether an impairment loss should be recorded in profit or loss, the group makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

1.4.5 Distributions in progress

Management exercises their judgment in determining the number of prior distribution periods provided for, and the valuation of distributions in progress.

1.4.6 Impairment testing

The recoverable amounts of cash-generating units and individual assets are reviewed at each reporting date and have been determined based on the higher of "value-in-use" calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions which are subject to risk and uncertainties. It is reasonably possible that an assumption may change which may then impact on estimations and may then require a material adjustment to the carrying value of assets.

1.4.7 Post employment benefits

The post employment benefits disclosed in the annual financial statements require actuarial valuation on an annual basis. This includes a number of assumptions and estimates by the actuaries which are disclosed in the notes. [Refer Note 22 and 34].

1.4.8 Deferred tax asset

A deferred tax asset has been raised and the management of the group believes that future taxable profits will be available against which the deferred tax asset can be offset.

1.5 Unlisted investments

Unlisted investments are valued by an external independent professional valuator every second year. Changes in the value of unlisted investments are accounted for through equity until they are realised when they are recognised in profit or loss.

1.6 Income and revenue recognition

Income

Income for the company and group includes all increases in economic benefits during the accounting period that result in increases in members' funds available for distribution. Income comprises both revenue and gains.

Revenue

Revenue for the company and group is determined as income that arises in the course of ordinary activities in the organisation. Revenue for the company and group comprises revenue earned from licensing activities, dividends, interest revenue,



rental revenue, investment activities, administration fees and the hire and sale of dramatic literature. Revenue excludes profit or losses from the sale of property, plant and equipment, and from investments. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duty. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and those benefits can be measured reliably.

Income from licensing and royalty operations
Licence fees are based on licence assessments for the use of music within the company and group's repertoire. Licence fees are accounted for on an accrual basis. Foreign royalty income received from affiliated societies attributable to music represents the royalties within SAMRO's repertoire in those territories and is recognised on a receipt basis, as the substance of the agreement indicates that it is more appropriate to recognise revenue on a receipt basis, as SAMRO neither determines nor invoices this income.

Licence fees for literary, dramatic and artistic works are accounted for on an agency basis and do not form part of income.

Investment income
Except for interest on government bonds and stocks, interest is recognised on a time proportion basis according to the effective interest rate method which takes into account the effective yield on the asset over the period it is expected to be held. Interest on government bonds and stocks is recognised on an accrual basis. Interest is raised at year end for the proportionate share of interest earned but not yet received up to the accounting reporting date. Dividends are recognised when the shareholders right to receive dividends is established.

Rental income
Rent is recognised over the accounting period and is accrued in the financial statements based on the underlying rental agreements.

Administration fees
Administration fees are recognised on the basis of pre-determined rates in terms of existing service agreements and are accrued monthly and confirmed annually.

1.7 Royalty distributions

This amount represents net revenue from licence revenue available for allocation in royalty distributions and net non licence revenue for allocation in the non-royalty revenue distribution per the statement of comprehensive income.

Royalty distributions are standard processes, whereby net licence income from the licensing of public performance, broadcast and diffusion rights in musical works, owned by those whose rights are administered by SAMRO, is allocated in the form of royalties to those rights holders whose musical works were logged as performed, broadcast or played by licensed users of music. The non-royalty distributions are standard processes, whereby non-licence revenue is allocated to members and affiliated societies in accordance with the organisation's established rules, practices and procedures.

Amounts pertaining to distributions in progress, which remain undistributed after a period of three years as well as allocations for public domain shares and distribution corrections, are written back to current income for re-distribution in the statement of comprehensive income.

1.8 Social and cultural expenses

Allocations to social and cultural funds are made expressly for the purpose of the social well being of writer members and promotion of the national arts, and are determined and approved by SAMRO's board of directors. The allocation comprises bequests and donations received and a deduction from net SAMRO licence revenue. The deduction is made in terms of the provisions contained in the standard CISAC approved reciprocal agreement as adopted by SAMRO. Net SAMRO licence revenue is determined by deducting licensing administration expenses from gross licence revenue for the SAMRO territory.

1.9 Property and equipment

An item of property and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost. Subsequent to initial recognition, plant and equipment is recorded at cost, excluding the costs of day to day servicing less accumulated depreciation and any accumulated impairment in value. Costs include costs incurred initially to acquire or construct an item of property and equipment and costs incurred subsequently to add to, replace part of, or refurbish the asset. [Refer Note 13].

Freehold land and buildings are held as owner occupied.

SAMRO Place is considered as an owner occupied property and is stated at cost, plus any appreciation on revaluation, less accumulated depreciation and any impairment in value. The building and improvement costs are depreciated on a straight line basis over the expected economic life of the property.

The group's policy in respect of this property is to obtain an independent valuation of the property on a regular basis. Any increase in value is recognised in the statement of financial position.

Equipment, consisting of furniture and fittings, computer information equipment and motor vehicles are shown at cost, less accumulated depreciation and any accumulated impairment losses. Each part of an item of property and equipment, with a cost that is significant in relation to the total cost of the item shall be depreciated separately. [Refer Note 13].

Depreciation is provided on each item of property and equipment, other than freehold land, to write down the cost, less residual value, on a straight line basis over their useful lives as follows:

Fixed property - office block	2.0% p.a.
Furniture, fittings and equipment	4.0% to 20% p.a.
Computer information equipment	5.0% to 33.33% p.a.
Motor vehicles	20% to 25% p.a.

The residual value and the useful life of each asset group are reviewed at least at each financial year-end.

The depreciation charge for each period is recognised in profit or loss. The depreciation methods are re-assessed at least at each financial year end.

The gain or loss arising from de-recognition of an item of property and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from de-recognition of an item of property and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.10 Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of the relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed 25 years.



1.11 Financial instruments

Financial instruments recognised on the statement of financial position at 30 June 2012 include cash and cash equivalents, available for sale investments, trade and other receivables, loans receivable, loans payable and trade and other payables.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same discounted cash flow analysis or other valuation methods.

Amortised cost

Held-to-maturity investments and loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Credit risk

The group's material exposure to credit risk is in its investments, receivables, deposits and cash balances. Receivables represent amounts owed to the company in terms of its licence agreements. The objective of the risk management policy is to safeguard the value of the group's assets and minimise bad debts. The maximum exposure to credit risk is reflected in the balances of trade and other receivables, cash and cash equivalents and loans as receivables.

Interest rate risk

The group's exposure to the risk of changes in the market interest rates relates primarily to term deposits which are invested at floating interest rates and the long term debt obligations with floating interest rates.

The group's policy is to manage its investments in such a way as to minimise exposure to interest rate risk and to negotiate the most favourable interest rates available with its bankers.

The long term debt obligation is monitored closely and the interest cost versus the return on investment is compared, debt levels are maintained to ensure that the interest cost does not exceed the return on investment.

Liquidity Risk

The group's liquidity risk is its exposure to meet its royalty distribution obligations in terms of predetermined distribution dates as well as being able to meet its operational financial obligations when they fall due. This risk is managed by regularly performing cash flow projections and ensuring that the appropriate level of funds are invested in such instruments that are readily convertible to cash, as and when requested.

Initial recognition and measurement

The group classifies financial instruments or their component parts on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. All financial instruments are initially recognised at fair value. Transaction costs for financial instruments not classified as fair value through profit and loss are included in the carrying amount of the financial assets and financial liabilities at initial recognition.

Investments are recognised and de-recognised on a trade date basis where the purchase or sale of an investment is under a contract, whose terms require delivery of the investment within the timeframe established by the market concerned.

Subsequent measurement

Available-for-sale investments are measured at fair value. Fair value for listed investments is the active market value per the stock exchange listing price. Gains and losses arising from changes in fair value are recognised as a separate component of equity until the investment is sold or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement for the period. All listed investments are held in this category.

Subsequently, the financial instruments are accounted for as follows:

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and in hand deposits in

money market accounts and short-term deposits with an original maturity of six months or less. For the purpose of the consolidated statement of financial position and consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. The carrying amount of cash and cash equivalents is stated at amortised cost. [Refer Note 32].

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Trade receivables are payable 30 days from the date of invoice and no interest is charged.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Investments in subsidiaries

The Company's investments in the ordinary shares of its subsidiaries are carried at cost less impairment losses and, if denominated in foreign currencies, are translated at historical rates. Purchases and sales of these investments are recognised on the trade date at cost, including transaction costs.

Impairment of financial assets

The company assesses at 30 June each year whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred), discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets, that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of



an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the group's continuing involvement is the amount of the transferred asset that the group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

1.12 Impairment of non-financial assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount; the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries, or other available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the



asset in prior years. Such reversal is recognised in profit or loss, unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

1.13 Related parties

Individuals, as well as their close family members or entities, are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions or if the parties are jointly controlled. Key management personnel are defined as related parties as are all directors of SAMRO and the main trading subsidiary of the Group.

1.14 Inventory

Inventory comprises publications of literary, dramatic, and musical dramatic works for sale or for hire; and stationery. Inventory is valued at the lower of cost, calculated using the weighted average method, and net realisable value. When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.15 Taxation

Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax
Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination; and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax income assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at

each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

1.16 Funds and reserves

Retained earnings

General reserve

Transfers to or from the reserves are at the discretion of the Board. The retained income of the Dramatic, Artistic and Literary Rights Organisation (Proprietary) Limited (DALRO), the unexpended grants in Gratia Artis (Proprietary) Limited, and the company's attributable share of the subsidiary company's retained income since acquisition are treated as part of the general reserve.

Development fund

Transfers to the fund are at the discretion of the Board with the object of setting aside amounts deemed necessary for future regional copyright administration and technological and business development within the group. The utilisation of this fund comprises identified expenditure incurred which is considered to be related to development and is recorded as a transfer from the fund.

Unrealised gains reserve

Gains and losses arising from changes in fair value are recognised as a separate component of equity until the investment is sold or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profit or loss for the period.

1.17 Royalty distributions in progress

Distributions in progress comprise amounts pertaining to royalty allocations made in the previous three distribution periods, to works or rights-holder shares that cannot be distributed in accordance with established distribution rules, standards, practices and procedures. These allocations are retained to allow on-going research in respect of identification of the works and rights-holder shares and obtaining the necessary documentation and complying with the required documentation update procedures. Until such time as the necessary identification, contractual information and other documentation is obtained and processed, such royalties cannot be correctly distributed. The amounts are retained until such time as they are duly distributed as royalties or written back to income.

1.18 Employee benefits

Retirement

The Company has a retirement benefit plan for all permanent employees that provides, amongst other benefits, a pension of 1/50th of final emolument per year or part thereof of pensionable service. The full details of the benefits payable by the scheme can be found in the registered rules of the scheme. The plan is an approved defined benefit plan and is governed by a Board of Trustees in accordance with the Rules of the Fund and the Pension Funds Act of 1956 as amended, in terms of which, valuations should be performed every three years. Any shortfall that may occur is required to be funded by the company and written off against income.

The retirement benefit plan is funded by payments from employees and the company, taking account of the recommendations of independent actuaries. The administration of payment of the monthly pension benefit to the pensioners has been outsourced by the fund. The pension plan assets are invested in a balanced portfolio managed by Trail Finders (Pty) Limited and administered by Investment Solutions (Pty) Limited and direct investment in shares.

In the case of the defined benefit fund, the related benefit costs and obligations are assessed using the projected unit credit method. Under this method, the cost of providing benefits is charged to profit or loss so as to spread the regular costs over the service lives of employees in accordance with the advice of the actuaries who perform a statutory valuation of the plan every three years and a valuation for financial reporting purposes annually. The net surplus or deficit in the benefit obligation is the difference between the present value of the funded obligation and the fair value of plan assets. Where a positive funded status is disclosed, no asset has been recognised by the company. The disclosure of funded status does not necessarily indicate any assets available to the company.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to profit and loss in the period in which they arise.

Ownership of surplus

The funded status disclosed in the valuation of the fund for accounting purposes can be significantly different from that disclosed by a funding valuation. The surplus assets disclosed by the accounting valuation have been treated in the manner prescribed by IAS 19. Ownership of surplus in a pension fund has historically been a contentious issue, but has now been addressed by way of the Pension Funds Second Amendment Act. The disclosure of the funded status is for accounting purposes only, and does not indicate available assets to the company.

Medical

The Company provides defined benefit health care for the benefit of the employees. The present value of the post employment medical benefits for retired employees is actuarially determined annually using the projected unit credit method and any deficit is recognised immediately in profit or loss. This benefit is unfunded.

Short-term benefits

The cost of all short-term employee benefits, such as salaries, bonuses, housing allowances, medical and other contributions are recognised during the period in which the employee renders the related service.

1.19 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.20 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangements at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as lessee

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

Group as lessor

Leases where the group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised in revenue in the period in which they are earned.

1.21 Foreign currencies

Foreign currency transactions are recorded at the exchange rate ruling on the transaction date. Assets and liabilities designated in foreign currencies are translated at rates of exchange ruling at the reporting date. Foreign currency gains and losses are charged to profit or loss.

1.22 Standards, interpretations and amendments that are not yet effective at June 2012

The Group has considered the following new standards and interpretations and amendments to existing standards, which are not yet effective as at June 2012 but are effective for the financial years commencing as reflected in the table:

Number	Title	Effective Date
Amendments to IFRS 7	Financial instruments: Disclosures – Asset and liability offsetting	1 January 2013
Amendment to IAS 12	'Income taxes' on deferred tax	1 January 2012
Amendments to IAS 1	Presentation of Financial Statements, on presentation of items of OCI	1 July 2012
IAS 19	Employee Benefits	1 January 2013
IFRS 9	Financial Instruments	1 January 2013
Amendments to IFRS 9	Financial Instruments	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosures of interests in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013
IAS 27 (revised 2011)	Separate financial statements	1 January 2013
IAS 28 (revised 2011)	Associates and joint ventures	1 January 2013
Amendments to IAS 32	Financial Instruments: Presentation	1 January 2014

1.23 Standards, interpretations amendments effective

The following new standards, interpretations and amendments to existing standards, that are effective as at June 2012 had no significant effect on the Group's operations:

Number	Title	Effective Date
Amendments to IFRS 1	'First time adoption' on hyperinflation and fixed dates	1 July 2011
Amendment to IFRS 7	Financial Instruments: Disclosures – Transfer of financial assets	1 July 2011
Amendment to IAS 24	Related party disclosures	1 January 2011

	COMPANY		GROUP	
	2012 R000	2011 R000	**2012 R000**	2011 R000
2 REVENUE	**337 353**	313 028	**351 558**	326 268
Music rights				
Performing rights	**312 078**	304 709	**312 078**	304 709
Mechanical rights	**17 215**	1 694	**17 215**	1 694
Total SAMRO territory	**329 293**	306 403	**329 293**	306 403
Royalties from affiliated societies	**8 060**	6 625	**8 060**	6 625
Licence and royalty income	**337 353**	313 028	**337 353**	313 028
Reprographic administration fees	**-**	-	**9 436**	8 434
Rental income	**-**	-	**4 768**	4 806
Total Revenue	**337 353**	313 028	**351 558**	326 268
3 OTHER INCOME	**7 680**	7 680	**464**	1 277
Bequests and donations received	**28**	810	**28**	810
Administration fees	**21**	82	**48**	82
Interest on loans and cash balances	**383**	338	**388**	385
Interest from subsidiary companies	**4 349**	3 954	**-**	-
Administration, computer and management fees from subsidiary companies	**2 899**	2 496	**-**	-
Total Income from subsidiary companies	**7 680**	7 680	**464**	1 277
4 INVESTMENT INCOME	**17 550**	14 249	**19 450**	15 004
Available for sale investments				
Dividends	**4 040**	4 019	**4 040**	4 019
Interest from debentures and loan stock	**4 262**	3 748	**4 262**	3 748
Interest from bonds and notes	**4 801**	4 626	**4 801**	4 626
Interest from short term investments	**4 447**	1 856	**6 347**	2 611
Total income from available for sale investments	**17 550**	14 249	**19 450**	15 004
5 OTHER GAINS	**12 834**	19 569	**12 834**	28 558
Gain on disposal of property and equipment	**-**	-	**-**	8 989
Gain on disposal of investments	**12 834**	19 569	**12 834**	19 569
Total other gains	**12 834**	19 569	**12 834**	28 558
6 OPERATING LOSS				
Operating loss includes the following items:				
Accommodation costs	**2 570**	2 972	**2 734**	3 605
Depreciation costs	**2 454**	1 995	**4 848**	4 202
Amortisation costs	**627**	538	**627**	538
Operating costs	**9 129**	8 218	**11 052**	9 408
Professional fees	**7 379**	8 059	**12 745**	9 398
IT costs	**4 432**	3 212	**4 587**	3 326
Personnel costs	**62 895**	58 132	**73 062**	66 788
Marketing costs	**3 446**	3 890	**4 622**	4 320
Other costs	**862**	832	**3 032**	2 838
Post employment medical cost	**3 986**	1 734	**3 986**	1 734
Bad debt provision	**(309)**	8 780	**(420)**	9 091
Investment management fees	**961**	990	**961**	990
Loss on disposal of property and equipment	**2 401**	239	**2 401**	239
Auditor's remuneration:	**1 080**	768	**1 391**	993
Fees-current provision	**193**	-	**514**	406
Fees-under provision previous years	**1 273**	**768**	**1 905**	1 399

	COMPANY		GROUP	
	2012	2011	**2012**	2011
	R000	R000	**R000**	R000
6 OPERATING LOSS (continued)				
6.1 PERSONNEL COSTS				
Personnel costs include:				
Salaries and bonuses	**50 308**	46 485	**58 061**	53 143
Social security costs	**556**	738	**573**	752
Pension costs defined benefit plan	**6 302**	5 285	**6 701**	5 400
Training	**556**	1 107	**650**	1 140
Recruitment	**496**	345	**496**	350
Other employment benefits	**4 677**	4 172	**6 581**	6 003
	62 895	58 132	**73 062**	66 788
Post employment benefits	**3 986**	1 734	**3 986**	1 734
	66 881	59 866	**77 048**	68 522
7 SOCIAL AND CULTURAL EXPENSES	**17 483**	18 475	**18 091**	19 082
Social	**8 158**	8 303	**8 408**	8 553
Cultural	**9 325**	10 172	**9 683**	10 529
Total social and cultural allocation	**17 483**	18 475	**18 091**	19 082
8 ROYALTY DISTRIBUTIONS	**282 938**	246 073	**282 938**	246 073
Licence and royalty	**245 864**	211 165	**245 864**	211 165
Non-royalty	**37 074**	34 908	**37 074**	34 908
Total distributions	**282 938**	246 073	**282 938**	246 073
9 ROYALTY DISTRIBUTIONS WRITTEN BACK	**26 463**	14 484	**26 463**	14 484
Undistributable income written back	**26 463**	14 484	**26 463**	14 484
10 FINANCE COSTS	**-**	348	**1 966**	2 555
Interest on borrowings	**-**	-	**1 966**	2 207
Other	**-**	348	**-**	348
	-	348	**1 966**	2 555
11 TAXATION	**(3 106)**	3 941	**(3 898)**	3 610
Current charge - S.A. normal tax	**2 320**	4 868	**2 320**	4 868
- prior year underprovision	**158**	-	**158**	(124)
Deferred tax - current charge	**(1 898)**	(927)	**(2 690)**	(1 134)
- prior year overprovision	**(3 686)**	-	**(3 686)**	-
Total taxation	**(3 106)**	3 941	**(3 898)**	3 610
Reconciliation of the tax rate				
Profit/(loss) before tax	**(1 248)**	4 105	**(17 856)**	148
Tax at 28%	**(349)**	1 149	**(5 000)**	41
Adjust for:				
Income not subject to tax	**(2 097)**	(8 873)	**(2 097)**	(8 873)
Expenses not deductable for tax	**2 872**	11 744	**2 872**	11 744
Prior year under / (over) provision	**(3 528)**	-	**(3 528)**	(124)
Doubtful debt allowance	**(3)**	-	**(3)**	-
Restraint of trade	**-**	(79)	**-**	(79)
Assess loss utilised	**-**	-	**(792)**	(206)
Unrecognised tax loss	**-**	-	**4 650**	1 107
Current charge - S.A. normal tax	**(3 106)**	3 941	**(3 898)**	3 610

	COMPANY		GROUP	
	2012 R000	2011 R000	2012 R000	2011 R000
12 KEY MANAGEMENT EMOLUMENTS	**13 356**	14 899	**18 058**	18 673
From the company and its controlled subsidiaries for:				
Directors				
Current emoluments				
- Non-executive directors' fees	**287**	292	**538**	448
- Executives directors' fees	**-**	34	**-**	42
- Salaries and bonuses	**3 953**	3 306	**5 992**	5 472
- Pension and medical aid contributions	**690**	614	**837**	858
- Other fringe benefits	**481**	483	**756**	697
Total directors' current emoluments	**5 412**	4 729	**8 122**	7 517
Post retirement benefits				
- Estimated post retirement benefits	**59**	310	**117**	620
Total directors emoluments	**5 471**	5 039	**8 240**	8 137
Paid by:				
- Company	**5 471**	5 039	**5 471**	5 039
- Subsidiaries	**-**	-	**2 769**	3 098
Total paid	**5 471**	5 039	**8 240**	8 137
Other key management				
Current emoluments				
- Salaries and bonuses	**6 084**	6 866	**7 514**	7 380
- Pension and medical aid contributions	**995**	1 153	**1 272**	1 253
- Other fringe benefits	**689**	911	**916**	973
Total key management current emoluments	**7 768**	8 930	**9 701**	9 606
Post retirement benefits				
- Estimated post retirement benefits	**117**	930	**117**	930
Total other key management emoluments	**7 885**	9 860	**9 819**	10 536
Total key management emoluments	**13 356**	14 899	**18 058**	18 673

	COMPANY		GROUP	
	2012 R000	2011 R000	**2012 R000**	2011 R000
13. PROPERTY AND EQUIPMENT	**15 998**	17 556	**122 865**	116 330
Land and buildings				
Owner occupied property – SAMRO House				
Beginning of the year				
Cost			**102 040**	97 210
Accumulated depreciation			**(4 925)**	(2 921)
Carrying amount at the beginning of the Year			**97 115**	94 289
Building improvements			**10 449**	4 830
Depreciation			**(2 166)**	(2 004)
Carrying amount at the end of the year			**105 398**	97 115
Summary				
Assets at cost			**112 487**	102 040
Accumulated depreciation			**(7 089)**	(4 925)
Net carrying amount at the end of the year			**105 398**	97 115
Office furniture and equipment				
Beginning of the year				
Cost	**11 060**	10 884	**13 374**	13 153
Accumulated depreciation	**(2 714)**	(2 192)	**(3 369)**	(2 627)
Carrying amount at the beginning of the year	**8 346**	8 692	**10 005**	10 526
Additions	**730**	203	**767**	248
Disposals - net	**(370)**	(23)	**(370)**	(23)
Depreciation charge for the year	**(595)**	(526)	**(822)**	(746)
Net carrying amount at the end of the year	**8 111**	8 346	**9 580**	10 005
Summary				
Assets at cost	**10 130**	11 060	**12 405**	13 374
Accumulated depreciation	**(2 019)**	(2 714)	**(2 825)**	(3 369)
Net carrying amount at the end of the year	**8 111**	8 346	**9 580**	10 005
Computer equipment				
Beginning of the year				
Cost	**15 001**	14 603	**15 001**	14 603
Accumulated depreciation	**(9 162)**	(8 029)	**(9 162)**	(8 029)
Carrying amount at the beginning of the year	**5 839**	6 574	**5 839**	6 574
Additions	**887**	417	**887**	417
Disposals-net	**(1 564)**	(8)	**(1 564)**	(8)
Depreciation charge for the year	**(1 247)**	(1 144)	**(1 247)**	(1 144)
Carrying amount at the end of the year	**3 915**	5 839	**3 915**	5 839
Summary				
Assets at cost	**5 609**	15 001	**5 609**	15 001
Accumulated depreciation	**(1 694)**	(9 162)	**(1 694)**	(9 162)
Net carrying amount at the end of the year	**3 915**	5 839	**3 915**	5 839

	COMPANY 2012 R000	COMPANY 2011 R000	GROUP 2012 R000	GROUP 2011 R000
13. PROPERTY AND EQUIPMENT (continued)				
Motor vehicles				
Beginning of the year				
Cost	**4 021**	3 664	**4 021**	3 664
Accumulated depreciation	**(650)**	(659)	**(650)**	(659)
Carrying amount at the beginning of the year	**3 371**	3 005	**3 371**	3 005
Additions	**2 443**	1 507	**2 443**	1 507
Disposals - net	**(1 229)**	(816)	**(1 229)**	(816)
Depreciation charge for the year	**(613)**	(325)	**(613)**	(325)
Carrying amount at the end of the year	**3 972**	3 371	**3 972**	3 371
Summary				
Assets at cost	**4 905**	4 021	**4 905**	4 021
Accumulated depreciation	**(933)**	(650)	**(933)**	(650)
Net carrying amount at the end of the year	**3 972**	3 371	**3 972**	3 371

	COMPANY 2012 R000	COMPANY 2011 R000	GROUP 2012 R000	GROUP 2011 R000
Total property and equipment				
Beginning of the year				
Cost	**30 082**	29 151	**134 436**	128 630
Accumulated depreciation	**(12 526)**	(10 880)	**(18 106)**	(14 236)
Carrying amount at the beginning of the year	**17 556**	18 271	**116 330**	114 394
Additions	**4 060**	2 127	**14 546**	7 002
Disposals-net	**(3 163)**	(847)	**(3 163)**	(847)
Depreciation charge for the year	**(2 455)**	(1 995)	**(4 848)**	(4 219)
Net carrying amount at the end of the year	**15 998**	17 556	**122 865**	116 330
Summary				
Assets at cost	**20 643**	30 082	**135 406**	134 436
Accumulated depreciation	**(4 645)**	(12 526)	**(12 541)**	(18 106)
Net carrying amount at the end of the year	**15 998**	17 556	**122 865**	116 330

13.1 Land and building

- Samro Place

A nine storey office block on ERF 4518, 2896, 2897, 2898, 2899, 2900, 2901, 2902 Johannesburg Township, Registration Division I.R. Transvaal. The building was purchased effective 1 February 2008 for a consideration of R56 000 000. Transfer costs of R160 000 were incurred in the transaction. The building is being refurbished and to date R56 289 000 refurbishment costs have been incurred

	COMPANY 2012 R000	COMPANY 2011 R000	GROUP 2012 R000	GROUP 2011 R000
14 INTANGIBLE ASSETS	**24 758**	5 633	**24 758**	5 633
Beginning of the year				
Cost	**8 794**	7 039	**8 794**	7 039
Accumulated depreciation	**(3 161)**	(2 623)	**(3 161)**	(2 623)
Carrying amount at the beginning of the year	**5 633**	4 416	**5 633**	4 416
Additions	**19 919**	1 755	**19 919**	1 755
Disposals-net	**(167)**	-	**(167)**	-
Amortisation charge for the year	**(627)**	(538)	**(627)**	(538)
Net carrying amount at the end of the year	**24 758**	5 633	**24 758**	5 633
Summary				
Assets at cost	**28 234**	8 794	**28 234**	8 794
Accumulated depreciation	**(3 476)**	(3 161)	**(3 476)**	(3 161)
Net carrying amount at the end of the year	**24 758**	5 633	**24 758**	5 633

	COMPANY		GROUP	
	2012 R000	2011 R000	**2012 R000**	2011 R000
15 INVESTMENT IN SUBSIDIARIES				
15.1 Shares at cost				
Dramatic, Artistic and Literary Rights Organisation (Pty) Ltd	^	^		
Gratia Artis (Pty) Ltd	^	^		
Fifteen Melle Street (Pty) Ltd	^	^		
Samro House Holdings (Pty) Ltd	**174**	174		
Samro IP Technologies (Pty) Ltd	**1**	1		
Total cost of shares	**175**	175		
^ denotes a holding of less than R1 000				
Refer to the directors report on subsidiary companies for effective holding				
15.2 Loans to related parties				
Dramatic, Artistic and Literary Rights Organisation (Pty) Ltd	**731**	-		
Gratia Artis (Pty) Ltd	**404**	403		
Samro House Holdings (Pty) Ltd	**121 484**	109 532		
SAMRO Foundation	**1 305**	-		
Performers Organisation of South Africa	**10 491**	5 652		
Total indebtedness	**134 414**	115 587		
15.3 Loans from related parties				
Dramatic, Artistic and Literary Rights Organisation (Pty) Ltd	**-**	(5 775)		
Samro IP Technologies (Pty) Ltd	**(78)**	(79)		
Total indebtedness	**(78)**	(5 854)		

Loans are repayable in the ordinary course of business. There are no fixed repayment terms. Interest on the loan to SAMRO House Holdings (Pty) Ltd has been charged at a rate of 5.5% per annum. All other loans are interest free.

	COMPANY 2012 R000	COMPANY 2011 R000	GROUP 2012 R000	GROUP 2011 R000
16 DEFERRED TAX	**20 240**	14 657	**21 429**	15 054
Balance at the beginning of the year	**14 657**	13 730	**15 054**	12 440
Movement for the year	**5 583**	927	**6 375**	2 614
Deferred tax on provisions	**4 669**	282	**4 669**	282
Deferred tax on post retirement medical benefit	**914**	645	**914**	645
Deferred tax on capital gain on sale of investment property	**-**	-	**-**	1 481
Deferred tax on operating loss	**-**	-	**792**	206
Total deferred tax asset	**20 240**	14 657	**21 429**	15 054

	COMPANY		GROUP	
	2012 R000	2011 R000	2012 R000	2011 R000
17. AVAILABLE FOR SALE INVESTMENTS	**259 883**	238 252	**259 883**	238 252
Cost				
Listed shares	**88 188**	74 847	**88 188**	74 847
Listed bonds and unitised investments	**86 096**	85 952	**86 096**	85 952
Listed investments at cost	**174 284**	160 799	**174 284**	160 799
Unlisted investments	**27 486**	27 486	**27 486**	27 486
Total investments at cost	**201 770**	188 285	**201 770**	188 285
Fair value				
Listed investments				
Shares at fair value	**109 292**	123 854	**109 292**	123 854
Bonds and unitised investments	**123 105**	86 912	**123 105**	86 912
Total listed investments at fair value	**232 397**	210 766	**232 397**	210 766
Unlisted investments				
Participation bonds, notes and other	**27 486**	27 486	**27 486**	27 486
Total investments at fair value	**259 883**	238 252	**259 883**	238 252
Total cost at beginning of the year	**188 285**	177 518	**188 285**	177 518
Interest income capitalised	**13 510**	10 230	**13 510**	10 230
Dividend income capitalised	**4 040**	4 019	**4 040**	4 019
Fees and disinvestments	**(4 066)**	(3 481)	**(4 066)**	(3 481)
Unrealised gains	**58 113**	49 966	**58 113**	49 966
Total investments at end of year	**259 883**	238 252	**259 883**	238 252

A register of listed and unlisted investments is available for inspection by members. The investments held with BOE valued at R90 090 965 at 30 June 2012 have been used as security for the loan, as disclosed in note 23, with BOE for the purchase of SAMRO Place.

The group's exposure to credit risk from available for sale financial investments arises from default of the counterparties. The maximum exposure to the group equals the carrying amount of these instruments.

18. ASSETS HELD FOR SALE	**0**	0	**0**	0
Carrying amount at the beginning of the year	-	-	-	14 500
Sale of asset	-	-	-	(14 500)
Total assets held for sale	**0**	0	**0**	0

The sale of the property (73 Juta Street Braamfontein), which was the former headquarters of SAMRO was finalised during the previous financial year. The transfer went through and was registered in November 2010 for an amount of R14.5m.

19. TRADE AND OTHER RECEIVABLES	**60 407**	83 621	**66 429**	83 193
Gross trade debtors	**103 906**	125 363	**111 007**	127 362
Provision for doubtful debts	**(48 275)**	(48 318)	**(48 723)**	(49 278)
Net trade debtors	**55 631**	77 045	**62 284**	78 084
Other receivables	**4 776**	6 576	**4 145**	5 109
Total trade and other receivables	**60 407**	83 621	**66 429**	83 193

	2012 R000 Individually Impaired	2012 R000 Collectively Impaired	2012 R000 Total
COMPANY			
At 1 July 2010	29 006	10 621	39 627
Charge for the year	19 402	7 690	27 092
Utilised	(10 658)	(7 743)	(18 401)
At 30 June 2011	37 750	10 568	48 318
Charge for the year	-	-	-
Utilised	-	(44)	(44)
At 30 June 2012	37 750	10 524	48 274
GROUP			
At 1 July 2010	29 786	10 621	40 407
Charge for the year	19 713	7 690	27 403
Utilised	(10 789)	(7 743)	(18 532)
At 30 June 2011	38 710	10 568	49 278
Charge for the year	-	-	-
Utilised	-	(555)	(555)
At 30 June 2012	38 710	10 013	48 723

As at 30 June 2012, the ageing analysis of trade receivables is as follows:

	Neither past due nor impaired			Past due but not impaired		
	Total	Current	30 days	60 days	90 days	120 days
	R000	R000	R000	R000	R000	R000
COMPANY						
2011	77 045	29 317	7 139	3 948	1 404	35 237
2012	55 631	3 677	8 543	3 865	3 896	35 649
GROUP						
2011	78 084	29 934	7 425	4 009	1 450	35 266
2012	62 284	5 869	8 986	4 241	7 415	35 773

Trade and other receivables do not attract interest and are payable within 30 days from the date of invoice. No receivables balances have been used as security for borrowings.

The group trades only with recognised, creditworthy third parties. In addition receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is limited. The maximum credit risk exposure on receivables is the carrying amount.

	COMPANY		GROUP	
	2012 R000	2011 R000	2012 R000	2011 R000
20. INVENTORY	549	309	675	453
Inventory comprises of:				
Stationery and paper	549	309	549	309
Books and musical sheets for sale	-	-	54	54
Books and musical sheets for hire	-	-	71	90
Total inventory	549	309	675	453

	COMPANY		GROUP	
	2012 R000	2011 R000	2012 R000	2011 R000
21. MEMBERS EQUITY	**108 494**	**98 489**	**63 288**	**69 099**
21.1 Retained earnings				
General reserve at the beginning of the year	**28 127**	23 128	**(1 263)**	(2 636)
Development fund at the beginning of the year	**20 396**	20 231	**20 396**	20 231
Retained earnings at the beginning of the year	**48 523**	43 359	**19 133**	17 595
Net profit/(loss) for the year	**1 858**	164	**(13 958)**	(3 462)
Transfer from members medical fund	**-**	5 000	**-**	5 000
Retained earnings at the end of the year	**50 381**	48 523	**5 175**	19 133
21.2 Members medical fund				
Members medical fund at the beginning of the year	**-**	5 000	**-**	5 000
Transfer to retained earnings	**-**	(5 000)	**-**	(5 000)
Members medical fund at the end of the year	**-**	-	**-**	-

These funds were set aside with the intention of providing medical aid to members. However on investigation this was not viable and the funds have been reallocated to retained earnings.

	COMPANY 2012 R000	COMPANY 2011 R000	GROUP 2012 R000	GROUP 2011 R000
21.3 Unrealised gains reserve				
Fair value adjustment				
Total investment at fair value	**259 883**	238 251	**259 883**	238 251
Total investment at cost	**(201 770)**	(188 285)	**(201 770)**	(188 285)
Total unrealised gain at the end of the year	**58 113**	49 966	**58 113**	49 966
Total unrealised gain at the beginning of the year	**49 966**	41 433	**49 966**	41 433
Fair value adjustment	**8 147**	8 533	**8 147**	8 533
Total unrealised gain at the end of the year	**58 113**	49 966	**58 113**	49 966
21.4 Non distributable reserve				
Non distributable reserve at beginning of the year	**-**	-	**-**	10 293
Realised on sale of building	**-**	-	**-**	(10 293)
Non distributable reserve at the end of the year	**-**	-	**-**	-
Total members equity	**108 494**	98 489	**63 288**	69 099
22. POST EMPLOYMENT MEDICAL BENEFITS	**25 982**	21 996	**25 982**	21 996
Net liability reconciliation:				
Opening balance of the liability	**21 996**	20 262	**21 996**	20 262
Income statement charge	**3 986**	1 734	**3 986**	1 734
Closing balance of the liability	**25 982**	21 996	**25 982**	21 996
Current portion of the liability	**721**	612	**721**	612
Long term portion of the liability	**25 261**	21 384	**25 261**	21 384
	25 982	21 996	**25 982**	21 996
Present value of obligations:				
Opening balance	**21 996**	20 262	**21 996**	20 262
Current service cost	**817**	740	**817**	740
Interest cost	**1 895**	1 793	**1 895**	1 793
Benefits paid /expected to be paid	**(636)**	(605)	**(636)**	(605)
Actuarial gain/(loss) on obligation	**1 910**	(194)	**1 910**	(194)
Closing balance of funded defined benefit obligations	**25 982**	21 996	**25 982**	21 996

	COMPANY 2012 R000	COMPANY 2011 R000	GROUP 2012 R000	GROUP 2011 R000
Income statement charge:				
Current service cost	**817**	740	**817**	740
Interest cost	**1 895**	1 793	**1 895**	1 793
Actuarial gain/(loss) on obligation	**1 274**	(799)	**1 274**	(799)
	3 986	1 734	**3 986**	1 734

A valuation was carried out by a firm of consulting actuaries at 30 June 2012. There were 42 in service members (2011 : 47) and 26 continuation members (2011: 24).

	COMPANY 2012	COMPANY 2011	GROUP 2012	GROUP 2011
Actuarial assumptions:				
Discount rate	8.25%	8.75%	8.25%	8.75%
Medical inflation rate	7.75%	7.75%	7.75%	7.75%

The assumed rates of mortality are as follows:
During employment: SA85-90 (Light) Ultimate table
Post employment: PA (90) Ultimate table rated down 2 years plus 10% improvement per annum (from a base year of 2006)

Valuation assumptions

Post employment medical liability	Health care cost inflation		
	Central assumption 7.75%	-1%	+1%
Accrued liability 30 June 2012 (R000)	25 982	21 939	31 157
% change	-	-15.6%	+19.9%
Current service cost + interest cost 2012 (R000)	3 013	2 488	3 695
% change	-	-17.4%	+22.6%
	Health care cost inflation		
	Central assumption 7.75%	+5% for 5 years	+10% for 5 years
Accrued liability 30 June 2012 (R000)	25 982	32 110	39 391
% change	-	+23.6%	+51.6%
	Discount rate		
	Central assumption 8.25%	-1%	+1%
Accrued liability 30 June 2012 (R000)	25 982	31 171	21 997
% change	-	+20.0%	-15.3%
	Expected retirement age		
	Central assumption 60 Years	1 year younger	1 year older
Accrued liability 30 June 2012 (R000)	25 982	26 587	24 771
% change	-	+2.3%	-4.7%

A projection of results of the valuation as at 30 June 2012 to 30 June 2013 is set out below:

Year ending 30 June 2013	Accrued liability R000
Accrued liability as at 30 June 2012	**25 982**
interest cost	**2 112**
Service cost	**901**
Expected employer benefit payments	**(749)**
Projected accrued liability as at 30 June 2013	**28 246**

	COMPANY		GROUP	
	2012 R000	2011 R000	**2012 R000**	2011 R000
23. BORROWINGS			**27 304**	27 478
Borrowing raised	-	-	**44 500**	44 500
Capital repayment made	-	-	**(15 230)**	(15 000)
Interest payments	-	-	**(1 966)**	(2 022)
Borrowings closing balance	-	-	**27 304**	27 478
BOE Private Bank	-	-		
Current			**27 304**	-
Non-current			**-**	27 478

Secured by a cession and pledge of the share portfolio. The term of the loan is 60 months. The outstanding capital amount will be repaid as one bullet payment in the next financial year. The interest rate is prime less 1.25%

	COMPANY 2012 R000	COMPANY 2011 R000	GROUP 2012 R000	GROUP 2011 R000
24. ROYALTY DISTRIBUTIONS PAYABLE	**299 304**	270 270	**326 285**	293 447
Royalty distribution	**245 864**	211 165	**245 864**	211 165
Non royalty distribution	**37 075**	34 908	**37 075**	34 908
Current amount per income statement	**282 938**	246 073	**282 938**	246 073
Social benefits	**8 137**	8 283	**8 137**	8 283
For distribution current year DALRO		-	**26 981**	24 547
Prior periods amounts	**20 467**	26 467	**20 467**	25 097
	311 542	280 823	**338 523**	304 000
Distributions and advances	**(12 238)**	(10 553)	**(12 238)**	(10 553)
Total for distribution	**299 304**	270 270	**326 285**	293 447
25. ROYALTY DISTRIBUTIONS IN PROGRESS	**99 846**	90 988	**99 846**	90 988
25.1 Shares in musical works				
Balance at the beginning of the year	**7 384**	4 786	**7 384**	4 786
Distributed during the year	**(2 998)**	(2 092)	**(2 998)**	(2 092)
	4 386	2 694	**4 386**	2 694
Arising out of distributions during the year	**6 735**	6 288	**6 735**	6 288
	11 121	8 982	**11 121**	8 982
Distribution adjustment prior years	**(2 303)**	(1 598)	**(2 303)**	(1 598)
Balance at the end of the year	**8 818**	7 384	**8 818**	7 384
25.2 Musical works				
Balance at the beginning of the year	**83 604**	74 236	**83 604**	74 236
Distributed during the year	**(36 042)**	(36 040)	**(36 042)**	(36 040)
	47 562	38 196	**47 562**	38 196
Arising out of distributions during the year	**65 337**	58 079	**65 337**	58 079
	112 899	96 275	**112 899**	96 275
Distribution adjustment prior years	**(21 871)**	(12 671)	**(21 871)**	(12 671)
Balance at the end of the year	**91 028**	83 604	**91 028**	83 604
Total distributions in progress	**99 846**	90 988	**99 846**	90 988

	COMPANY		GROUP	
	2012	2011	**2012**	2011
	R000	R000	**R000**	R000
26. SOCIAL AND CULTURAL OBLIGATIONS	**24 313**	29 884	**29 654**	34 296
Balance at the beginning of the year	**29 884**	29 008	**34 296**	32 013
Utilisation during the year	**(23 054)**	(17 599)	**(22 733)**	(16 799)
Provision for the year	**17 483**	18 475	**18 091**	19 082
Balance at the end of the year	**24 313**	29 884	**29 654**	34 296
26.1 SOCIAL OBLIGATIONS				
Other social funds not included in distributions				
Balance at the beginning of the year	**7 109**	7 616	**7 109**	7 616
Utilisation during the year	**(8 729)**	(8 810)	**(8 729)**	(8 810)
Current funding for the year	**8 152**	8 303	**8 152**	8 303
Balance at the end of the year	**6 532**	7 109	**6 532**	7 109
Copyright training fund				
Balance at the beginning of the year	**-**	-	**1 360**	1 270
Utilisation during the year	**-**	-	**(261)**	(160)
Current funding for the year	**-**	-	**250**	250
Balance at the end of the year	**-**	-	**1 349**	1 360
Total social funds	**6 532**	7 109	**7 881**	8 469
26.2 CULTURAL OBLIGATIONS				
SAMRO Foundation initiatives and related provisions				
Provisions				
Balance at the beginning of the year	**20 713**	20 019	**20 713**	20 019
Utilisation during the year	**(14 318)**	(9 578)	**(13 767)**	(9 578)
Provision for the year	**9 303**	9 362	**8 654**	9 362
Unexpended grants / scholarships	**-**	910	**1 037**	910
Balance at the end of the year	**15 699**	20 713	**16 637**	20 713
Bequests and donations				
Balance at the beginning of the year	**2 062**	1 373	**2 062**	1 373
Utilisation during the year	**(7)**	(121)	**(7)**	(121)
Provision for the year	**28**	810	**127**	810
Balance at the end of the year	**2 083**	2 062	**2 182**	2 062
Bilateral agreement funds				
Balance at the beginning of the year	**-**	-	**2 313**	1 119
Utilisation during the year	**-**	-	**(720)**	1 194
Provision for the year	**-**	-	**549**	-
Balance at the end of the year	**-**	-	**2 142**	2 313
Bursary funds				
Balance at the beginning of the year	**-**	-	**739**	616
Utilisation during the year	**-**	-	**(286)**	(234)
Provision for the year	**-**	-	**359**	357
Balance at the end of the year	**-**		**812**	739
Total cultural funds	**17 782**	22 775	**21 773**	25 827
Total social and cultural funds	**24 313**	29 884	**29 654**	34 296

	COMPANY 2012 R000	COMPANY 2011 R000	GROUP 2012 R000	GROUP 2011 R000
27. TRADE AND OTHER PAYABLES	**58 372**	38 331	**62 433**	40 756
Members and affiliated societies	**34 443**	19 097	**34 443**	19 097
Accounts payable	**13 115**	10 493	**17 176**	12 918
Leave pay and bonus accrual	**10 819**	8 738	**10 819**	8 738
Non-residents royalty tax	**(5)**	3	**(5)**	3
	58 372	38 331	**62 433**	40 756

Trade and other payables do not attract interest and are payable 30 days from the date of statement.

Leave pay accrual is computed in terms of employees' current salary and accrued days leave at the financial year end. This method accounts for any utilisations during the year.

	COMPANY 2012 R000	COMPANY 2011 R000	GROUP 2012 R000	GROUP 2011 R000
28. CASH GENERATED FROM LICENSING OPERATIONS	**292 117**	245 300	**278 131**	242 004
Operating loss	**(27 711)**	(10 031)	**(42 353)**	(11 781)
Adjustments for:				
Depreciation	**2 454**	1 995	**4 848**	4 219
Amortisation of intangible assets	**627**	538	**627**	538
Loss/(profit) on disposal of property and equipment	**2 401**	239	**2 401**	(8 989)
Surplus on disposal of investments	**(12 834)**	(19 569)	**(12 834)**	(19 569)
Interest from subsidiaries	**(4 349)**	(3 954)	**-**	-
Income from investments	**(13 103)**	(12 393)	**(13 103)**	(12 393)
Income from term and call deposits	**(4 447)**	(1 856)	**(6 347)**	(2 611)
Bequests and donations	**(28)**	(810)	**(28)**	(810)
Post employment medical benefits	**3 986**	1 734	**3 986**	1 734
Distribution expense	**282 938**	246 073	**282 938**	246 073
Social and cultural expenses	**17 483**	18 475	**18 091**	19 082
	247 417	220 441	**238 226**	215 493
Decrease/(increase) in distributions and advances	**1 685**	2 469	**1 685**	3 983
Decrease/(increase) in accounts receivable	**23 214**	12 081	**16 764**	13 653
(Decrease)/increase in inventory	**(240)**	(150)	**(222)**	(141)
Increase in amounts owed to members and affiliated societies	**(717)**	(821)	**(717)**	(1 764)
(Decrease)/increase in accounts payable	**20 758**	11 280	**22 395**	10 780
	44 700	24 859	**39 905**	26 511
Total cash generated from licensing operations	**292 117**	245 300	**278 131**	242 004
29. TAXATION PAID	**(1 691)**	(1 152)	**(1 355)**	(1 728)
Opening balance	**1 220**	4 847	**674**	5 082
Current taxation	**3 106**	(3 941)	**3 898**	(3 610)
Prior year interest on tax received	**-**	89	**-**	89
Closing balance	**(434)**	(1 220)	**448**	(674)
Net adjustment	**3 892**	(225)	**5 020**	887
Net tax adjustment deferred tax	**(5 583)**	(927)	**(6 375)**	(2 615)
Total taxation paid	**(1 691)**	(1 152)	**(1 355)**	(1 728)

	COMPANY 2012 R000	COMPANY 2011 R000	GROUP 2012 R000	GROUP 2011 R000
30. ROYALTY AND NON-ROYALTY DISTRIBUTIONS TO MEMBERS AND AFFILIATED SOCIETIES	**(228 707)**	(252 493)	**(224 902)**	(247 205)
Available for distribution at the beginning of the year	**(258 032)**	(290 926)	**(258 032)**	(290 926)
Prior periods amounts	**20 467**	26 467	**20 467**	26 467
Available for distribution	**(237 565)**	(264 459)	**(237 565)**	(264 459)
Distributions in progress at the beginning of the year				
- Shares	**(7 384)**	(4 786)	**(7 384)**	(4 786)
- Works	**(83 604)**	(74 236)	**(83 604)**	(74 236)
	(328 553)	(343 481)	**(328 553)**	(343 481)
Distributions in progress at the end of the year				
- Shares	**8 818**	7 384	**8 818**	7 384
- Works	**91 028**	83 604	**91 028**	83 604
	(228 707)	(252 493)	**(228 707)**	(252 493)
DALRO licence and royalty fees received	**-**	-	**38 327**	31 364
DALRO distributions paid	**-**	-	**(34 522)**	(26 076)
	(228 707)	(252 493)	**(224 902)**	(247 205)
31. NON-LICENSING ACTIVITIES				
31.1 Increase in loans to subsidiary	**(24 603)**	(8 837)		
Opening balance subsidiary loans	**109 733**	100 897		
Closing balance subsidiary loans	**(134 336)**	(109 733)		
Increase in subsidiary loans	**(24 603)**	(8 836)		
Add: Intercompany interest and fees	**7 248**	6 449		
Indebtedness of subsidiaries	**(17 355)**	(2 387)		
Interest	**(4 349)**	(3 954)		
Administration, computer and management fees	**(2 899)**	(2 496)		
Net cash outflow to subsidiaries	**(24 603)**	(8 837)		
31.2 Movements in investments	**7 840**	7 652	**7 840**	7 652
Proceeds on disposal of investments	**48 010**	74 716	**48 010**	74 716
Investments purchased	**(40 170)**	(67 064)	**(40 170)**	(67 064)
	7 840	7 652	**7 840**	7 652
32. CASH AND CASH EQUIVALENTS	**99 531**	78 805	**139 917**	119 187
Cash and cash equivalents consist of cash on hand, balances with banks and investment in money market instruments and are made up as follows:				
Cash on hand and balances with banks	**89 763**	76 885	**130 149**	117 267
Short term investments	**9 768**	1 920	**9 768**	1 920
Total cash and cash equivalents	**99 531**	78 805	**139 917**	119 187

33. RELATED PARTY TRANSACTIONS

Individuals, as well as their close family members or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party, or exercise significant influence over the other party in making financial and/or operating decisions, or if the parties are jointly controlled. Key management personnel are defined as related parties as are all directors of SAMRO (Pty) Ltd and the main trading subsidiaries of the Group.

	COMPANY	
Subsidiaries	**2012**	2011
	R000	R000
33.1 Services rendered		
DALRO (Pty) Ltd	**2 611**	2 208
Samro House Holdings (Pty) Ltd	**96**	96
Samro House (Pty) Ltd	**192**	192
Total administration and management fees	**2 899**	2 496
Interest received SAMRO House Holdings (Pty) Ltd	**4 349**	3 956
	7 248	6 452
33.2 Purchases of services		
Rental expense		
Samro House (Pty) Ltd	**2 341**	2 403
	2 341	2 403
33.3 Balances owing/(owed)		
DALRO (Pty) Ltd	**731**	(5 775)
Samro House Holdings (Pty) Ltd	**121 484**	109 531
Samro IP Technologies (Pty) Ltd	**(78)**	(79)
Gratia Artis (Pty) Ltd	**404**	403
	122 541	104 080
Refer to note15 for further details		
33.4 Other related parties		
Balances owing		
SAMRO Foundation	**1 305**	-
POSA Trust	**10 491**	5 652
	11 796	5 652

33.5 Key management

Key management personnel are those personnel who by virtue of their office are able to influence strategic decisions. Management consider key management personnel to include Non Executive Directors, Executive Directors, Executive General Managers and General Managers.

a) Key management remuneration

Refer to note 12 for details on emoluments of key management

There are two groups of SAMRO directors - writers and publishers. These directors and parties related to them are entitled to royalty and non-royalty distributions from SAMRO. These distributions are computed on the same basis as those for other rights holders and are not considered to be emoluments for services as directors.

b) Year-end balances

	2012	2011
Loans to key management	**320**	245

34. RETIREMENT BENEFITS

In line with the statutory requirements for an actuarial valuation every three years, a statutory valuation of the SAMRO Staff Pension Fund was carried out by an independent firm of consulting actuaries on 30 June 2012. An IAS19 valuation is conducted annually by independent consulting actuaries as at 30 June each year. In terms of their report it was concluded that the fund was in a sound financial condition in terms of section 16 of the Pension Funds Act of 1956 as amended.

Summary of Results

The Pension Funds Second Amendment Act, 2001 does not allow companies sponsoring retirement funds to recognise any of the assets in a retirement fund unless as a result of a surplus apportionment exercise, or if the fund's rules allow it.

The balance sheet item that the company can recognise was calculated to be nil as at 30 June 2012 and 30 June 2011. The "adjusted expense" for the year ended 30 June 2012 was therefore calculated to be R7 101 000 (2011 - R5 785 000).

	Company and Group	
	2012	2011
	R000	R000
Active number of members	**208**	194
Total annual salaries	**47 769**	39 735
Number of pensioners (outsourced by the fund)	**16**	17
Present value of funded defined benefit obligation	**(85 991)**	(66 260)
Fair value of plan	**87 757**	72 577
Funded status of defined benefit plan	**1 766**	6 317
Unrecognised actuarial gains	**-**	-
Asset	**1 766**	6 317
Unrecognised due paragraph 58 limit	**(1 766)**	(6 317)
Asset recognised on balance sheet	**-**	-

The "paragraph 58 limit" ensures the asset to be recognised on the company balance sheet is subject to a maximum of the sum of any unrecognised actuarial losses, past service cost and the present value of any economic benefit available to the company in the form of refunds or reductions in future contributions.

In respect of those retirement arrangements which disclosed a positive funded status, no asset has been recognised by the Company. The disclosure of funded status does not necessarily indicate any assets available to the Company.

	Company and Group	
Actuarial valuation assumptions	**2012**	2011
Discount rate	**7.75%**	8.75%
Inflation rate	**5.00%**	5.75%
Salary increase rate	**6.00%**	6.75%
Expected rate of return on assets	**8.75%**	9.75%
Pension increase allowance	**4.00%**	5.07%

	Company and Group	
	2012	2011
	R000	R000
Components of income statement pension expense		
Current service cost	**6 265**	4 423
Interest cost	**6 577**	6 568
Expected return on assets	**(7 507)**	(7 463)
Amortisation:		
a. Unrecognised net transition obligation / (asset)	**-**	-
b. Unrecognised past service cost	**-**	-
c. Unrecognised net (gain) / loss	**-**	-
d. Unrecognised due to limit	**(4 551)**	(151)
Paragraph 58A(gain)/loss	**6 317**	2 408
Expense / (income)	**7 101**	5 785
Estimated contributions, benefit payments, expenses and risk premiums for the period 1 July 2011 to 30 June 2012		
Member contributions	**3 154**	3 020
Company contributions	**7 101**	5 785
Risk premiums	**(582)**	(525)
Benefit payments	**(2 599)**	(19 060)
Estimated return on assets for the period ending 30 June 2012	**7 074**	(10 780)
Reconciliation of (liability) / asset on the balance sheet		
(Liability) / asset as at 30 June 2011	**-**	-
Net expenses recognised in the income statement	**(7 101)**	(5 785)
Company contributions	**7 101**	5 785
(Liability) / asset as at 30 June 2012	**-**	-
Paragraph 59 limit	**-**	-
Unrecognised due to paragraph 59 limit	**-**	-
(Liability) / asset recognised on the balance sheet	**-**	-
Adjusted net expenses recognised in the income statement	**-**	-
Reconciliation of defined benefit obligation		
Defined benefit obligation as at 30 June 2011	**66 260**	64 490
Service cost	**6 265**	4 423
Member contributions	**3 154**	3 020
Interest cost	**6 577**	6 568
Actuarial loss	**6 916**	7 344
Benefits paid	**(2 599)**	(19 060)
Risk premiums	**(582)**	(525)
Defined benefit obligation as at 30 June 2012	**85 991**	66 260

	2012 R000	2011 R000
Reconciliation of fair value of plan assets		
Assets at fair market value as at 30 June 2011	**72 577**	70 958
Expected return on assets	**7 507**	7 463
Contributions	**10 255**	8 805
Risk premiums	**(582)**	(525)
Benefits paid	**(2 599)**	(19 060)
Actuarial gain / (loss)	**599**	4 936
Assets at fair market value as at 30 June 2012	**87 757**	72 577
Actual return on assets	**8 106**	12 399
Estimated asset composition as at 30 June 2012		
Cash	**13.20%**	13.80%
Equity	**66.04%**	62.01%
Bonds	**14.10%**	17.81%
Property and other	**5.08%**	3.35%
International	**0.07%**	3.03%
Other	**1.51%**	0.00%
Total	**100.00%**	100.00%
Determination of estimated pension expense for the fiscal year ending 30 June 2013		
Components of income statement pension expense		
Current service cost	**8 645**	6 265
Interest cost	**7 544**	6 577
Expected return on assets	**(8 127)**	(7 507)
Amortisation:		
a. Unrecognised net transition obligation / (asset)	**-**	-
b. Unrcognised past service cost	**-**	-
c. Unrecognised net (gain) / loss	**-**	-
Expense	**8 062**	5 335
Expected contributions, expenses and risk premiums for period 1 July 2012 to 30 June 2013		
Member contributions	**3 343**	3 224
Company contributions	**7 527**	6 175
Risk premiums	**(617)**	(560)
Expense	**10 253**	8 839

Valuation Assumptions

A summary of the assumptions used in the valuation, together with a short comment on each, are given below.

	Asset as at 30 June 2012 and expense for the year ending 30 June 2013	Asset as at 30 June 2011 and expense for the year ending 30 June 2012
Discount rate	7.75%	8.75%
Salary increase rate	6.00%	6.75%
Expected rate of return on assets	8.75%	9.75%
Inflation	5.00%	5.75%
Pension increase allowance	4.00%	5.07%

Discount Rate

The rate used to discount post employment benefit obligations should be determined by reference to market yields on high quality corporate bonds at the balance sheet date. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. In South Africa there is no deep market in corporate bonds and as such we have set our recommended assumption with reference to the yield on South African government bonds of medium duration. This converts into an effective yield of 7.75% as at 30 June 2012. In terms of the accounting standards, historical yields are less important and we consequently consider it appropriate to use the discount rate of 7.75% per annum.

Inflation Rate

While not explicitly used in the valuation, we have assumed the underlying future rate of consumer price inflation (CPI) to be 5.00% per annum. This assumption has been based on the relationship between the current conventional bond yields and the current index-linked bond yields. This assumption is in line with the SA governments' monetary policy target of 3.00% to 6.00% per annum

Salary Increase Rate

We have assumed that the general level of salary increases to be awarded in the long term will, on average, be equal to inflation plus 1.00% plus a merit increase based on the age-related table below.

Age	Merit Increase
20	13.5%
25	9.0%
30	5.5%
35	3.9%
40	2.9%
45	1.9%
47+	1.5%

Expected Return on Assets

The fund's expected long term return is a function of the expected long term returns on equities, cash and bonds. In setting these assumptions, we made use of the asset split as at 31 March 2012. The expected long term rate of return on bonds was set at the same level as the discount rate. This implies a yield on government bonds of 7.75% per annum. The expected long term rate of return on equities was set at a level of 3% above the bond rate, whilst the expected long term rate of return on cash was set at a level of 1% below the bond rate. Adjustments were made to reflect the effect of expenses.

Pension Increase Rate

The trustees have adopted a pension increase policy targeting 80% of inflation. A pension increase rate of 4.00% per annum has thus been used.

These assumptions differ from those used in the funding valuation and have been based on the requirements of the reporting standard. All other assumptions adopted in the funding valuation were left unchanged.

The assumed rates of mortality are as follows:

During employment: SA85-90 Ultimate table

Post employment: PA (90) Ultimate table rated down 1 years plus 0.75% improvement per annum from June 2004.

35. FINANCIAL RISK MANAGEMENT

The group's principal financial liabilities comprise, trade payables and loans received. The main purpose of these financial liabilities is to raise finance for the group's operations. The group has various financial assets such as trade receivables, cash and short term deposits and available for sale investments which arise directly from its operations.

The main risks arising from the group's financial instruments are cash flow interest rate risk, liquidity risk and other price risks in the form of the fair value movements of its investments and credit risk. The board of directors reviews and agrees the policies for managing each of these risks which are summarised below.

Interest rate risk
The group's exposure to the risk of changes in market interest rates relates primarily to the group's long-term debt obligations with floating interest rates and short and medium term deposits with floating interest rates.

Interest rate risk table
The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the group's profit before tax (through the impact on floating interest rate borrowings and investments). There is no impact on the group's equity.

2012	**Increase/decrease in basis points**	**Effect on profit before tax**
	%	**R000**
Mortgage bond	**+1%**	**(273)**
	-1%	**273**
Treasury funds	**+1%**	**1 399**
	-1%	**(1 399)**

2011	**Increase/decrease in basis points**	**Effect on profit before tax**
Mortgage bond	**+1%**	**(275)**
	-1%	**275**
Treasury funds	**+1%**	**1 173**
	-1%	**(1 173)**

Credit risk
The group trades only with recognised, creditworthy third parties. In addition receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is limited. The maximum exposure is the carrying amount as disclosed in Note 19.

With respect to credit risk arising from the other financial assets of the group, which comprise cash and cash equivalents and available for sale financial investments, the group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk
The Group monitors its risk to shortage of funds .The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of investment planning and treasury management.

The following table analyses the group's financial liabilities in terms of relevant maturity groupings based on the remaining period at the date of the statement of financial position.

			R000		
Year ended 30 June 2012	**On demand**	**Less than 3 months**	**3 months – 1 year**	**1 to 5 years**	**Total**
Interest bearing loans and borrowings	-	-	27 304	-	**27 304**
Trade and other payables	-	62 433	-	-	**62 433**
For distribution	-	-	326 285	-	**326 285**
Other liabilities	-	-	130 669	-	**130 669**
	-	**62 433**	**484 258**	**-**	**546 691**

Year ended 30 June 2011	**On demand**	**Less than 3 months**	**3 months – 1 year**	**1 to 5 years**	**Total**
Interest bearing loans and borrowings	-	-	-	27 478	**27 478**
Trade and other payables	-	40 756	-	-	**40 756**
For distribution	-	-	300 264	-	**300 264**
Other liabilities	-	-	125 284	-	**125 284**
	-	**40 756**	**425 548**	**27 478**	**493 782**

Price Risk

The group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The group manages price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the group's senior management on a regular basis. All equity investment decisions are reviewed and approved by the Group Investment Committee.

At the reporting date, the exposure to listed and unlisted equity securities at fair value was R259.8 million. A decrease of 10% in the JSE market index could have an impact of approximately R25.9 million on the equity attributable to the group, depending on whether or not the decline is significant or prolonged. An increase of 10% in the value of the listed securities would impact equity but would not have an effect on profit or loss.

	Change in year-end price	**Effect on equity**
	%	**R000**
2012 Listed investments	+10%	23 240
	-10%	(23 240)

Capital Management

The primary objective of the group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business.

The group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the distribution payments to members and transfers to and from the group's reserves. No changes were made to the objectives, policies or processes during the years ended 30 June 2011 and 30 June 2012.

36. FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of the carrying amounts and fair values of all the group's financial instruments.

	Carrying Amounts		**Fair Value**	
	2012	2011	**2012**	2011
	R000	R000	**R000**	R000
Financial assets				
Cash	139 918	119 187	**139 918**	119 187
Available-for-sale investments	259 883	238 252	**259 883**	238 252
Financial liabilities				
Interest bearing loans	**27 304**	27 478	**27 304**	27 478

Market values have been used to determine the fair value of available for sale financial assets. For investments where there is no active market fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation methods.

37. EVENTS SUBSEQUENT TO REPORTING DATE

Payment of a final dividend of R726 898 was made by Fifteen Melle Street (Pty) Ltd in August 2012. The company has since been deregistered by the Companies and Intellectual Property Commission.

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AUDITORS
PricewaterhouseCoopers Inc.
Sunninghill

LEGAL ADVISORS
Cheadle Thompson & Haysom
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