

Video Entertainment

We are building Africa's leading video-entertainment business. The key to our growth and success is to offer our customers great entertainment anywhere, anytime across platforms including digital terrestrial television, direct-to-home and subscription video-on-demand services.

Highlights of the year



Total subscribers increased by 1.5m to over 13m households.



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We continued to implement our value strategy.



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We invested heavily in local content.



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We continued to drive costs down.



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SUBSCRIBERS INCREASED BY

1.5m

year on year

TRADING PROFIT GREW

29%

24%⁽¹⁾ to US\$369m

Note
⁽¹⁾ In local currency excluding M&A.

WE NOW HAVE OVER

13m

subscribers across Africa

Markets

We are facing increased competition from global and local players across our video-entertainment markets.

Competition is increasing with video consumption on online platforms growing, and global players like Netflix, Amazon, Facebook and iFlix continuing to offer alternatives to our service in our territories. In addition, local streaming players like Kwese, Cell C Black and Vodacom VideoPlay have also emerged.

Aspiring direct-to-home (DTH) and digital terrestrial television (DTT) players continue to invest across Africa, notably StarTimes, Zap, Azam and Kwese. Free-to-air channels and analogue switch-offs in many countries are also creating further competitive pressure on our products.

We performed well in the increasingly competitive world of video entertainment.

Performance

REVENUE⁽¹⁾ (US\$'m)

2018	3 680
2017	3 401

IFRS: ↑8% LC: ↑7%

TRADING PROFIT⁽¹⁾ (US\$'m)

2018	369
2017	287

IFRS: ↑29% LC: ↑24%

Notes

⁽¹⁾ Presented on an economic-interest basis.
LC = local currency.

A solid performance

Our video-entertainment segment once again produced a solid performance, with subscribers increasing by 1.5m and profitability growing 29% year on year. We now have over 13m subscribers across the continent. This reflects the success of the value strategy we have been implementing for the past two years where we have reorganised our channel bouquets to attract more subscribers as well as focusing on improving our systems and, in turn, our customer retention.

Focus on South Africa

Increasing subscribers

Despite a tough economic and uncertain political environment, we achieved subscriber growth of more than 500 000 and are now approaching 7m total subscribers.

Increasing profitability

The trend of growth in the mass market continues, while our Premium tier is showing declining growth and the Compact tier is starting to stabilise. Due to this change in our customer mix, average revenue per user (ARPU) declined from R353 to R344 year on year.

Enhancing products

We continue to enhance our product offering to deliver the best customer experience.

This year we repositioned the Extra Bouquet as Compact Plus, to define more accurately the product proposition and align with the naming convention in the rest of Africa. We offered Showmax free to Premium subscribers and discounted Showmax to R49 for Compact subscribers, resulting in excellent uptake. The DSTv Now channel line-up was increased to match our satellite offering and high-definition SuperSport channels were also added.



Launch of a dedicated satellite

Giving our customers uninterrupted viewing is not negotiable. MultiChoice's journey as a premier satellite broadcaster took a huge leap forward with Intelsat's launch of the IS36 satellite. The satellite launched from the European Space Agency's Guiana Space Centre in French Guiana on 24 August 2016. The satellite has an intended lifespan of 15 years, thereby providing adequately for MultiChoice's DSTv roadmap until at least 2031.

Our dedicated satellite in space helps ensure uninterrupted viewing back here on earth.



Focus on South Africa *continued*

Keeping data secure

Irdeto has developed several solutions around encryption and key management.

Encryption allows information and data to be hidden so that it cannot be read without special knowledge, or a 'key'. To read the encrypted information a specific (secret) key is needed to decrypt the information. There are already many ways and standards to encrypt content and data, so that is not the challenge. However, what is extremely difficult is dealing with the complexity of issuing keys during the manufacturing process of devices, to distribute keys, to encrypt keys (with using other keys) and then to manage and revoke and redistribute new keys, eg when there is a hack.

Irdeto takes care of that challenge by implementing and managing mostly two-way systems where both ends send and receive data.

Irdeto is an industry leader in developing security building blocks to create secure key-based business systems such as Key Generation Technology to embed the master key in devices and servers; key distribution systems to ensure keys are only provided to legitimate business users; software protection technology; hardware protection elements; secure telemetry to identify potential breaches and many more. At the same time Irdeto supplies end-to-end security systems like Cloaked CA, which is the world's leading software-based conditional access system; Control, which is the most universal and powerful DRM licence system as well as KeyStone, which is an innovative connected vehicle access and usage management system.

Irdeto is an industry leader in keeping information and data secure.



Our online properties are gaining traction. To increase access to DStv Now, we have opened it to all bouquet tiers. Explora penetration, BoxOffice rentals and connected Explora connections also recorded good growth during the year.

We have also created a connected video division by combining our Showmax Africa and digital media operations to ensure we give adequate focus to online products moving into the future. Showmax International continues to build and grow our business in Eastern Europe.

Serving our customers with top-quality content

We successfully renewed key entertainment and sport rights, including the English Premier League (EPL), Premier Soccer League (PSL) in South Africa, UEFA Champions League (UCL), as well as the Discovery, Disney and Turner offerings. In addition, we secured key once-off properties such as the Conor McGregor vs Floyd Mayweather fight, which drew record viewership across platforms in the year. These successes allow us to continue to serve our customers with top-quality international content.

Our investment in local content is primarily through the Mzansi group of channels in South Africa and Africa Magic in the rest of Africa. Our efforts have been well received by subscribers, with our channels among the top performers in their peer group. We also launched a new channel, iMagic, to cater for the Premium local audience, anchored by a high-quality local telenovela – The River.

We are investing heavily in local content – it is an important differentiator for us that our customers really appreciate.

This year we also increased our offering of themed pop-up channels, which proved very popular with viewers.

Managing regulations and reputation

Our teams continue to engage and work with our regulators to shape our regulatory environment and limit adverse operating conditions. They also help to manage our reputational risk to protect our brand.

Concerns about MultiChoice South Africa's relationship with ANN7 and questions about how it lobbied government were raised in the media in November 2017. As a result, the MultiChoice audit and risk committees came together to assess: whether or not appropriate procedures were followed in relation to the ANN7 contract; the payments that were made by MultiChoice to ANN7; and whether or not there were irregularities in the submissions MultiChoice made to the Minister of Communications. After a thorough and comprehensive review the committees found no evidence of corruption or other illegal activity but did identify certain procedural shortcomings. MultiChoice South Africa accepted the findings and confirmed that it will address the shortcomings that were identified. Accordingly, MultiChoice South Africa will ensure that robust due diligence processes will always be followed for startup channels and that management highlights issues of controversy and reputational risk at the quarterly audit and risk committee meetings. Key issues will be brought to the MultiChoice South Africa board for further consideration, including how to formalise MultiChoice South Africa's lobbying process. In the absence of national guidelines on lobbying and interaction with regulators and government, MultiChoice management will develop guidelines for approval by the board. MultiChoice South Africa confirmed that it would not renew ANN7's current contract when it ends in August 2018. It confirmed there will be an open bid for a replacement local news channel.

SPOTLIGHT

c7m

the number of video-entertainment subscribers in South Africa

R344

average revenue per user

Wide-ranging corporate social investment

Social and relationship capital

Across our video-entertainment segment we continue to contribute towards various corporate social responsibility (CSR) programmes – from the Magic in Motion Academy to SuperSport's Let's Play initiative. It's all part of our commitment to enriching lives across the continent.

Total corporate social investment spend totalled R60m in 2018.

Project Thorn

This programme helps stop crime, specifically human trafficking, with the use of Irdeto technology.

MultiChoice Diski Challenge

Amounting to R45m per annum, including rights, this multifaceted programme is aimed at developing football and broadcasting.

Let's Play

SuperSport's flagship social investment initiative, the programme is an implementation partner of school sport for the Department of Basic Education and is now active in thousands of schools nationwide, reaching over a million children annually.

The Let's Play Schools Physical Education Challenge

In partnership with the Department of Basic Education, Sport and Recreation South Africa, the Physical Education Institute of South Africa and Unicef SA, SuperSport launched the biggest school sport initiative of

its kind – the Let's Play Schools Physical Education Challenge – to celebrate reaching its 10-year milestone in 2016. The primary objective of this challenge is to reinforce the instruction of curriculum-oriented physical education and promote physical activity in all schools. Let's Play assists the Department of Basic Education with its school infrastructure project, together with partners Hitachi Construction Machinery and Builders. Eight multi-purpose artificial fields have been built at selected primary schools to date with another three to be built at beneficiary schools in 2018.

M-Net Magic in Motion (MiM) Film and TV Academy and Career Expo

Through MiM, CSI projects include an extensive internship programme, where young producers work with industry experts for hands-on experience. The MiM Career Expo was launched in August 2014. M-Net partnered with tertiary and financial institutions, as well as production companies, to give learners a complete view of the industry. Attendees were also made aware of the variety of jobs available in the industry, such as presenting, acting, camerawork and directing, giving them valuable insights from industry experts and practical exposure to several disciplines.

In 2018 our video-entertainment segment invested R60m across various CSR initiatives.



Focus on the rest of Africa

Across the rest of Africa we continued our value strategy – focusing on accelerated subscriber growth across all bouquets while controlling costs.

Improving products

We further improved our product offering with the successful launch of Compact Plus in Namibia, Angola and Mozambique and the launch of GOtv Max, a new higher-tier bouquet on our DTT platform.

Reducing costs

We removed substantial costs from the business by renegotiating international content agreements or dropping non-performing content and reducing local football rights. We made further investments in new content formats and local productions. We have also focused on reducing overhead costs, despite inflationary pressures.

Improving our customer journey

We continued to improve on key capabilities such as sales and distribution, retention and customer care, which are all geared towards improving our customer journey. We also continued to strengthen and build teams in growth areas of the business.

Irdeto

Irdeto had another strong year with positive growth in revenues and profitability. To reinforce its product portfolio, Irdeto completed the acquisition of Denuvo, the number one supplier of anti-tamper and anti-cheat solutions to the video-gaming industry.

SPOTLIGHT

>13m

the number of video-entertainment subscribers across Africa

Creating an outstanding green building for MultiChoice

MultiChoice City, based in South Africa and home to our video-entertainment segment, is 5-star Green Star-rated, a rating received from the Green Building Council of South Africa. The building offers a grey water reticulation system and heating and cooling systems and processes to trap and disperse natural light.

This 5-star rating was achieved by following the Green Building Council's matrix, with key points scored for:

- Management – building tuning, environmental management and waste management.
- Indoor environment quality – ventilation rates, air-change effectiveness and volatile organic compounds.
- Energy – greenhouse gas emissions, energy sub-metering, lighting power density, lighting zoning and peak energy-demand reduction.
- Water – occupant amenity water, water meters, landscape irrigation and heat-rejection water.
- Materials – use of environmentally friendly material.

Points were also scored for transport, land use and ecology, emissions and innovations.

MultiChoice's head office has a 5-star Green Star rating.



Developing leadership and gender diversity

Across the video-entertainment segment, we have a number of established programmes to develop leadership abilities and competencies at all levels of seniority.

Empowering women

We implemented a Leading Women programme with the Gordon Institute of Business to develop women at a middle to senior management level.

Other initiatives include internal leadership development programmes, Women in Management, Business and Public Service (Wimbiz) and a women empowerment programme with the Lagos Business School.

We have submitted a five-year employment equity plan to the Department of Labour as part of our compliance to the Employment Equity Act.

This includes ensuring that all of our human resources policies, processes and practices support diversity and inclusion.

Managing talent

Our talent management framework helps in the implementation of succession planning and the employment of women in senior roles.

We also have affiliations with LGB Tech and Women in Tech as part of our commitment to promoting recruitment diversity.

Our video-entertainment segment has a number of leadership and gender diversity programmes.

