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SBS SUBMISSION

Maintaining multicultural and multilingual media services through advertising and sponsorship flexibility

Communications Legislation Amendment (SBS Advertising Flexibility and Other Measures) Bill 2015

Senate Environment and Communications Legislation Committee

15 April 2015

Executive Summary

The Special Broadcasting Service Corporation (SBS) welcomes and supports both the introduction of the *Communications Legislation Amendment (SBS Advertising Flexibility and Other Measures) Bill 2015* (the Bill) to the Parliament by Minister for Communications Malcolm Turnbull, and the public enquiry into the Bill led by the Committee. The Bill proposes amending the *Special Broadcasting Service Act 1991 (SBS Act)* to provide SBS with flexibility in implementing advertising and sponsorship within SBS programming.

In 2014, the ABC and SBS Efficiency Study, led by former Chief Executive Officer of Seven West Media Peter Lewis (Lewis Efficiency Study), identified several back-of-house functions, including use of equipment, property and technologies in which the public broadcasters could examine efficiencies. The review acknowledged that the integrated practice of efficiencies identification within the SBS planning and budgeting process over a number of years left few options to achieve further savings outside of SBS programming.

As a result of the Lewis Efficiency Study, Minister Turnbull announced further cuts to SBS's funding in November 2014. Of the cuts, $25.2 million was based on back office efficiencies that SBS was already working towards. A further $28.5 million was predicated on successful legislative amendment to the *SBS Act*, which would provide SBS with additional advertising and sponsorship flexibility and allow SBS to deliver this portion of the funding cut via a modest annual revenue increase. The total funding cut of $53.7 million over five years from 2014-15 has already been reflected in SBS's forward estimates.

On 19 November, 2014 Minister Turnbull stated:

> *For the SBS this means its operating budget will be reduced by $25.2 million or 1.7 per cent over the five year period. A legislative change to allow SBS to generate further revenue by changing its advertising arrangements will bring the total savings returned to the budget to $53.7 million or 3.7 per cent. (*Appendix A)

On 24 March, 2015 Minister Turnbull stated:

> *In the longer term, the government's intention from these changes is that SBS becomes a stronger and more sustainable broadcaster. Advertising flexibility strengthens SBS by making it less dependent on Government and helps secure its future and independence.*
> (Appendix B)

The Bill, if passed by Parliament, would enable SBS to use its current 120 minutes per day of advertising differently, by allowing it to average minutes across the day to a maximum of 10 minutes per hour instead of the current five minutes per hour. Importantly, the Bill maintains the current daily limit of 120 minutes per day of advertising on each of SBS's three free-to-air television channels, SBS ONE, SBS 2 and National Indigenous Television (NITV).

The SBS Charter, under the *SBS Act*, sets out the network's responsibility to provide multilingual and multicultural services which inform, educate and entertain all Australians. Distinct from its commercial broadcaster counterparts, any additional revenue raised through advertising and sponsorship is directed toward protecting SBS investment in Australian programs and services which deliver on its Charter obligations.

SBS's ability to earn commercial revenue is critical to its operating model and sustainability. As a hybrid funded organisation since 1991, SBS has a highly evolved workplace culture, operating systems and codes and guidelines in place to manage the complexities of being a public broadcaster with commercial activities. The organisation is well-positioned to responsibly and sensitively manage increased flexibility in advertising and sponsorship in line with audience and stakeholder expectations, whilst maintaining the integrity of the SBS Charter.

SBS would only implement additional advertising and sponsorship in programs and timeslots where it would not detract from efforts to reflect the Charter. Additional revenue would assist the organisation's ability to maintain investment in multicultural and multilingual Australian programs and services.

In an environment where SBS is under financial pressure and is already operating highly efficiently and in a highly competitive media market, the ability to generate a modest increase in its own revenue would help to secure the future sustainability of the organisation, without compromising service levels.

Given back-of-house efficiency initiatives have already been acknowledged through government review processes (including notably the Lewis Efficiency Study) to be largely exhausted and resulting savings returned to government, without the flexibility to generate further revenue, SBS will be forced to implement immediate cuts to its programs and services, effective from 2015-16.

In this submission, SBS seeks to demonstrate:

- A robust assessment of the federal funding, market forces and media environment which are driving the imperative for legislative amendment;
- That the modelling on which SBS has based four-year revenue projections is sound and accurate;

- SBS's capacity to manage advertising flexibility in a way that protects the organisation's unique purpose and its contributions to social cohesion through unique Australian programs and services; and
- The impact to SBS programming and service levels if legislative amendment is unsuccessful in passage through the Parliament.

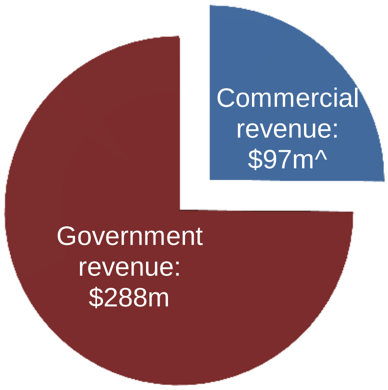
Current SBS operations

SBS's broadcasting system has been shaped over decades by well-considered regulations based on a dual public and commercial broadcasting system. SBS is unique in the Australian media market as a hybrid-funded public broadcaster.

SBS has traditionally received around 75 per cent of its funding from government, including base funding, tied funding for NITV and transmission funding. Total revenue from SBS's own sources was $102 million in 2013-14 and is forecast at $97 million for 2014-15. Both financial years were influenced by additional advertising and sponsorship revenue associated with the 2014 FIFA World Cup.

The majority of SBS's total own-source revenue is raised primarily through advertising and sponsorship, in addition to sources such as subscription television revenue (for SBS's subscription channels STUDIO, which ceased transmission on March 30, and World Movies), merchandising and royalties. Advertising and sponsorship revenue spikes every four years during the FIFA World Cup.

SBS Revenue Sources (2014-15*)
Millions of dollars



Notes: *Estimated actual ^Commercial revenue includes total advertising and sponsorship revenue for television, radio and online (including FIFA World Cup), Subscription Television, SBS Distribution, television royalties, rental income and interest.
Source: Department of Communications, Portfolio Budget Statement 2014-15, SBS Agency Resource Statement (MYEFO update)

As part of its commitment to service all Australians, SBS is responsible for one of the world's most diverse cross-platform media networks, including:

- Three distinct television channels – SBS ONE, SBS 2, NITV;
- 74 language programs on SBS Radio;
- Three analogue radio services broadcasting news and information in-language;
- Four digital-only radio channels;
- Subscription services (World Movies and recent arrangements with Stan);
- SBS's digital and online content, including SBS ON DEMAND and Australia's largest free collection of movies;
- In-language support services (including translation, subtitles and video production services); and
- A calendar of community engagement efforts that reach multicultural and Indigenous communities across Australia.

As confirmed by the Lewis Efficiency Study, this unique funding arrangement allows SBS to operate as a highly effective and efficient multicultural and multilingual broadcaster, delivering diverse content across platforms. Each month SBS reaches 12.6 million Australians across its television channels each month and attracts over 8 million in average monthly video views.

SBS is an efficient, responsive and innovative media organisation which is strategically addressing the challenges and opportunities of a converged media market by playing to its strengths with content that engages a diverse cross-section of the Australian community across the multiple platforms available.

The network's point of difference is its ability to make programs which speak to diversity; esteemed news and current affairs, award winning programs like Go Back to Where You Came From, First Contact, Gourmet Farmer and our other food programming which explores culture through cuisine. SBS has invested in growing football and cycling for decades, however this is increasingly expensive to retain.

Summary of organisation impact of proposed changes

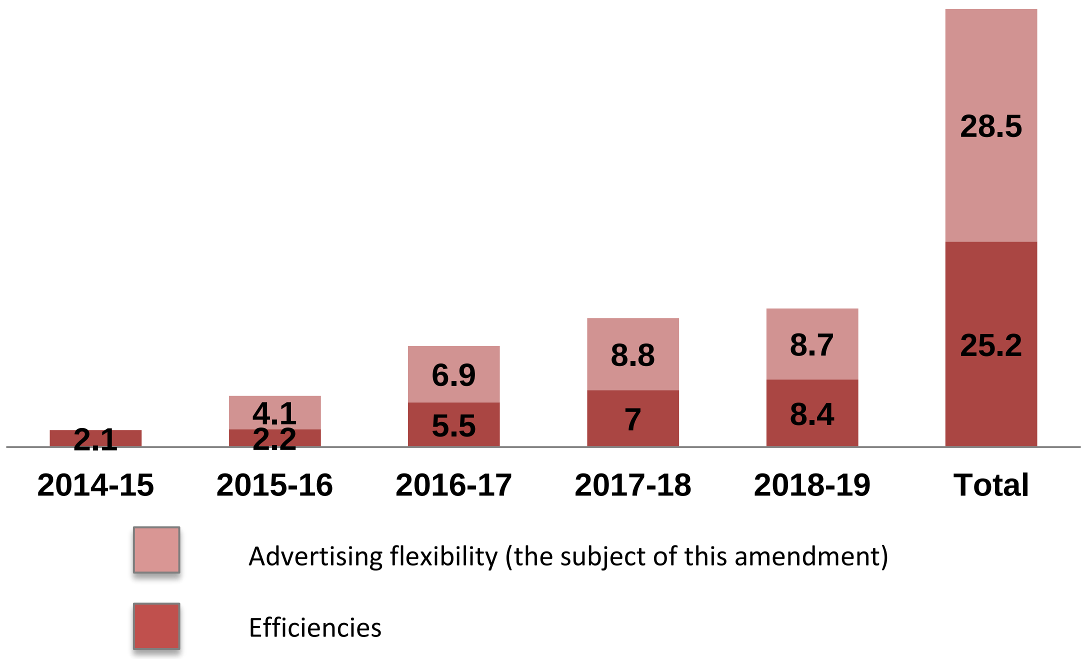
On 19 November 2014, Minister Turnbull announced a $53.7 million funding cut to SBS's base government funding over five years, effective 2014-15. As illustrated in the next table, SBS's five year government funding profile has already been altered by $53.7 million and assumes successful legislative passage of the Bill will account for $28.5 million of this cut.

During the Lewis Efficiency Study, SBS demonstrated to the Federal Government that it is a lean and agile organisation and highly skilled at delivering on Charter obligations. But with back-of-house efficiency savings largely exhausted, SBS is

SBS

unable to absorb additional funding reductions without impacting current services and programs.

Profile of Government Funding Cuts (2014-15 to 2018-19)
($m)



Source: Department of Communications

Advertising Minutes

The Bill proposes an amendment to the *SBS Act* which would enable SBS to use its allowable advertising and sponsorship minutes differently, by allowing it to average the minutes throughout the day to a maximum of 10 minutes per hour instead of the current maximum of five minutes in any hour. The Bill does not propose to change the overall amount of advertising allowed on SBS, which would remain at 120 minutes in any 24 hours of broadcasting.

This measure would deliver more flexible and effective use of advertising and sponsorship time without reducing content levels, as SBS would be able to maximise its advertising revenue during peak viewing times and in other one-off high rating programs such as sporting events and its popular food programming, without increasing the overall level of advertising across the day.

SBS must balance commercial and Charter imperatives, which would limit the extent to which it would implement increased advertising and sponsorship. For example, there are a small number of programs and events – such as the network's regular coverage of the Tour de France – that would be conducive to increased advertising without compromising content quality. It is prudent for SBS to be positioned to take advantage of such revenue earning opportunities where it is practicable.

Product placement in programs

The Explanatory Memorandum to the Bill indicates that product placement occurs when a product, service or trademark is featured incidentally within a program in return for payment or similar consideration. This practice is commonplace in Australia within the commercial broadcasting sector and for public broadcasters across the world. In the UK, broadcasters are subject to the Ofcom Broadcasting Code which has strong safeguards in place to ensure that product placement does not influence the content and scheduling of a program in a way that affects the responsibility and editorial independence of the broadcaster.[1]

The *SBS Act* does not explicitly allow for SBS to generate additional revenue through product placement, either from commissioned or acquired content. SBS currently broadcasts acquired content which contains product placement, subject to editorial assessment, but it does not receive any direct benefit from such placements.

Providing clarity in the *SBS Act* represents an opportunity to explore additional revenue gains through appropriate product placement, in line with editorial objectives.

As with SBS's use of advertising and sponsorship, governance and reporting arrangements will be developed to ensure any product placement protects the integrity of the SBS Charter and editorial independence. SBS is highly equipped to manage complexities around these considerations given its history as a hybrid funded organisation.

Under the proposed amendments, the SBS Board would be required to develop and publicise guidelines on the kinds of product placement that SBS was prepared to have in its content. SBS would develop guidelines to ensure it maintained editorial responsibility for its content, as required under the *SBS Act*.

Financial modelling and revenue projections

SBS has undertaken substantial financial modelling on the proposed amendments to allow for advertising flexibility and brand integration into programming and ascertained that these measures could earn SBS $28.5 million net ($39.5 million gross) over the next four years. As illustrated in the below table, the proposed advertising flexibility represents an incremental annual increase on current revenue

[1] Ofcom, Broadcasting Code (2013), Section 9 Commercial references in television programming.

earnings.

Profile of Government Funding Cuts ($m)

	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Efficiencies	2.1	2.2	5.5	7	8.4	25.2
Advertising Flexibility		4.1	6.9	8.8	8.7	28.5
Total	2.1	6.3	12.4	15.8	17.1	53.7
Cumulative total	2.1	8.4	20.8	36.6	53.7	53.7

Source: Department of Communications

Anticipated Revenue Impacts

SBS estimates the amendments would allow it to earn an additional net $4.1 million in 2015-16, building up to $8.7 million in the fourth year. Over the four years, the amendments would help SBS deliver $28.5 million in incremental net revenue to replace the cuts in government funding.

SBS estimates are based on a number of detailed assumptions, taking into account various market forces and commercial realities that influence its advertising efforts as a unique public broadcaster. These key drivers include:

- SBS's 'fill rates' – the proportion of available advertising airtime that is paid advertising and sponsorship – which differs strongly across metropolitan and regional broadcasts and across SBS's multiple channels;
- SBS's 'rate card' – the rate charged for advertising and sponsorship;
- The suitability of specific properties towards advertising and sponsorship;
- Sales and agency costs; and
- Audience trends on the primary free-to-air channels, observed over the past five years.

SBS's assumptions and modelling findings have been evaluated by two external sources, Deloitte and media agency OMD.

In April 2015, OMD Chief Executive Peter Horgan stated:

> *"…as a niche commercial audience provider faced with navigating charter requirements, SBS is a long way back in the queue for an additional share of advertising budgets. As such, in the face of the realities of the current television landscape and advertising market, OMD believes the incremental revenue estimates provided by SBS are reasonable."*

In April 2015, Deloitte Partner Steve Shirtliff stated:

> *"In undertaking our analysis we have not observed any assumptions that are materially inconsistent with SBS's historical advertising revenue performance, business and industry trends, or other relevant supporting documentation and calculations. We have also obtained and read the market review undertaken by marketing agency OMD Worldwide, which indicated that the incremental revenue estimates modelled by SBS are a reasonable assessment of the additional advertising revenue that SBS could earn over the forecast period. Nothing has come to our attention in this market review that is materially inconsistent with our observations on the model assumptions."*

Full statements of evaluation from these independent parties are available at Appendix C.

The ability to generate additional revenue will not automatically lead to increased revenue. SBS is by no means assured of this revenue as it still needs to be earned by attracting advertisers to content which can be challenging and hard to sell in a very competitive market where a diversity of advertising options exist.

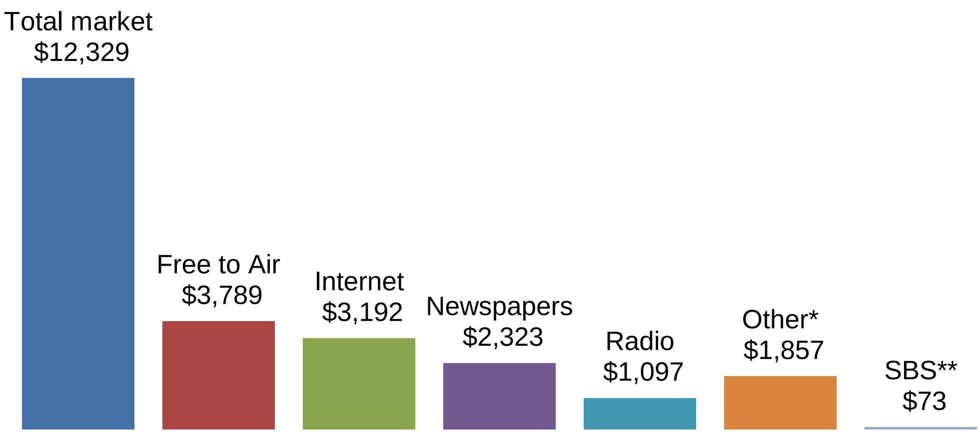
SBS television advertising revenue is currently less than two per cent of the $3.8 billion television advertising market per annum. If SBS reached its target of an additional $28.5 million over four years via greater advertising flexibility, its impact would amount to less than 0.3 per cent of the free-to-air television market annually.

Media landscape

SBS's 120 minute daily cap on advertising is well below the 350 minutes per day the commercial broadcasters can devote to advertising.

SBS introduced in-program advertising in 2006. Since then, Google dominates the web, Facebook, Foxtel, FetchTV and Twitter have taken off, and the arrival of on demand services like Stan, Presto and Netflix have Australian audiences unprecedentedly engaged in assessing the content services available to them.

Comparison of SBS Advertising and Sponsorship revenue with the total Australian Advertising Market (2013)
($m)



Notes: Market data is based on 2013 calendar year, SBS data is based on 2013-14 financial year;
* Other includes Out-of-home, STV, Magazines, Interactive Games & Filmed Entertainment.
**SBS data includes total advertising and sponsorship revenue for television, radio and online
Source: PWC Australian Entertainment & Media Outlook 2014-2018; SBS Annual Report 2013-14

New operators challenge all networks, including SBS, to look forward strategically and adjust their offering. Simultaneously, the cost of content production and acquisitions is increasing as competition for that content increases from the new operators.

Under the amendment proposed, SBS's 120 minute daily cap on advertising would remain well below the 350 minutes per day that commercial free-to-air broadcasters are permitted. International comparisons demonstrate that the Bill's proposed amendments are lower than the advertising limits of a range of other public broadcasters. For example:

- Channel 4 in the United Kingdom is permitted to broadcast an average of seven minutes per hour across the broadcasting day (for a total of 168 minutes of advertising per day) and an average of eight minutes an hour during primetime;
- There are no limits on the amount of advertising permitted to be broadcast by the Canadian Broadcast Corporation (CBC) TV. On average, CBC TV broadcasts 12 minutes of advertising per hour during primetime; and
- The Swiss Broadcasting Corporation is permitted to broadcast a maximum of 12 minutes of advertising on TV per hour.

These international public broadcasters comply with appropriate advertising legislation while continuing to meet public service obligations and contributing to their respective media environments. Further information on commercial funding arrangements for public broadcasters is included in Appendix D.

SBS is being asked to contribute as much as one third of annual funding from its own commercial revenues, whilst maintaining appropriate levels of locally produced Australian programming. Against this backdrop, if a strong and viable SBS is a priority, it is timely and necessary to review the current advertising restrictions placed on SBS.

Where federal funding is decreasing and market competition is rapidly increasing, SBS must be equipped with more flexibility to offer solutions-based packages to advertising clients in line with media trends to ensure that SBS assists in growing the overall television advertising segment.

Impacts of unsuccessful legislation passage

SBS's capacity to develop programs and services which speak to the diverse multicultural Australian population is critical to maintaining its relevance.

The Federal Government has reduced SBS's total government appropriation by $53.7 million over five years and that funding has been removed from its forward estimates.

Should this Bill fail to pass, SBS will be unable to deliver the government saving measure and therefore required to implement $28.5 million in programming and services cuts over the next four years.

As an already lean and agile organisation, SBS will be forced to consider reductions in programming and services. In no uncertain terms, $4.1 million will be removed from the 2015-16 Budget through job losses and reduction in content expenditure, increasing to almost $9 million in year four (See table pg 7).

The impact of the Bill not passing will not only be negative for SBS, but will affect the communities the organisation services and reduce SBS's relevance in the broader media environment.

The funding cuts will specifically impact major Australian programming and service areas that are traditionally expensive to produce and develop. This would reduce not only SBS's attractiveness for audiences and advertisers, but will severely limit the organisation's ability to fulfil SBS Charter obligations.

With broadcasters – both public and private – operating in an environment of constrained and uncertain financial resources and given SBS's distinctive offering, it is unlikely any reduction in content from SBS would be offset by competitor activities. Likewise, a reduction in funding for SBS would lead to decreased investment in the Australian media and creative economy.

Audience Research

SBS recognises that any changes to its advertising arrangements will impact audiences. To this end, SBS conducted research to understand audience opinions towards the proposed changes and their preferred advertising option for SBS.[1]

The research conducted from a base of over 1100 people revealed an overwhelming amount of respondents (73 per cent) would prefer SBS to offer the same amount of unique and distinctive Australian content, funded by slightly more advertising in some timeslots and offset by less advertising in other slots, than maintain the current advertising quota with a negative impact on local programs and services. Additionally, a significant majority of respondents noted that producing unique Australian content is key to SBS's identity, and thus, more important than protecting the five minute per hour advertising cap, particularly given that the daily limit would be maintained.

Some respondents said more advertising would negatively affect their viewing experience, with 27 per cent of respondents preferring SBS make no change to the current advertising quota and, instead, offer about 25-30 per cent less unique and distinctive Australian content.

The research highlighted that audiences understand the reasons and benefit of the proposed changes to the advertising arrangements, namely that it would allow SBS to maintain programming quality and commission unique and distinctive Australian content inspired by the SBS Charter.

Conclusion

SBS welcomes and supports both the introduction of the *Communications Legislation Amendment (SBS Advertising Flexibility and Other Measures) Bill 2015* (the Bill) to the Parliament by the Minister for Communications and the Committee's enquiry into the Bill.

As a result of the Lewis Efficiency Study, SBS received a federal funding cut of $53.7 million over five years. More than half of that funding cut can only be achieved by providing SBS with additional flexibility regarding the maximum number of minutes of advertising it can air per hour, without increasing its total number of advertising minutes across the day.

[1] The research study was completed from 2-7 April 2015 online by a total of 1,158 respondents, of which 1,005 were SBS viewers and 153 were non-SBS viewers, or viewers who do not watch SBS in an average month.

The Charter is at the heart of SBS. Revenue through advertising and sponsorship goes directly to enabling SBS to protect its investment in Australian content and deliver on Charter obligations. This revenue is critical to SBS, which operates in a highly competitive media market on a fifth of the average budget of the other Australian free-to-air television broadcasters.

SBS has already undertaken major wholesale back-of-house initiatives to absorb the reduced federal funding profile and these have been recognised by the independent Lewis Efficiency Study. Without this legislative change, SBS would be unable to protect current programming and service levels, compromising its delivery on Charter obligations. Invariably a reduction in programming and service levels would lead to job losses and a flow-on impact to the broader creative services sector, particularly given around 90 per cent of SBS locally commissioned productions are commissioned through the independent production sector.

SBS has built unique insights and links with Australia's diverse audiences over 40 years and research confirms audiences would prefer to see SBS invest in maintaining current programming and service levels than have that content compromised by a further funding cut. As an organisation highly capable of managing the complexities of being hybrid funded, SBS is well-placed to manage sensitively the proposed change with audiences.

In an environment where SBS is under financial pressure and is already operating highly efficiently and in a highly competitive media market, the ability to generate a modest increase in its own revenue would help to secure the future sustainability of the organisation.

The legislative amendment enables SBS to increase its reliance on commercial revenues to protect current levels of investment in Australian programs and services whilst planning strategically for the future to ensure its business model is viable, and modest resources can be directed to successful programming initiatives.

Appendix A: Minister for Communications Media Release

ABC and SBS Efficiency Study - release of report

1 December 2014

The Government commissioned the *ABC and SBS Efficiency Study* to identify potential savings from the many "back of house" functions of the public broadcasters' operations. This included administration, use of equipment, property and technologies.

The Study was undertaken by the Department of Communications with the assistance of former CFO of Seven West Media, Mr Peter Lewis, and senior executives from the ABC and SBS.

The financial information contained in the *ABC and SBS Efficiency Study* was provided by the two broadcasters strictly on the basis that it would remain confidential. The government has now sought permission from both broadcasters to release the report. They have agreed to the release of a redacted version. All of the redactions are at the request of the broadcasters.

One "back of house" element in the public broadcasters' overhead, that costs approximately $290 million a year, is radio and television transmission and distribution. It was not included in the Efficiency Study because a separate analysis was already under way which has resulted in a new funding model and contract process, with negotiations currently underway, which is expected to deliver material transmission savings that will in turn make a very substantial contribution to the savings required by the Government.

These transmission savings added to efficiency measures identified by the Study are well in excess of the Budget savings required. There is no need for the ABC to reduce the amount of money it spends on "front of house" or programming.

Now this is not to say that there should not be cost savings in programme production. If, for example, new technology or more efficient work practices enable a particular type of programme to be produced at less cost without diminishing its quality, then changes should be made and the resources saved put to other programming purposes. But, important though they are, efficiencies of this kind were not the focus of the Study.

It is important to remember too that the Study was not designed to be the last word, but an important part of an iterative process that would see both public broadcasters explore the potential for operating more efficiently. So it is entirely to be expected that both ABC and SBS have found that some of the Study's recommendations were less compelling than other cost savings measures of a similar kind not canvassed in the Study.

The Government's position throughout this process was not that the ABC or SBS should be immune to savings, but that those savings they should be effected in an informed manner.

In total, including the 1 per cent down payment announced in the May Budget, the full savings the ABC and the SBS will return to the Budget amounts to $308 million over 5 years.

For the ABC this means it will receive $5.22 billion over 5 years rather than $5.47 billion, a saving of $254 million or 4.6 per cent.

For the SBS this means its operating budget will be reduced by $25.2 million or 1.7 per cent over the five year period. A legislative change to allow SBS to generate further revenue by changing its advertising arrangements will bring the total savings returned to the budget to $53.7 million or 3.7 per cent.

These efficiencies represent a modest saving in comparison to the Government's continued investment in national broadcasting of more than $6.61 billion over the same five year period.

A redacted version of the ABC and SBS Efficiency Study Report is available.

SBS

Appendix B: Minister for Communications Media Release

Facts about SBS advertising

24 March 2015

In response to a recommendation in the ABC and SBS Efficiency Study, and following the government's announcements on the sustainability of the public broadcasters in November last year, this week the government will introduce the Communications Legislation Amendment (SBS Advertising Flexibility and Other Measures) Bill 2015 to provide the Special Broadcasting Service (SBS) with increased flexibility in the scheduling of advertising.

This Bill will amend the *Special Broadcasting Service Act 1991* to allow the SBS to show up to 10 minutes of advertising per hour but not exceed the existing daily limit of 120 minutes.

The 120 minute daily cap on advertising is well below the 350 minutes per day the commercial broadcasters can devote to advertising.

In the short term, additional advertising revenue will be directed towards meeting the government's efficiency savings applied to SBS from 2015-16. If the SBS advertising measures in the Bill are not passed before the end of this financial year, SBS will need to find other ways to achieve the necessary savings, which it has indicated may involve reductions in programming and/or services.

In the longer term, the government's intention from these changes is that SBS becomes a stronger and more sustainable broadcaster. Advertising flexibility strengthens SBS by making it less dependent on Government and helps secure its future and independence.

It is anticipated that the SBS advertising measures will result in an increase in SBS's advertising revenue of $28.5 million over four years from 2015-16. In later years, if they exceed that run rate, the additional revenues can be directed towards delivering more distinctive and innovative content and services in line with its Charter responsibilities.

The additional advertising revenue received by SBS is highly unlikely to have a material impact on the advertising revenue of the commercial broadcasting industry, which totalled $3.9 billion in 2013-14.

The government acknowledges the opposition to this Bill from the commercial television networks, but these figures clearly demonstrate that any economic impact from the changes proposed in this Bill is not material to their earnings.

Free to air television advertising revenues since 2006-07:

Financial Year	SBS	All Commercial FTA networks
2006-07	41.7 million	3.6 billion
2007-08	50.2 million	3.8 billion
2008-09	56.9 million	3.5 billion
2009-10 World	77.6 million	3.7 billion

Cup		
2010-11	57.2 million	4 billion
2011-12	51.9 million	3.8 billion
2012-13	58 million	3.8 billion
2013-14 **World Cup**	73.4 million	3.9 billion

Appendix C:

Review of SBS assumptions on advertising flexibility legislation

1. **Review of SBS Assumptions – Deloitte***

2. **Review of SBS Advertising Flexibility – OMD**

Note: *Appendices have been withheld on the basis they contain commercially sensitive information.

Deloitte.

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Mr James Taylor
Special Broadcasting Service Corporation
14 Herbert Street
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16 April 2015

Dear James,

Special Broadcasting Service Corporation (SBS) - Assumptions Review

In accordance with our engagement letter dated 1 April 2015, you asked us to consider the underlying assumptions which have formed the basis of your modelling analysis around legislation introducing greater advertising flexibility to SBS television broadcast content and provide our observations on these assumptions.

The modelling analysis outlines a number of assumptions and generates an incremental advertising revenue estimate of c.$40 million. We have compared the model assumptions to your historical advertising revenue performance, business and industry trends or other relevant supporting documentation and calculations and have outlined our observations by assumption in Appendix 1.

In undertaking our analysis we have not observed any assumptions that are materially inconsistent with SBS's historical advertising revenue performance, business and industry trends, or other relevant supporting documentation and calculations. We have also obtained and read the market review undertaken by marketing agency OMD Worldwide, which indicated that the incremental revenue estimates modelled by SBS are a reasonable assessment of the additional advertising revenue that SBS could earn over the forecast period. Nothing has come to our attention in this market review that is materially inconsistent with our observations on the model assumptions.

Notwithstanding the above, the model contains assumptions in relation to:

- growth in fill rates for incremental advertising inventory to be sold;
- a discount to the 'scarcity premium' price currently charged on advertising slots; and
- estimates of potential product placement revenue.

We have included our observations and sensitivity analysis on these specific assumptions in Appendix 2. Although the above noted assumptions cannot be directly compared to the historical advertising revenue performance or business and industry trends; based on the supporting documentation and calculations that we have considered in our analysis, we do not believe these assumptions to be unreasonable.

Deloitte.

Should you have further questions, please do not hesitate to contact us.

Yours sincerely
Deloitte Touche Tohmatsu

Steve Shirtliff
Partner

This advice is prepared for the use of Special Broadcasting Service Corporation. The advice is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. The advice has been prepared for the purpose set out in our engagement letter dated 1 April 2015. You should not refer to or use our name or the advice for any other purpose.

INSIGHTS • IDEAS • RESULTS

Andrew Cook
Special Broadcasting Service Corporation
14 Herbert Street
Artarmon NSW 2064

15 April 2015

Dear Andrew,

Re: Special Broadcasting Service Corporation (SBS) - Legislative Amendment Review

Following the announcement that the rules governing SBS's advertising will be changed to allow for greater flexibility, OMD have reviewed the methodology used by SBS in assessing the potential incremental revenue to be earned from this increase in commercial flexibility. This review was conducted by senior OMD management at the request of SBS.

Having reviewed SBS's methodology and underlying assumptions, it is the considered view that the incremental gross revenue estimate of $39.5m (before selling costs and agency commissions) provided by SBS is a reasonable assessment of the additional TV advertising revenue that SBS could earn over the forecast period.

We have come to this view by

- Applying our understanding of the Television landscape and SBS's position within this
- Applying our understanding of the Television advertising market

The Television landscape

While TV audiences are still very strong, faced with more choice since the introduction of digital multichannels, audiences have fragmented across these additional digital channels. Primary channels have seen year-on-year declines in peak viewing, particularly in the 25-54 demographic. This trend is impacting all commercial broadcasters in their ability to commercialise their audiences.

With the arrival of digital SVOD offerings such as Netflix, Stan and Presto, audiences will similarly enjoy unprecedented video content choice across an even greater array of platforms. This further fragmentation will similarly impact the commercialization opportunities for the traditional players on broadcast platforms.

As a niche broadcaster, we feel SBS viewers already have a higher propensity to avail themselves of these services, and even more so if faced with a significant increase in advertising minutage in peak viewing times. This will challenge SBS's ability to commercialise additional primetime ad minutage.

The Television advertising market

We feel that the traditional commercially funded model is on the cusp of becoming a highly competitive space, where inventory is plentiful, in light of the scaling of offerings from the likes of major digital content providers Google and Facebook. These new entrants also offer unprecedented targeting opportunities, and have aggressive growth ambitions.

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Finally, Contractual and market realities mean that the wholesale shifting of funds is a slow and considered proposition for agencies. Increasing the revenue share to SBS in a flat market will be difficult in the face of bigger relationships with vendors who have the ability to restrict highly prized content, such as live sport, if they feel they are being commercially penalized.

Conclusion

The proposed legislative change will allow SBS to effectively double the volume of primetime advertising. However, as a niche commercial audience provider faced with navigating charter requirements, SBS is a long way back in the queue for an additional share of advertising budgets. As such, in the face of the realities of the current television landscape and advertising market, OMD believes the incremental revenue estimates provided by SBS are reasonable.

Regards,

Peter Horgan

CEO - Australia

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About OMD Australia

OMD Australia is one of the leading media communications agencies in the country with 500 employees nationally serving many of Australia's highest profile brands including Estee Lauder, Pacific Brands, Hasbro, Johnson & Johnson, Mazda, Beiersdorf, McDonald's, PlayStation, Telstra, Tourism Australia, Village Roadshow and Visa. OMD provides a range of services including communications strategy, media planning and buying, branded content and sponsorship, digital execution, and brand analytics to name just a few.

OMD Australia continues to raise the bar in terms of industry achievements, having received an impressive collection of accolades over the past year including being awarded the coveted Cannes Creative Effectiveness Award 2014, being the most awarded agency in the recent Festival of Media Awards Asia-Pacific 2015, as well as being the only agency to consistently rank in the BRW Top 50 places to work in Australia for the last six consecutive years.

Globally, OMD is recognized for its international footprint, strategic integration and creative innovation. It has been acknowledged as Most Creative Media Agency by The Gunn Report for an unprecedented eight consecutive years; Adweek Global Media Agency of the Year for 2008, 2009, 2011, 2013 and 2014; and most recently the top ranked Media Agency on Effies 2014 Index for the fifth year running.
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Peter Horgan
CEO, OMD Australia

To maintain a leadership position in the rapidly evolving market, deep expertise and diversification are essential. Peter has nurtured a team of experts, supported and vested in continually striving for better outcomes for their clients, and setting the benchmark in our industry for product development and thinking. Peter has long understood that our continued success is 100% dependent on our people, his ability to maintain a strong culture and subsequently retain and develop our staff ensures that fresh insights and innovative, market-leading work remain at the heart of OMD Australia.

Peter's 20 years media experience spans the UK and Australia. Ranked among the most Powerful People in Media and Advertising for the last 4 years, Peter leads over 500 media specialists nationally, he is the Lead Negotiator across all Omnicom assets, and has been appointed Chairman of the Media Federation of Australia. It's Peter's commitment to specialisation and sustainable growth that maintains OMD as a perennial standout for people development and client solutions. Peter was recently awarded the 2014 Campaign Asia Agency Head of The Year Award.

Appendix D: Advertising Limits for Public Broadcasters

Channel 4 (United Kingdom)	The framework that determines the amount of advertising permitted on television is set at a European level by the Audiovisual Media Services (AVMS) Directive. This sets a limit for all channels of 12 minutes on the amount of advertising which may be shown in one hour. The specific rules which apply in the UK are set out in Ofcom's Code on the Scheduling and Amount of Advertising (COSTA). On public service channels (including Channel 3, Channel 4, Channel 5 and S4C), time devoted to television advertising and teleshopping spots must not exceed: an average of 7 minutes per hour for every hour of transmission time across the broadcasting day (for a total of 168 minutes of advertising per day); and an average of 8 minutes an hour between 6pm and 11pm.[2] In 2011, 84per cent of Channel 4 revenue came from advertising and sponsorship arrangements. [3]
Canadian Broadcasting Corporation (Canada)	The Canadian Radio-Television Telecommunications Commission (CRTC) removed all advertising time restraints for Canadian television in 2009, although CBC mostly limits advertising to 12 minutes per primetime hour. In contrast, private broadcasters generally fall in line with US practices of 16 minutes per hour[4] In 2011, 21per cent of CBC revenue came from advertising and sponsorship arrangements.
Nederlandse Publieke Omroep (NPO) (the Netherlands)	The Netherlands has three nationwide channels for publicly funded television (NPO 1, NPO 2 and NPO 3) These channels can only make a fixed maximum amount of money from commercials. Commercials do not interrupt broadcasts, and are only shown in

[2] Code on the scheduling of television advertising. (2015). Retrieved 26 February 2015, from http://stakeholders.ofcom.org.uk/binaries/broadcast/other-codes/tacode.pdf
[3] Nordicity (2013), *Analysis of government support for public broadcasting and other culture in Canada*. Retrieved 26 February 2015, from http://www.nordicity.com/media/20141118hruhv
[4] Nordicity, (2015) *Why advertising on CBC/Radio-Canada is good public policy*. Retrieved 26 February 2015, from http://cbc.radio-canada.ca/_files/cbcrc/documents/latest-studies/nordicity-advertising-impact-analysis-en.pdf

	between shows. Similar to the UK, Dutch broadcasters must comply with the requirements of the AVMS Directive (that is, maximum 12 minutes of advertising per hour, for a maximum of 288 minutes per day).
TVNZ (New Zealand)	According to recent statements, over 90 to 95per cent of TVNZ's revenue is gained through commercial activity such as advertising, licensing, merchandising and hiring out production resources. In 2013, TVNZ's share of television advertising revenue was 61.8per cent. The Broadcasting Act does not identify limits on advertising minutes.[5]
RTVE (Spain)	As of 1 January 2010, advertising was removed from all TVE channels, replaced by a new funding system that collected revenue through taxation of private broadcasters and telecommunications operators. Prior to this, advertising limits were regularly changed for both public and commercial broadcasters, ranging from 17 minutes (in 2007) to 8 minutes (in 2009).[6]
RTE (Ireland)	Since 1993, Ireland's state public broadcaster has been limited limited to 6.5 minutes of advertising per hour, compared to 12 minutes for commercial broadcasters.[7]
ORF (Austria)	In its two TV channels, the state broadcaster ORF is allowed to broadcast advertising programmes only nationwide and a maximum of 42 minutes per day. On a yearly average, advertising broadcasts (TV) must not exceed 5 per cent of the daily length of programmes, with deviations of not more than 20 per cent per day being permissible.[8]

[5] TV New Zealand Annual Report (2013) Retrieved 26 February from http://images.tvnz.co.nz/tvnz_images/about_tvnz/TVNZAR_FY2013_Updated.pdf
[6] TV and on-demand services in Spain (2013) Retrieved 26 February from http://mavise.obs.coe.int/country?id=12
[7] Government Response to the Section 124 (5 Year) Review of the Funding of Public Service Broadcasters as set out by the Minister for Communications, Energy and Natural Resources (2011). Retrieved 25 February from http://www.dcenr.gov.ie/NR/rdonlyres/E78CB25D-9F80-4BD5-99ED-0003AB2D24F5/0/GovernmentResponsetoBAIFiveYearReviewofFundingforPSBsJuly2013.pdf
[8] Austrian cultural policy (2015) Retrieved 26 February from http://www.culturalpolicies.net/web/austria.php?aid=537