Statement of Non-Executive Directors of SAMRO

The Board of SAMRO has faced criticism in the media and elsewhere for its perceived failure in dealing with the AEMRO operation. The Board would like to take this opportunity to offer some insight as to why it has not responded to these allegations, until now.

In 2017, before closing down the AEMRO operation, the Board instituted a forensic investigation into AEMRO to give all members comfort that the closure of AEMRO's could be largely attributed to International CMO (Collective Management Organisation) members of CISAC (Confédération Internationale des Sociétés d'Auteurs et Compositeurs) turning against us in the final stretch, vetoing our CISAC provisional status, which was the key to generating revenue in Dubai for members. CISAC turning against us is what was communicated to the Board as the reason for the sudden turn of events on a project, that up until March 2017 had been going as well as could have been expected and was on track to achieve its goal of generating revenue.

The scope of the 2017 PwC external audit report was limited due to time constraints and when SAMRO members requested a further investigation, Sekela Xabiso was contracted by management to investigate further. This report was concluded in September 2018. The Board went to great lengths to ensure that the independence of the report was not compromised in any way, as its scope had to include the Board's conduct as well. It is in keeping with this approach that the Board respected the report when it was presented to members. This report was presented at the 11th September 2018 EGM to the members, but the Board did not get an opportunity to respond to issues raised in the report at this meeting but did follow through on the recommendations of the report. This included obtaining a legal opinion about the prospect of instituting a forensic investigation into payments made in Dubai with the intention of exploring the possibility of the recovery of funds. In addition, at the request of members and on the recommendation of Senior Counsel, a criminal case was opened against Mr Dlamini, resulting in a need for careful communication about AEMRO so as not to prejudice the legal process against Mr Dlamini. .

The Board resolved not to make any media statements as the balance between transparency, being sensitive to the reputations of Mr Dlamini and Rev Sibiya and ensuring that the investigation taking place had the best chance of success meant that the Board needed to take a conservative communication approach.

The Board has received two Section 71 notices for the removal of non-executive directors from members. The first one from the following publisher members: Mr. Ryan Hill (Universal Music Publishing), Mr. David Alexander (Sheer Publishing), Ms. Natalie Sanderson (David Gresham Publishing), Mr. Rob Cowling (Gallo Music Publishing), Mr. Geoff Paynter (Geoff Paynter Music), Mr. Vongani Rikhotso (Uthot Entertainment), Mr. Craig McGahey (Fat Music Publishing), and the second notice from the following composer/author members: Mr. Sipho Sithole, Mr. Tshepo Nzimande, Mr. Sello Twala

Section 71(2) of the Act requires however that prior to a resolution for the **removal** of a **director** being considered by the shareholders, the affected **director** must be given notice of the meeting and the proposed resolution to have him or her **removed** as a **director**

Today, the Board would like to address certain issues that have been raised through the Section 71 notices mentioned above.

These issues include:

- The AEMRO Operation, SAMRO House,
- The Royalty System/IT project (Zeus),
- Needletime and Mechanical Royalties

As background to the discussion, the following must be noted:

Over the past twelve (12) years, the global music industry has changed dramatically as a result of the industry moving to digital music distribution channels.

SAMRO, in its role as a protector of members' intellectual property, music copyright and collector of members' royalties from local and global music markets, has embarked on several risk-based projects with the intention of:

- Increasing royalty earning opportunities for its members.
- Increasing revenue through non-royalty-based projects to fund the running of SAMRO as a non-profit organization.
- Increasing the efficiency of SAMRO to better serve its members.

Decisions about various projects which empower this strategic direction have been, and continue to be, discussed at meetings with members, at national roadshows and within the integrated reports, as the projects unfold.

The decisions made by the SAMRO Board members have been to serve these key strategies to the best of our abilities.

The first set of issues raised in the Section 71 notices refer to the AEMRO project. The following statement provides clarity on these issues and background information as to the events which resulted in the AEMRO expenses being incurred.

1. The AEMRO project was presented to the Board by Mr Sipho Dlamini on the 26th of June 2014. (As per the SKX forensic report, Board meeting minutes and various other documents.) At this meeting Mr Dlamini assured the Board that the only costs would be travel costs to Dubai and that the next phase of the operation would incur costs in the region of R500 000. The SAMRO Board recognized and expressed concern about the absence of a legal framework in the United Arab Emirates, in that it did not provide a platform for copyright administration. The plan presented to the Board was to overcome this by working with the UAE federal government as a partner and shareholder to create the necessary federal framework.

2. On the 13th of February 2015, the CEO, Mr Dlamini, signed a power of attorney unto himself, without the knowledge of the Board, enabling him to act without Board consultation or resolution, giving him the authority to act outside of Board approval and risk management procedures and that the Board had resolved to guarantee all financial obligations incurred by the Branch.

   Mr Dlamini then proceeded to sign two sets of employment contracts, one set with Mr Aljabal and Mr Khalaf as employees of AEMRO and one set effectively committing SAMRO to five (5) year contracts with Mr Aljabal and Mr Khalaf to the value of approximately R54 000 000 (Fifty-Four Million Rand), which was never brought to the Board's attention. These contracts were only presented to the executive by Messrs Aljabal and Khalaf when they were notified of the Board closing down AEMRO in September 2017, eighteen (18) months after Mr Dlamini's departure. The five (5) year contracts were also signed without Human Resources and the Chief Financial Officer's knowledge.

On the 26th of March 2015 the Board was presented with information from Mr Aljabal and Mr Khalaf detailing the potential earnings for South African artists in the United Arab Emirates (Dubai), as well as assurance from Mr Dlamini that major societies such as PRS (Performing Rights Society), ASCAP (American Society of Composers, Authors and Publishers) , BMI (Broadcast Music Incorporation) & SACEM (Société des Auteurs, Compositeurs et Éditeurs de Musique) **had asked** SAMRO to represent their rights in the UAE. In addition, the Board was informed that the revenue from AEMRO would flow within **6 months** of operations beginning.

At this time, the Board questioned Mr Dlamini, on the legislative process and the expertise of Mr Aljabal and Mr Khalaf in assisting AEMRO to develop the necessary relationships in the UAE in order to create the required framework in cooperation with the federal government.

As detailed above, the Board was presented with misrepresented information from Mr Dlamini, which:

- Down-played the risks involved in terms of international CMO's insisting on the legislative requirements with regards to the Federal Government cooperation in creating the required framework being fulfilled before they would be willing to support AEMRO's provisional status. Both the French society SACEM and the British CMO, PRS for Music were candid about their concerns, which Mr Dlamini kept from the Board. In 2017 AEMRO was derailed by its provisional status being vetoed for these same concerns.

- Did not divulge the true nature and timing of the relationship with PRS, ASCAP, BMI & SACEM which was a key reason for the Board making the decision to go ahead with the AEMRO project.

The information detailed above was only uncovered when the Board reviewed the second forensic report by Sekela Xabiso.

Because this information was not made available to the Board in 2014 and 2015 when they were required to make decisions regarding AEMRO, the Board members:

- Reviewed the information they were presented to the best of their abilities

- Questioned and applied reasonable levels of risk concern on the information made available to them

- Made the best decision they could, given the information they had at their disposal, which turned out to be fundamentally flawed.

3. In respect of the special Board meeting called on the 18th of February 2016 Mr Dlamini resigned as CEO and the Chair of the Board, Rev Sibiya, stepped in as the acting CEO.

   On 2 (two) occasions during the year (24th March 2016 and June 23rd 2016) Rev Sibiya presented the AEMRO operation to the Risk Committee – which extends a standing invitation to SAMRO's auditors to attend these meetings. Rev Sibiya presented the AEMRO project as being on track with costs within budget and revenue expectations in line with the project scope. No risks or concerns were raised by SAMRO management.

   Midway through 2016 (23rd June), Rev Sibiya, initiated aggressive cost curbing exercises in the company but did not include AEMRO as a cost concern.

   In addition, on the 31st August 2016 a lunch was held at SAMRO Place hosting Mr. Najla Ibrahim Al Shamsi, the Director of the Department of Economic Development for Dubai, together with the Director General of CISAC, Mr Gadi Oron. Both these individuals who represent CISAC and Dubai Government expressed their official support for AEMRO.

   At the third quarter Board meeting (22nd September 2016) the Chief Operating Officer of SAMRO, Ms Bronwen Harty gave a glowing report about AEMRO, announcing that the project was within budget and that projections were still on track with regards to the cost versus revenue predictions for the project.

   At the same Board meeting, the CFO, Mr Zoghby, only raised concerns about travel expenditure to Dubai and no other risks or concerns were raised.

   On the 24th of March, 23rd of June, 31st of August, 22nd of September and the 24th of November in 2016 based on the balance of information presented to the Board about AEMRO, in which neither salary costs, or the lack of legislative progress was raised as a concern, but rather the project was presented as on track and within budget. The Board Members:

- Reviewed the information available to them to the best of their abilities
- Questioned and applied reasonable levels of risk concern on the information made available to them
- Made the best decision they could, given the information they had at their disposal.

4. On the 17th of February 2017 Rev Sibiya retracted his application for appointment as permanent CEO and the COO Ms Bronwen Harty resigned on the 20th of February. Ms Harty assured the Ethics Committee Chair, Mr Niemand, that she was leaving the music industry and going into the financial industry, however in April 2017 Ms Harty joined Mr Dlamini at Universal Music.

   At the first quarter Board meeting (30th March 2017) the outgoing COO reported that there was a lack of progress in obtaining global rights and the CFO raised the escalating AEMRO costs as a serious concern. The Board reacted immediately by setting up a sub-committee to fully investigate the emerging risks to the AEMRO project, that up until then had been reported as being on track.

   At this first quarter Board meeting (30 March 2017) the Social and Ethics Committee also raised concerns about the flow of information to directors. There was a growing discomfort among Board members about the deteriorating levels of trust between the Board and management.

   On the 20th of April 2017, CISAC members raised objections to the AEMRO application with the resolution for this objection being delayed until after September 2017.

   On the 11th of May 2017, the Dubai partners were summoned to SAMRO Place where the Board interrogated their claims regarding AEMRO's legal status. The Board also requested that the Dubai partners take a cut in salary to improve the sustainability of the project in light of further possible delays created by other CISAC members. The partners refused to do so.

   On 19th of June 2017 a special Board meeting was held at which a task team was created to present options to the Board on the way to proceed. This task team investigated all of the information available, developed a Strengths Weaknesses Opportunities and Threats (SWOT) analysis on the situation and presented options to the Board within 10 days (29th of June 2017).

By the end of June (29th June 2017) a Board resolution had been approved to initiate a withdrawal from AEMRO over a 2-month period. During the withdrawal time, the Board would investigate numerous ways to recuperate the losses from AEMRO. This included a deal structured with a 3rd party, Alexander Wolf of SESAC, who had apparently expressed interest to Rev Sibiya, in investing into the AEMRO project, which held the promise of possibly recouping the total investment. PwC were also instructed to independently investigate the AEMRO operation, as the Board could no longer only rely on the information it was receiving from management, as the speed at which the prospects of the project had deteriorated and the quick succession of Rev Sibiya's retraction for CEO and the resignation of the COO, raised some concerns.

Following various discussions, including a report by PwC, AEMRO was shut down on the 8th of September 2017 .

During this time, the five (5) year employment contracts with the two consultants signed by the CEO, Mr Dlamini, emerged (18 September 2017 is the first time these contracts were presented to the Board). In order to cut spending, it was agreed that a negotiated settlement amount be paid to the consultants to end the contracts, rather than initiating an international labour case which may have resulted in additional monetary losses to SAMRO.

From the time that AEMRO was raised as a concern on the 30th of March 2017, the Board acted definitively in:

- Sourcing all relevant information,
- questioning information presented to them,
- investigating the AEMRO project
- shutting down operations as quickly as possible while still exploring the opportunity to recoup costs and minimize ongoing spending.

The second area the Board wishes to provide clarity on is the continued funding of the royalty processing system project Zeus.

The information that has been presented to the Board on the royalty processing system is detailed as follows:

- At the September 2017 Board meeting, an outstanding presentation was given to the Board by the IT team showing how all elements of the system were on track.
- In November 2017, as part of the CEO’s report, the Board was informed that the system would need upgrading in approximately 4 years′ time, with a wide range of options available for consideration, each with associated costs.
- In December 2017, while the system was upgraded certain issues were brought to light.
- PwC was appointed to perform a GAP Analysis on the Zeus system and determine the difference of what the system is capable of and what was promised by the Service Providers.

The third area the Board wishes to provide clarity on is the purchasing of SAMRO House and the rental revenue strategy for the project.

- The SAMRO House purchasing and business strategy is well documented and is a standing talking point in the CEO’s reports.
- This strategy has included the monitoring and development of a rental strategy with the latest CEO report detailing a 90% rental occupancy with a detailed space management, marketing and rental sales plan in place.
- SAMRO’s strategy is also on track to become the home of all CMO’s with the addition of CAPASSO (Composers, Authors and Publishers Association) and SAMPRA (South African Music Performance Rights Association) at SAMRO PLACE, as we move towards a single licensing environment, which will reduce costs and improve the lobbying ability of these societies.

To this end the SAMRO Board has worked with the SAMRO management team to ensure that SAMRO House is a working asset.

The fourth area the Board wishes to provide clarity on is Needletime and Mechanical Royalties.

- The SAMRO Board has extricated itself from the mechanical royalty space and provided a loan to CAPASSO in order to facilitate CAPASSO's formation in this regard. This loan has since been paid back.

- The SAMRO Board, through its work with POSA, has established (with RiSA) the formation of SAMPRA and in doing so has exited the needletime royalty space. The loan portion in respect of the development of the POSA royalty processing system has been repaid to SAMRO.

- The SAMRO team continues to work to recover money invested in the needletime royalty project.

We trust that the information we have provided in this statement as well as the access to the forensic report enables greater clarity and demonstrates our commitment to transparency in these matters.

It is also important to note that the Board remains committed to serving the SAMRO members' interests to the best of our ability, and we take the concerns raised by members as critical issues which require our utmost attention. Our ongoing commitment to supporting the South African music industry is unwavering and a key driver in our actions as the SAMRO Board.

On behalf of all Non-Executive Directors of SAMRO as at 10 December 2018,