

ITV Studios Limited

Strategic Report for the Year Ended 31 December 2020

The Directors present their Strategic Report for the year ended 31 December 2020.

Principal activity

The principal activity of ITV Studios Limited ("the Company") continues to be that of the production of television programmes and the provision of facilities services.

Fair review of the business

The results for the Company show a profit for the year of £38,387,000 (2019: £7,323,000). At the statement of financial position date the Company had net assets of £1,472,362,000 (2019: £1,430,246,000).

Key factors behind the movement in profit are a decrease in programme deliveries as productions were halted and delayed as a result of the COVID-19 pandemic, partially offset by a reduction in operating costs due to reduced staff costs and the government grant for the Coronavirus Job Retention Scheme. In 2019 £21.9m of impairment was recognised in relation to investments and £35.3m for intercompany loans with no impairments in 2020.

KPIs

The Directors of the ITV plc Group manage the Group's operations on a divisional basis with this Company being included within the Studios division. For this reason, the Company's Directors use the ITV Studios division's Operating and Performance Review in managing and understanding the development, performance and position of the Company. The business review is included on pages 28 to 41 of ITV plc's 2020 Annual Report.

The KPIs relevant to the ITV Studios business are:

- Revenue - Growing ITV Studios revenue is key to ITV's strategy, reducing the Group's reliance on television advertising revenues. The Company's revenue was down 19% on 2019 due to fewer programme deliveries as a result of the COVID-19 pandemic.
- Number of commissions - ITV Studios continues to build a portfolio of successful series and formats that return and travel internationally. A key indicator of the creative renewal pipeline is the number of new commissions won, which includes programmes shown both on ITV and on other channels and platforms. Several New commissions secured during the year include new drama series The Long Call, Isolation Stories and Grace. The Company also secured a number of key recommissions including The Voice, I'm a Celebrity Get Me Out Of Here, Dancing On Ice and Vera.
- Total production hours - This is an important measure of the scale and success of our studios business. It measures the number of hours produced across all genres for ITV and other broadcasters and platform owners. The Company delivered 2,007 hours in 2020 (2019: 2,374), down on the previous year due to productions being halted and delayed as a result of the COVID-19 pandemic.

Further information on these KPIs in the context of the wider ITV business can be found on pages 24 to 27 of the ITV plc group 2020 annual report.

Future developments

The Company will continue to follow its strategy to work proactively with UK and overseas broadcasters, and develop ideas for new and returning series that can be exploited globally. The external environment is expected to remain competitive in 2021 but the directors remain confident that the Company is well placed with broadcasters to exploit the opportunities that become available. Productions were paused during 2020 due to COVID-19 but have now resumed filming.

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Principal risks and uncertainties

The management of the business and execution of the Company strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are:

- A rapidly changing marketplace for content rights could result in us failing to identify or obtain optimal rights packages. In order to mitigate this risk the Company is focused on both protecting and exploiting existing rights and ensuring that future rights generated accrue to ITV.
- Failure to create and own sufficient number of hit shows/formats. This risk is mitigated by investment in the creative pipeline and focus on programmes and genres which can return and travel internationally ie drama, entertainment and factual entertainment. There is also a focus on hiring and retaining the right key creative talent as well as promoting an environment where creative ideas can be nurtured and developed
- Failure to continue to evolve our organisational structure and culture could prevent us attracting or retaining key creative, commercial and management talent to deliver our strategy. Employing and retaining the best creative, commercial and management talent in a competitive market is key to our success. Risk is mitigated by ensuring engagement across the business with our More than TV strategy, maintaining a culture of creative autonomy within ITV Studios and capturing lessons learned from recent investments through post-acquisition reviews.
- Covid-19 has had and may continue to have a strategic, operational and financial impact on the business. In particular, operational challenges associated with filming during Covid-19 may result in further production delays. The ITV Group has developed a Covid-19 response governance structure with responsibility for managing the response to the risks of the pandemic. Detailed information on the Group's response to the pandemic is discussed on pages 72 to 87 of the ITV plc 2021 Annual Report.

A comprehensive strategic review of the Company's strategy, outlining the development, performance and position of the Company's business can be found in the Strategic Report of the group in the ITV plc Annual Report. The Annual Report of ITV plc is available to the public and may be obtained from www.itvplc.com or the Company Secretary, ITV White City, 201 Wood Lane, London, W12 7RU.

Adjusting subsequent events

The determination of employment tax status of some individuals contracted by ITV Studios is complex. In March 2021, HMRC issued an initial assessment on several individuals engaged by the Company during the tax year 2016/17 as employed for tax purposes. In June 2021, HMRC updated guidance on factors determining the employment tax status of TV and Radio presenters. Following this assessment and HMRC's updated guidance, the Company has undertaken a review of the tax status of these individuals and assessed that in total, amounts up to £15.1 million may be assessed as payable, of which £13m relates to periods up to 31 December 2020. This is considered an adjusting post balance sheet event and a provision of £13m has therefore been made at 31 December 2020. The remaining £2.1m will be recognised in the period to which it relates, being the year ended 31 December 2021.

Landmark court cases are being heard in 2022. Whilst the Company is not involved in these cases, judgements handed down will impact on how employment tax status is determined for TV and Radio presenters generally and will therefore have a bearing on how much tax might be payable by the Company. As a consequence of this, the final amount payable for periods up to December 2020 could be significantly different to the £13 million currently provided.

Non adjusting subsequent events

On 3 March 2021, the UK Government announced a change in the UK corporation tax rate from 19% to 25% with effect from 1 April 2023. The rate change was substantively enacted on 24 May 2021 and therefore is not reflected in the deferred tax assets or liabilities as at 31 December 2020. The impact on deferred tax assets and liabilities is not expected to be material.

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Section 172 (1) Statement - Directors Statement in performance of their duties under section 172(1)

The Board of ITV plc are responsible for governance and oversight across the ITV Group and the duties under Section 172(1) of the Companies Act 2006 ('s172') in respect of ITV plc. As ITV Studios Limited (the 'Company') is part of the ITV Group, its directors (the 'Directors') believe that certain matters they are responsible for under s172 in respect of the Company have been considered to an appropriate extent by the Board of ITV plc in relation both to the ITV Group and the Company and reference to this is made below.

The Directors are all members of the Studios Divisional board that met seven times during the year to consider and approve matters that relate directly to the Company and its subsidiaries. During 2020 the challenges arising from the COVID-19 pandemic required the Directors to act swiftly and approve measures to increase the resilience of the Company and its subsidiaries, and protect the interest of all stakeholders. To the extent necessary for an understanding of the development, performance and position of the Company, an explanation of how the Directors have specifically considered the matters set out in s172 is set out below:

- **The long term:** The Directors are fully cognisant of the evolving media landscape in which the Company operates and that the production environment remains competitive. The long-term strategy continues for ITV to be a leading creative force in global content production by developing new hit shows and ensuring a long-term pipeline of content by attracting and retaining talent; creating and owning intellectual property; growing UK and Global unscripted and scripted production businesses; and globalising the value of key formats via licencing and distribution. In light of the challenges created by COVID-19 it was concluded that the strategy remained the right one. A major focus in 2020 was to minimise the disruption of COVID-19 on productions. The Company worked closely with the UK Government and the production industry to develop a set of protocols to minimise the risks of the pandemic during production. As a result the majority of programmes were back in production by the end of the year and the focus is now back on further building the creative pipeline. A targeted area of growth is building the portfolio of scripted programmes, with further success in the US for *Snowpiercer*, recommissioned for a third series; *Good Witch*, *The Pembrokeshire Murders* and *The Serpent*. The Company reorganised its international and commercial businesses to strengthen ITV's position as a creator, producer and distributor of world-leading formats including *Love Island*, *The Chase*, *Rat In The Kitchen* and *Let Love Rule*. The Company further diversified its customer base by strengthening its relationships with OTT platforms, particularly in the US where it has development projects with all of the main OTT platforms for both scripted and unscripted content. During the year the Company also acquired a format catalogue from Swedish production company Elk Entertainment; increased its equity stake in UK production company Two Four; and completed a number of talent deals in the UK.

- **Employees:** The Directors know that the workforce are key to the Company's success and are dedicated to nurturing an inclusive working environment where everyone can reach their full potential and thrive. As the Company is embedded within the ITV Group governance structure it is fully aligned with ITV on workforce engagement and through the divisional board meetings the Directors are consulted on and approve the HR related policies and initiatives that affect their employees. The Directors are kept fully briefed on the health and safety and wellbeing of the Company's employees, contractors and those participating in its productions, and continue to promote and maintain adherence to its Duty of Care guidelines. The Directors recognised the economic uncertainty caused by COVID-19 and the impact this had on the Company's employees in respect of financial security, mental and physical wellbeing. Extra measures were taken to ensure there were regular communications and access to programmes that support the wellbeing of employees, especially when working from home. An explanation of how ITV plc have engaged with the workforce and taken them into consideration through its discussions and decision-making is set out on page 102 of ITV plc's 2020 annual report. Further information on ITV's commitment to its workforce is set out on pages 50 to 51 of ITV plc's 2020 annual report, which does not form part of this report.

- **Business relationships - suppliers, customers:** The Directors are committed to fostering good working business relationships with their key stakeholders which include programme participants, free to air Broadcasters, pay TV providers and OTT streamers. The Directors recognise that an understanding of the issues relating to these stakeholders is fundamental to building and maintaining the successful relationships, enabling the Company to take advantage of the strong and mutually beneficial opportunities needed to ensure its success. As ITV Studios is fully embedded within the ITV Group governance structure, the Directors seek to align themselves with ITV plc's engagement mechanisms and an explanation of how the Directors of ITV plc have had regard to the need to foster the Company's business relationships in the context of the significant financial and economic uncertainty caused by COVID-19 and Brexit are set out on page 97 to 102 of ITV plc's 2020 annual report which does not form a part of this report, with detail on programme participants set out on page 101, other broadcasters and citizens on pages 98 and 99.

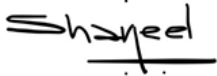
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Community & environment: The Directors are constantly striving to reduce the environmental impact of the Company's productions which is regularly reviewed. The Company is an affiliate member of Albert and the Directors and senior management team work closely with BAFTA as they strive for Albert certification for all new and returning productions by reducing carbon emissions and waste, and sourcing responsibly. Through the Studios divisional board the directors regularly review progress against environmental targets (quarterly) and against diversity targets (bi-annually). The Directors further consider that as a result of being embedded within the ITV Group governance structure, the Directors of ITV plc have taken the lead in carrying out the duties in respect of the community, wider environmental issues and diversity and inclusion targets. Further information on ITV's Social Purpose strategy and 2020 initiatives that were influenced by the COVID-19 pandemic - structured around better health, diversity and inclusion, environment and giving back targets - is set out on page 99 and pages 42 to 49 of ITV plc's 2020 annual report, which does not form a part of this report.

High standards of business conduct: The Directors' intention is to ensure that the Company and its subsidiaries operate in an ethical and responsible way. As a part of the ITV Group, they recognise that a healthy corporate culture is the cornerstone to ensuring high standards of business conduct and governance that also pervade business dealings with stakeholders outside of the organisation. The Directors promote these facets together with the Directors of ITV plc and details on how culture was monitored and assessed during the year is set out on page 105 ITV plc's 2020 annual report, which does not form a part of this report. ITV's commitment to high standards of business conduct is also enshrined in the Code of Ethics and Conduct available on the ITV plc website. ITV's culture also pervades its business dealings with stakeholders outside of the organisation, as exemplified by its work with suppliers in relation to modern slavery and membership of the Prompt Payment Code.

Approved by the Board on 24 May 2022 and signed on its behalf by:



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Sharjeel Suleman
Director