

ITV Studios Limited

Strategic Report for the Year Ended 31 December 2019

The Directors present their strategic report for the year ended 31 December 2019.

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 £7,323,439 (2018: £50,263,764). At the statement of financial position date the Company had net assets of £1,430,246,258 (2018: £637,424,849).

Key factors behind the movement in profit include an increase in drama productions including *The Bay*, *Wild Bill* and *A Confession* and a decrease in tax due to group relief. This is partially offset by an increase in administrative expenses including a production team restructure, an increase in depreciation due to the transfer of assets from another Group company and a one off employee taxes charge. £21.9m of impairment was recognised in relation to investments and £35.3m for intercompany loans.

The movement in net assets is due to increased investment in ITV GTV Overseas Ltd and ITV Enterprises Ltd.

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 plc Group's ITV Studios division KPIs in managing and understanding the development, performance and position of the Company. The business review is included on pages 30 to 43 of ITV plc's 2019 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 up 1% on 2018 driven by increased drama production including *Wild Bill*, *A Confession* and *The Bay*.
- **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 were secured during the year including new drama series *The Trouble with Maggie Cole* and *Flesh & Blood* and new entertainment series *The Big Flower Fight* and *Beat The Chaser*. The Company secured a number of key recommissions including *Love Island*, *The Voice*, *I'm a Celebrity Get Me Out Of Here*, *The Chase*, *Saturday Night Takeaway* 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 has maintained momentum delivering 2,374 hours in 2019 (2018: 2,552).

Further information on these KPIs in the context of the wider ITV business can be found on page 27 of the ITV plc group 2019 annual report.

Developments during the year

The business continues to focus on investing in the creative pipeline to maintain its position as the largest commercial producer in the UK, producing programming across a diverse range of genres such as drama, entertainment and factual for ITV's own channels, as well as for other UK and overseas broadcasters such as the BBC, Channel 4, Channel 5, Sky, Netflix and Reelz in the US.

In July 2019, ITV Studios Global Distribution Limited transferred at fair value its 24.9% shareholding in Monumental Television, a UK production company, to ITV Studios Limited. ITV Studios then exercised the call option to acquire 26.1% bringing its shareholding in Monumental Television to 51%.

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.

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, 2 Waterhouse Square, 140 Holborn, London, EC1N 2AE.

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

The Directors of ITV plc are responsible for the governance of, and oversight over, the ITV Group as a whole and have their respective duties under Section 172(1) of the Companies Act 2006 ('s172') in respect of ITV plc. As ITV Studios Limited is part of the ITV Group, 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 Directors of ITV plc in relation both to the ITV Group and the Company and reference to this is made below as appropriate.

The Directors are all members of the Studios Divisional board that met nine times during the year to consider and approve matters that relate directly to the Company and its subsidiaries. To the extent necessary for an understanding of the development, performance and position of ITV Studios, 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 is to be a leading creative force to develop new hit shows that ensures 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. The main focus at the divisional board meetings during the year was on; the delivery of key scripted productions such as *The Bay*, *A Confession*, *Vera*, *Gold Digger*, *Poldark*, *Line of Duty*, *World on Fire*, *Snowpiercer* and *Gomorrah*; delivery of key unscripted productions such as *The Voice*, *Love Island* and *Hells Kitchen*; investment in high end scripted content via deficit funding; review of potential talent deals, acquisitions and creative partnerships in the UK and international territories. In 2019 the Company acquired Israeli format business *Armoza*; increased its equity stake in UK production company *Monumental*; and completed a number of talent deals in the UK and US. In order to further maximise the value of global formats and brands work was also undertaken to commence the integration of the *Talpa Media* business into the Studios division.

- **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 HR related policies and initiatives that affect their employees. The Directors are kept fully briefed on the health and safety and wellbeing of its employees, contractors and those participating in its productions, with a particular focus during the year on the review and development of its Duty of Care guidelines. An explanation of how the Directors of ITV plc have engaged and taken its workforce into consideration in its discussions and decision making is set out on page 92 of ITV plc's 2019 annual report, which does not form part of this report. For more information on ITV's commitment to its workforce is set out on pages 50 to 51 of ITV plc's 2019 annual report, which does not form part of this report.

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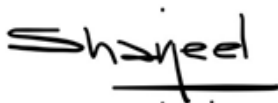
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• **Business relationships - suppliers, customers:** The Directors are committed to fostering good working business relationships with their key stakeholders which include programme participants, free to air Broadcasters, pay TV providers and OTT streamers. The Directors recognise that an understanding of the issues relating to these stakeholders is fundamental to building and maintaining the successful relationships, enabling ITV Studios to take advantage of the strong and mutually beneficial opportunities needed to ensure the success of the Company. 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 is set out in ITV plc's 2019 annual report which does not form a part of this report, with detail on programme participants set out on page 90, other broadcasters and citizens on page 92.

• **Community & environment:** The Directors are constantly striving to reduce the environmental impact of the Company's productions which is regularly reviewed. ITV Studios 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. 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 - structured around better health, diversity and inclusion, environment and giving back targets - is set out on page 62 and pages 44 to 49 of ITV plc's 2019 annual report, which does not form a part of this report.

• **High standards of business conduct:** The Directors' intention is to ensure that ITV Studios operates 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 consider that as a result of being embedded within the ITV Group governance structure, the Directors of ITV plc have taken the lead in promoting these facets and details on how it monitored and assessed culture during the year is set out on page 94 ITV plc's 2019 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 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 22/12/2020 and signed on its behalf by:



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Sharjeel Suleman
Director