

Business review

BBC Worldwide plays a vital role in supporting the BBC and the wider UK creative industries. As Chairman, and also the BBC's Director-General, I see first hand the contribution made by BBC Worldwide to the BBC's output: one that will become even more essential in the next Charter period.

CHAIRMAN'S STATEMENT

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Vital part of the BBC's success



Tony Hall
Chairman, BBC Worldwide
and Director-General, BBC

13.0%

Returns to the BBC as a % of total BBC Television content spend
(2014/15: 12.6%)

BBC Worldwide's reported return for 2015/16 was £222.2m, a very strong performance. This result meant BBC Worldwide contributed the equivalent of £8.55 for every licence fee payer, or 13.0% of the BBC's spend on television content. The two largest elements of this return were investment in BBC commissions and dividends, at £92.7m (2014/15: £94.4m) and £105.5m (2014/15: £111.3m) respectively.

This financial return to the Corporation allows the BBC to commission with a level of ambition and production values that would simply not be possible within the licence fee alone. Prime examples of this during the year included *The Hunt*, narrated by Sir David Attenborough, from Silverback Films, and BBC Production's *War and Peace*, written by Andrew Davies. Almost three-quarters of *The Hunt*, watched by large audiences in the UK, was commercially funded via BBC Worldwide, including co-production deals with BBC AMERICA, China's CCTV-9 and Germany's NDR. For *War and Peace*, BBC Worldwide worked alongside partner Lookout Point to broker a major co-production partnership with The Weinstein Company. A significant success with audiences and critics alike, *War and Peace* has since been sold to 184 territories, including Russia.

These programme successes demonstrate the synergy between the public service BBC and BBC Worldwide. The BBC has been involved in commercial activity from the establishment of Radio Times in 1923 and while this activity has evolved over the intervening decades, it remains both essential and highly complementary to the success of the Corporation.

However, the benefits of BBC Worldwide are not limited to the BBC. BBC Worldwide is a unique content partner and facilitator: active throughout the creative process from initial idea to eventual export, using both the BBC brand and distinctive British content to light the way for UK programmes in international markets. This is one of several ways in which we fulfil our public purpose of 'bringing the UK to the world'. This halo effect helps both the BBC and the independent sector, as well as the writers, directors, actors and producers whose work is, in part, funded by overseas and secondary market demand for quality British content.

By helping put British television onto a global stage, BBC Worldwide contributes to the reputation of Britain as one of the world's most brilliantly creative countries. In this vein, it was fantastic to see *Sherlock: The Abominable Bride* receive global 'big screen' treatment in January, with cinema screenings for fans in over 20 countries complementing the television broadcast, with 6000 screenings in Asia alone.

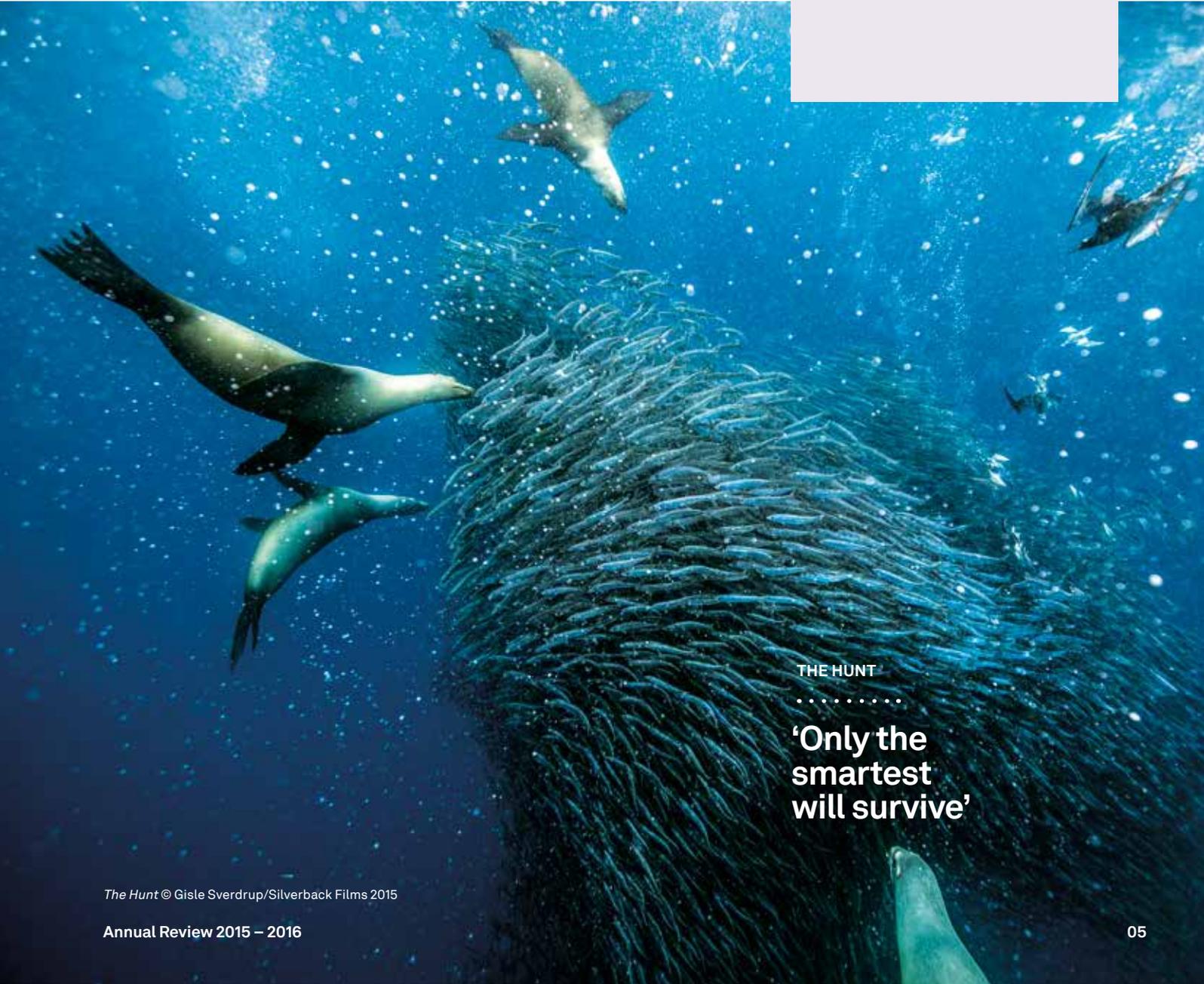
BBC Worldwide's vitality and health will be a critical ingredient in the BBC's success over the course of the next Charter period. With a lower financial settlement and increased responsibilities to fund, maximising our commercial revenue is imperative, not optional. The Board of the BBC is looking to BBC Worldwide to provide £1.2bn of returns over the first five years of the next Charter. This represents more than a 15% uplift on the previous five years, or almost 30% adjusted for dividends relating to disposals during that term.

Fortunately, given these demands and its importance, BBC Worldwide is in solid shape. Despite a challenging operating environment, the BBC has high expectations for its future, which BBC Worldwide has the imagination and ambition to realise. With that in mind, I would like to thank Tim Davie and the staff of BBC Worldwide, whether in Sydney, Los Angeles, Johannesburg, Singapore, London or elsewhere, for their hard work and dedication during the year.

£92.7m

Investment in BBC-commissioned content
(2014/15: £94.4m) -1.8%

A unique content partner and facilitator



THE HUNT

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**'Only the
smartest
will survive'**

Strategic review

The theme of transformation, present in last year's Annual Review, once more played a key role in our year. In the world of accelerating change that we inhabit, delivery of underlying growth while investing for the future is a real achievement.

CHIEF EXECUTIVE'S REVIEW

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Delivering solid growth



Tim Davie
Chief Executive, BBC Worldwide
and Director, Global

It has been another year of major change for the industry: subscription video-on-demand (SVOD) companies are rapidly expanding, content budgets are growing and only three of the UK's top 20 independents are domestically owned. Overnight ratings are in decline, as time-shifting has become mainstream. Yet consumption of premium long-form content has never been higher, while on a global basis pay-TV remains resilient.

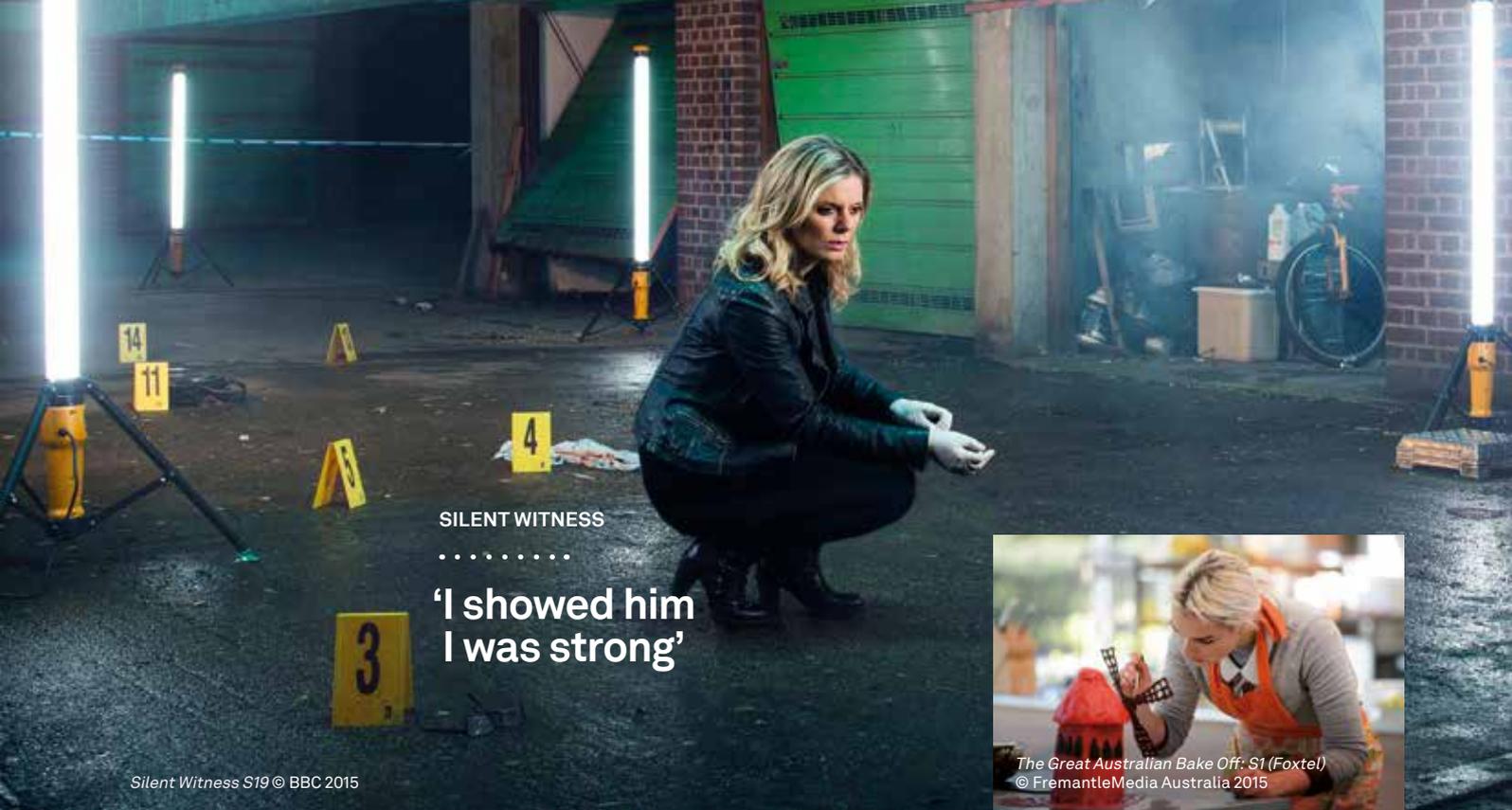
Results

All these dynamics are reflected in the year's results. We are pleased to show good growth at the top and bottom lines, with underlying sales growth of 6.7%, well ahead of our industry's growth rate. Headline sales were £1,029.4m (2014/15: £1,001.8m), up 2.8%, despite the inclusion of seven months' full ownership of the BBC AMERICA channel in the previous year. Headline profit of £133.8m (2014/15: £138.6m) was diminished by the full year impact of BBC AMERICA. Removing this effect shows headline profit growth of 4.0%. Full details of our regional results are set out in the individual markets' operating reviews on pages 18-21 while further analysis of our overall results can be found in the Chief Financial Officer's (CFO) review on pages 14-17.

As the Director-General points out on the previous pages, this performance enabled us to return £222.2m (2014/15: £226.5m) to the BBC. This keeps our return above the £200m mark for a second year running, and is a 17.6% year-on-year improvement adjusted for disposal proceeds. I know that everyone at BBC Worldwide takes pride in the material contribution that our activities make towards the BBC's ability to fulfil its promise to UK audiences.

Market shifts

All this has been achieved in a time of rapid change, which has presented opportunities, as well as fundamental threats, to our business. Historically, BBC Worldwide's business model was significantly reliant on DVD, with consumer products our second largest profit segment until four years ago. Free to air and pay broadcasters drove growth in content sales, while traditional affiliate distribution underpinned channels. A shift to digital distribution and consumption has affected all these areas and necessitated a continuing transformation of the company. We have absorbed a 38.5% decline in DVD revenue



SILENT WITNESS

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 'I showed him
 I was strong'

Silent Witness S19 © BBC 2015



The Great Australian Bake Off: S1 (Foxtel)
 © FremantleMedia Australia 2015

in just three years, while supplementing our core sales customers with sales to digital platforms. We have committed substantial investment into our channels, re-branding the majority, while rationalising some, and partnering on others. At the same time, we have responded to supply-side changes – driven both by the digital revolution and by producer consolidation – by taking action to secure content through major international co-productions and closer indie relationships. This momentum also underpins our confidence in the decisions we are taking about our investments and strategic direction.

Strategic progress

We made considerable further progress on the strategy first announced in October 2013. That strategy was to achieve three things:

- to increase focus on premium, world-class content;
- to grow global brands; and
- to effect a gradual transformation to digital products and services.

Premium content

During the year we further strengthened both our content profile and our supply base, as outlined on pages 12-13. For a second year, drama – a growth area for producers and broadcasters across the world – made up around half our total investment: a deliberate rebalancing, as well as the result of continuing increased costs in the content market. We took delivery of new titles from *Banished to War and Peace*, *Doctor Foster*, *Dickensian* and *Thirteen*, having invested alongside BBC channels, as well as new commissions from other British broadcasters including *Maigret* and *The Durrells*. Our returning titles were also in strong form, with

Doctor Who in its ninth series, *Death in Paradise* and *Call the Midwife* completing their fifth and *Silent Witness* now at series 19. The strength and breadth of this slate was visible both at trade markets, and in a sales performance that saw drama make up 49% of all our programme licence revenue in the year.

Highlights in our second largest investment genre, natural history, included *Shark* and *Attenborough and the Giant Dinosaur*, alongside landmark *The Hunt*. Among our documentary deliveries was BBC Worldwide commission *Beckham: For the Love of the Game*, which secured 4.1m viewers on BBC One. In children's we were pleased to see two new high potential titles – *Go Jetters* and *Hey Duggee* – rating very well both at home and internationally, while BAFTA-winning *Sarah & Duck* was produced for a third series.

We also continued our strategy of long-term partnerships with high quality UK independent production companies. This allows us to secure content rights, frequently for BBC commissions, while supporting independents with access to our funding, distribution and expertise. In our equity relationships, some of which first date back a decade, BBC Worldwide is a long-term, stable shareholder. We can provide the financial and creative partnership that allows small and medium sized indies to expand, while retaining both their Britishness and the independence that keeps the UK production scene so dynamic. Our work with independents returned some £116.1m (2014/15: £113.1m) to the indie sector in the year. This is one of several ways in which BBC Worldwide performs an important role as a core part of the UK's creative economy.

17.6%

Returns to the BBC – increase on prior year adjusted for disposal proceeds
 (2014/15: -8.8%)

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£116.1m

Indie payments
 (2014/15: £113.1m) +2.7%

For a second year, drama made up around half our total investment



Top Gear S23 © BBC Worldwide Limited 2016

All this has been achieved in a time of rapid change, which has presented opportunities and threats

The year saw us upgrade our offer and performance in content sales. We introduced a programme based around insight, customer relation management and marketing at the end of the previous year. Its implementation and initial success in 2015/16 helped us to an impressive 18.4% growth in revenue from content sales, a key benchmark of our competitiveness. Digital sales were particularly strong, reflecting new service launches from both global and local SVOD operators, and we welcomed around 700 sales clients for a third year running at our main trade event, BBC Worldwide Showcase. Building on global hits such as *Dancing with the Stars* and *The Great Bake Off*, we also brought renewed attention to format development, acquisition and sales, resulting in more local versions of our hit British shows than ever before and good growth in format sales.

Global brands

Keeping our largest programme brands healthy and competitive was also a focus in the year. ABC's *Dancing with the Stars*, which we produce in Los Angeles, performed very strongly in its 20th and 21st series in the year. We also saw impressive international performances from *Doctor Who* S9. Meanwhile, *Top Gear* underwent an exciting re-casting, with established and new presenting talent secured for series 23, which premiered in May.

We made rapid progress on plans to upgrade our linear channels, resulting in a portfolio that looked quite different at year end from 12 months earlier. Having launched new scripted brand BBC First in Australia the previous year, we began to roll out two

further genre brands: BBC Brit in factual entertainment and BBC Earth in premium factual in the year. Major launch markets for our new channel brands included Poland, the Nordics, South Africa and Latin America. We ended the year with 12 of our 33 international channel feeds carrying the new genre brands, making BBC Earth and BBC First available in at least 40 countries and BBC Brit in 61. Audience and affiliate reaction has largely been positive, and we will continue to re-brand most of our other channels in the year ahead. Distribution and revenue for the BBC World News channel, for which we provide an affiliate and advertising sales service globally, along with AMCN in the USA, also increased in the year.

Digital developments

Our direct to consumer focus extended beyond linear channels. November saw the launch of BBC Store in the UK, which allows viewers to buy and keep programmes they want to enjoy beyond the 30 day licence fee funded BBC iPlayer window. Outside the UK, we spent the year working up plans and partnerships for over the top services (OTT), namely a subscription 'best of British' archive proposition that we will launch in the USA in 2016, and an authenticated TV player to complement our existing channels in Asia, which will also launch later this year in Singapore.

BBC.com, the international website, for which BBC Worldwide sells advertising and creates international feature sections, continued to build on the previous year's success, reaching an average of 89.1m monthly unique browsers (2014/15: 85.5m)



Beckham: For the Love of the Game © Jackie Nickerson 2015



12 of our wholly owned BBC channels now carry the new genre brands

and generating 1.1bn page views. Our six features sections also achieved ongoing growth, attracting a monthly average of 11m unique browsers (2014/15: 8.3m), up 38% year on year.

Efficiencies

Against the context of the market changes, particularly the content costs outlined above, and the wider BBC efforts to reduce operating costs across the Group, we worked particularly hard on our operational cost base in the year. In total we ended the year with 176 fewer employees than 12 months previously, a reduction equivalent to some 9% of our workforce. This resulted in in-year savings of some £10.8m versus prior year, with an additional £4.6m savings expected in the next financial year. This has enabled us to invest to meet clients' and audiences' future needs, while maintaining our financial performance in the face of very real margin pressure. While this involved some difficult decisions, I believe we can nonetheless keep the company competitive and appropriately invested in to achieve growth goals for the longer term.

Culture

I would like to thank BBC Worldwide's employees for approaching this exercise with such professionalism. Our overall

company engagement score of 70% remained well above the global market norm of 55%. We made good progress on adopting a common way of working and behaving in every one of our offices: a 'commitment' developed out of feedback from employees, and designed to ensure everyone is able to contribute their very best work here. Building on those insights, we also introduced a global employee awards scheme to recognise exceptional effort and achievement, as well as a new training curriculum. We now have a network of over 40 Team Worldwide 'Champions' across our global offices, running very active interest communities from arts to sports, and planning a range of activities to benefit employees and our local communities alike.

Before closing, I would briefly like to pay tribute to two CFOs for their service during the year: Andrew Bott who, after more than a decade with the company, and two years in this role, left in January for a Group CFO role at FremantleMedia; and Suzanne Burrows, who covered the role on an interim basis over the busy year-end period until May, when we were joined by permanent CFO Tom Fussell. Both deserve my personal thanks, as well as those of the company's stakeholders.

The year ahead

As a result of all activity outlined here, we enter the new financial year on the back of strong results, with positive prospects. We take confidence from the full-year effect of cost efficiencies and strong financial discipline, and a content slate that includes a fourth series of *Sherlock*, *Doctor Who* companion piece *Class*, *SS-GB*, *The Collection*, the all-new *Top Gear*, and *Planet Earth II*, Sir David Attenborough's sequel to the globally successful natural history programme. We do, however, anticipate further market change in the year ahead, with the rising cost and accessibility of premium content a particular concern. We will nonetheless continue to target further top line growth and another strong year of returns.

18.4%

Growth in revenue from content sales

(2014/15: 2.9%)

THE CLANGERS

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'Here we are inside the Clangers planet'

Strategic review

This year's story is one of good underlying growth in both sales and profit. This was achieved in spite of our continued investment in channel brands and digital innovation, as well as notable external challenges such as the rising cost of content.

CHIEF FINANCIAL OFFICER'S REVIEW

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Performing well and financially sound



Suzanne Burrows
Interim Chief Financial Officer,
(January – May 2016)
BBC Worldwide

BBC Worldwide's new CFO, Tom Fussell, joined the company in May. However, given the timing of his arrival, I am presenting this year's financial review, having been interim CFO for the last quarter of the year and during the preparation of this set of accounts.

Headline results

Headline sales of £1,029.4m (2014/15: £1,001.8m) were up 2.8%, a very good achievement in a changing market. As the CEO review points out on page 08, this was equivalent to underlying growth in headline sales of 6.7% as the sale of a 49.9% interest in our US channel, BBC AMERICA, in 2014 meant the prior year's results benefited from seven months of full ownership, contributing £53.7m to headline sales (creating a year-on-year BBC AMERICA sales impact of £36.7m). The major growth drivers were healthy trading with SVOD services in a number of territories, continuing growth at our UK joint venture, UKTV, and a music licensing agreement. While the proliferation of SVOD services brought new opportunities to exploit our extensive catalogue, this growing revenue stream is also currently concentrated in a handful of dominant partners, whose commissioning and acquisition strategies remain under development.

Headline profit of £133.8m (2014/15: £138.6m) was also up 4.0% (after adjusting for a £9.9m year-on-year BBC AMERICA impact) despite a second year of investment in the transition to new channel brands. Margin erosion on content sales has continued in the year following pronounced increase in the costs of content. These costs, as a proportion of content sales, have increased by almost 10% in the past two years. A headline profit margin of 13.0% (2014/15: 13.8%) reflected this inflationary pressure, in part but not wholly mitigated through an active programme of efficiencies undertaken in the year.

2015/16 saw a marginal benefit to revenue and a small profit downside from foreign exchange movements. This was the net effect of a number of currency hedges and a weaker pound against our key currencies of the US dollar and the Euro, particularly in the key last quarter of the year.

On a geographic basis, we delivered underlying growth in headline sales in every one of our regions. A decline in headline sales on an actual basis in North America reflected the impact of BBC AMERICA described above, and in Australia and New Zealand reflected the weakening of the Australian dollar during the year. Headline profit, after again adjusting for the impact of BBC AMERICA, was up in all geographical segments, aside from Western Europe, where the business was affected by investment in new channel launches, the closure of a small number of channel feeds and its above-average exposure to increased content costs. UK profitability was boosted in part by the aforementioned music licensing agreement.

1. Headline results

£m	Headline sales		Headline profit	
	2015/16	2014/15	2015/16	2014/15
Reported result	1,029.4	1,001.8	133.8	138.6
BBC AMERICA impact ¹	-	(36.7)	-	(9.9)
Underlying result	1,029.4	965.1	133.8	128.7

¹ The overall impact differs from the separately disclosed seven months of headline sales and profit recorded in 2014/15 due to the subsequent share of BBC AMERICA profit recorded in both years and the impact of intragroup eliminations as content sales to BBC AMERICA are no longer being eliminated as an internal sale.

2. Segmental results

£m	Headline sales		Headline profit	
	2015/16	2014/15	2015/16	2014/15
United Kingdom	379.3	361.8	62.4	52.7
North America	277.9	299.9	24.2	32.9
Western Europe	168.0	160.1	21.0	27.0
Australia and New Zealand	79.1	81.9	19.2	16.3
Rest of World	137.7	116.2	5.4	5.2
Eliminations	(12.6)	(18.1)	1.6	4.5
Total	1,029.4	1,001.8	133.8	138.6

3. Results by business area

£m	Headline sales		Headline profit	
	2015/16	2014/15	2015/16	2014/15
Content Sales	384.2	324.4	68.2	62.7
Branded Services	335.7	370.5	49.7	55.4
Production & Formats	173.0	163.0	10.6	15.8
Consumer Products	179.1	197.6	6.9	3.4
Eliminations	(42.6)	(53.7)	(1.6)	1.3
Total	1,029.4	1,001.8	133.8	138.6

The business classifications have been updated during the current year to better reflect the Board's operational view of the business. The Board views the business based on four business line segments: Branded Services (includes prior year's channels business, as well as Ad Sales and BBC Store), Content Sales (includes prior year's Sales & Distribution), Production & Formats, and Consumer Products. The previously reported Other business lines have been reallocated across these four segments.



Sarah & Duck © Karrot Entertainment 2014



Adele: Live in London © BBC 2015



ORPHAN BLACK

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'Look at me.
See me'

Orphan Black S3 © BBC Worldwide 2015

4. Statutory results

£m	2015/16	2014/15
Headline profit	133.8	138.6
Share of interest and tax of joint ventures and associates	(10.6)	(9.4)
Pension deficit reduction payment	(3.4)	(8.1)
Other specific items	(13.4)	(4.8)
Gains on disposals	1.5	115.9
Other gains and losses	(4.6)	(5.7)
Net finance expense	(2.8)	(2.7)
Profit before tax	100.5	223.8

5. Average number of employees

	2015/16	2014/15
United Kingdom	460	438
North America	360	446
Western Europe	315	324
Australia and New Zealand	179	197
Rest of World	450	424
Total	1,764	1,829

Reconciliation 2015/16 £m

133.8							
	(10.6)	(3.4)	(13.4)	1.5	(4.6)	(2.8)	100.5
Headline profit	Share of interest and tax of joint ventures and associates	Pension deficit reduction payment	Other specific items	Gains on disposals	Other gains and losses	Net finance expense	Profit before tax

While we manage our company by region, we are this year also providing our results by business area. With these changes we believe our transparency to be at least in line with the best-in-class in our sector, as set out in table 3 on page 15.

In Content Sales, growth of 18.4% speaks to a stable business in free-to-air and pay-TV, as well as the SVOD growth mentioned earlier. Headline sales in Branded Services (which includes our channels) increased 5.2% year on year, after adjusting for BBC AMERICA. Headline profit was up 10.5% on the same basis. Branded Services also includes the impact of a first full year of build and operating investment in BBC Store. In Production & Formats we delivered revenue growth of 6.1%. Profitability was affected by a greater proportion of our production income coming from lower margin scripted titles, some of which benefit from high end production tax credits (captured as a tax benefit outside of pre-tax profit). Consumer Products, which includes DVD, remains a difficult category in a market transitioning to digital product. A revenue decline of 9.4% here reflects the downward trend in that market, which also impacted profitability: at the profit level this was offset by a music licensing agreement in the UK.

Statutory results

One of the main differences between our headline results and the equivalent statutory measures relates to our investments in joint ventures and associates. We include our share of joint venture revenue – principally the results of UKTV – in headline sales. We also include the pre-tax and pre-interest results of our joint ventures and associates in headline profit, rather than our share of net profit, as included in the statutory measure. We do this because we view these investments as a fundamental part of our ongoing activities.

Headline profit also excludes a number of non-statutory ‘specific items’ – principally restructuring costs and other similar amounts customarily excluded from non-statutory measures – which help to provide further clarity about our underlying trading performance.

Our headline and statutory results are reconciled in table 4, left.

Specific items

Specific items are not defined under IFRS and may not be comparable to similarly titled measures used by other companies. Specific items are material items which are highlighted by virtue of their size or importance in order to enable a full understanding of our performance.

The presentation of these items is consistent with previous years.

Specific items are noted in table 4 and netted to a total of £13.4m (2014/15: £4.8m). The most significant item – reorganisation costs of £12.8m – reflects the company’s efficiency programme carried out in the year. Reorganisation costs in the previous year mainly related to the relocation of our head office in London.

Corporate activity

Corporate activity in the year, in line with the content investment strategy set out on pages 12-13, focused on shareholdings in independent production companies, four in the UK, as well as a majority shareholding in the strategically important market of South Africa. We also invested further in German production vehicle Tower Productions. These investments help us to enhance our content pipeline in an increasingly competitive market while also benefiting from a greater share of the success of titles produced through these partnerships.

Employees

Average headcount in the year was 1,764, down from 1,829 in 2014/15. The reduction in heads reflects the full year impact of transferring BBC AMERICA employees to AMC Networks (AMCN) in October 2014, as well as further reductions following the efficiency programme undertaken in the year, offset by an increase for BBC Advertising and BBC Store. Employee numbers by region are detailed in table 5.

Tax

The majority of our profits arise in the UK, where we are headquartered, and our main exposures to tax arise in the UK, the USA and Australia. The group does not adopt aggressive tax planning measures.

Our total tax charge for the year was £14.9m (2014/15: £38.3m) giving an effective tax rate of 14.8% (2014/15: 17.1%). The prior year tax charge included £26.6m in respect of BBC AMERICA, including tax incurred on the proceeds of the sale. The impact of this disposal, coupled with the higher rate of tax in the USA, largely explains the overall reduction in our effective tax rate.

Our tax rate is lower than the standard UK corporate rate largely due to the inclusion of our post-tax joint venture and associate profits in pre-tax income, as well as the production tax credits we receive on our UK-based production activity.

Cash and net debt

Operating cash flow of £152.3m (2014/15: £191.0m) reflects investment in working capital, particularly for digital content sales, offset in part by working capital released from production activity and a reduction in tax paid due to lower taxable profits and timing of tax payments.

The previous year saw a cash inflow from the partial disposal of BBC AMERICA, we received the remaining deferred proceeds in the year. This allowed us again to supplement returns to our parent, albeit it to a lesser extent than last year.

Notwithstanding the boost that this transaction gave us both this year and last, our total shareholder return of £222.2m (2014/15: £226.5m), as described in the Chairman’s statement, is close to last year’s record. These returns primarily capture our corporate dividends and investment in BBC commissions, with the balance made up of brand licences and other smaller contributions to our parent.

Average net debt throughout the year was £77.8m (2014/15: £32.4m) and we ended the year with net debt of £122.1m (2014/15: £69.2m). Our debt facility with BBC Commercial Holdings Limited provides us with a maximum facility of £202.2m, of which the final £30.0m is conditional on an equivalent holding in cash.

Looking forward

BBC Worldwide begins the new financial year with a strong slate and future pipeline of content, with over a third of our 33-strong portfolio of owned and operated channels under new BBC brands, and well-advanced plans for direct-to-consumer digital products in a number of key markets. While we face market conditions that are changeable, with a relatively high degree of industry and consumer turbulence, these attributes nonetheless mean that we are well-equipped to continue to serve existing and new clients, audiences and partners with the premium British content on which our business has founded its success over many years.

READ MORE ABOUT HOW WE HAVE PERFORMED IN OUR FOUR GEOGRAPHICAL REGIONS