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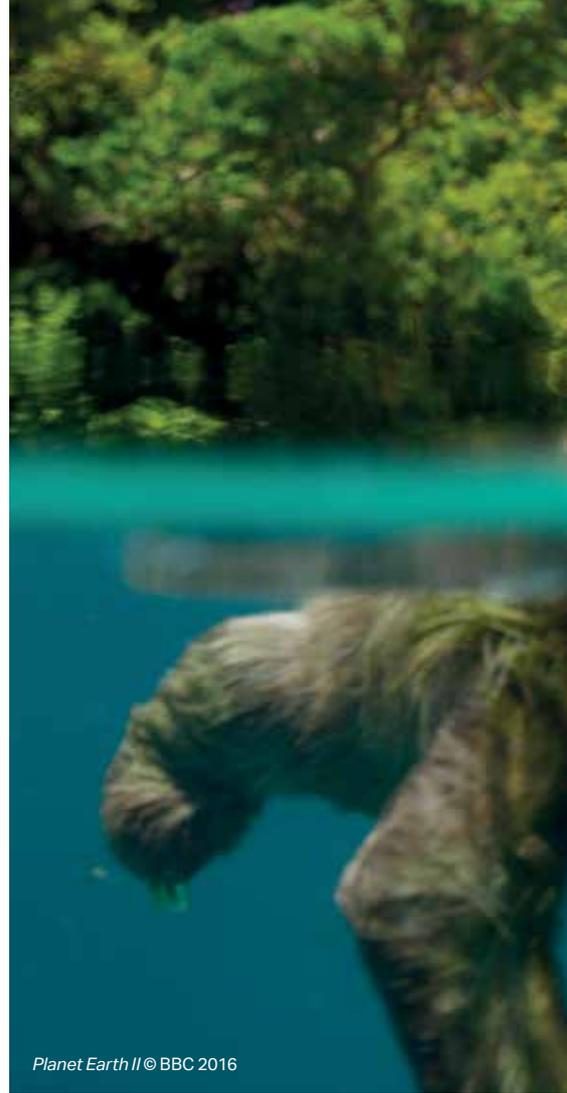
CHAIRMAN'S STATEMENT

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Building the UK's cultural capital



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



Planet Earth II © BBC 2016

I am pleased that this has been another good year for BBC Worldwide. Returns of £210.5m exceeded £200m for a third year, flowing principally through investment into BBC-commissioned programmes and dividends paid from profits. Meanwhile, both headline sales and profit showed good growth.

This financial return to the Corporation is essential in allowing the BBC to commission with a level of ambition and commitment to quality that simply would not be possible with the licence fee alone. To put this in context, BBC Worldwide, with its partners, provides between one-half and fourth-fifths of funding across *Planet Earth II*, *Doctor Who* and *Top Gear*.

Programmes like these, which attract domestic audiences of many millions,

£210.5m

Returns to the BBC
(2015/16: £222.2m) -5.3%

.....
PLANET EARTH II

'So what should any red-blooded sloth do? Swim, of course'
.....

are immeasurably enriched in terms of talent, technology, production values and even length of series by additional commercial funding. They are great examples of how this funding model is allowing us to invest in the very highest quality programmes for audiences at home and – through partnerships with and exports to international players – bring value back to the UK to invest in yet more creativity for the licence fee payer.

Already *Planet Earth II*, from BBC Studios' Natural History Unit, has been seen by 34m viewers in the UK and was sold to 154 territories around the world at year-end. Its international transmissions have broken many long-standing records, a feat that is all the more impressive in the context of the widespread decline in live ratings. In the US, the premiere was the most watched nature episode on television in five years. In China, it was seen almost 50m times, with more than 210m views of the show's content. And in France, it ranked in the top five highest-rated UK programmes since the start of 2008.

I believe that BBC Worldwide's overall performance is particularly impressive given the continuing change in both commissioning and consumption, which in turn affects the economics of content in significant ways. Tim Davie

outlines these effects in greater detail on pages 08-11, and I am pleased to see the steps that Tim and his leadership team are already taking to stay competitive in a transforming market.

One of the most significant transformations this year in the BBC context was the creation of BBC Studios as a wholly owned commercial subsidiary. A move to full commercialisation from April 2017 sees BBC Studios move outside the BBC's public service activities, able to take creative ideas to third-party commissioners.

This transition represents a significant change, but it is also a major opportunity. I believe it is the right thing to assure the long-term success of BBC production, and with it ownership of valuable intellectual property. BBC Studios is BBC Worldwide's largest supplier of content, and BBC Worldwide the largest commercial investor in BBC Studios' slate. The funding models for the major BBC Studios titles cited above illustrate their inter-dependence, and a thriving strategic partnership between the two will be essential to the BBC securing its future as one of the very best programme-makers in the world.

This is vitally important not just creatively and commercially, but also reputationally. The benefits of global growth for the UK licence fee payer go far beyond what we can offer them on screen and on air. By taking British content beyond these shores, and promoting creative output from across the whole sector and not just the BBC, BBC Worldwide is building cultural capital for the UK. This in turn promotes wider British interests.

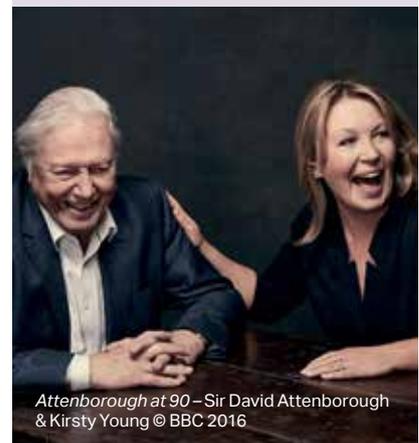
That is why, as we face political turbulence in both the developed and developing world, the growth of the BBC globally is an important priority. I believe that Britain now needs us more than ever, and that we need to do more than ever for Britain in the world. The BBC, with a strong and growing BBC Worldwide, can do so much for the UK in the years ahead, and will have a vitally important role to play.

Celebrating 60 years of natural history

In May 2016, Sir David Attenborough celebrated his 90th birthday, and with it over 60 years of award-winning BBC natural history landmarks. Sir David remains the only person to have won a BAFTA for programmes in black and white, colour, HD and 3D.

Inspiring several generations, titles such as *Life, Life on Earth, Human Planet, Frozen Planet, Planet Earth* and *Blue Planet* have each been seen in over 200 territories, and by an estimated half a billion people worldwide.

 www.bbcworldwide.com/celebratingsuccess



Attenborough at 90 – Sir David Attenborough & Kirsty Young © BBC 2016

It has been another successful year for BBC Worldwide as we continue to transform the business. The shifts underway in our markets have, if anything, accelerated in the past 12 months.

CHIEF EXECUTIVE'S
REVIEW

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Transformation from a strong base



Tim Davie
Chief Executive, BBC Worldwide
and Director, Global

As a global premium content business we are fortunate not to be uniquely dependent on any single brand, programme, platform or market. Nonetheless, we need to keep actively managing our activities towards the areas of highest growth, in order to sustain the commercial and financial success we enjoy today.

Results

This transformation is easier to effect from a strong base. Therefore I am particularly pleased that in 2016/17 BBC Worldwide produced headline sales of £1,059.9m (2015/16: £1,029.4m), up 3.0%, and headline profit of £157.3m (2015/16: £133.8m), up 17.6%. Organic growth was 6.4% at headline profit, excluding a foreign exchange gain of £14.9m.

As the Director-General states, our £210.5m (2015/16: £222.2m) cash return to the BBC Group was in excess of £200m for a third year. Excluding disposal proceeds this was above the previous year. This is an important contribution, equating to 12.2% (2015/16: 13.1%) of the BBC's total spend on television content in the year. I am also pleased with our cash management, with free cash generation improving to £90.8m (2015/16: £38.1m). This is outlined in more detail by Tom Fussell, BBC Worldwide's Chief Financial Officer (CFO), on page 17, along with the steps we have taken to match our content's balance sheet profile to the shape of the business we have today, set out on page 17.

£90.8m

Free cash generation
(2015/16: £38.1m) +138.3%

12.2%

**Returns to the BBC as a
% of total BBC Television
content spend**
(2015/16: 13.0%) -0.8%



TOP GEAR

'This is one of the best moments of my year so far!'

Top Gear S24 © BBC 2017

Strategic achievements

These results demonstrate the effectiveness of the strategy we set out in 2013: to focus our content investment into premium titles; to invest in our portfolio of BBC branded services and franchise brands; and to enter the world of digital direct-to-consumer services. The intervening three and a half years have seen us significantly refine our content investment into key genres and titles, with a move to premium hours; upgrade our linear channels portfolio with new BBC brands, marketing and schedules, while securing the long-term future of BBC AMERICA in a joint venture relationship with AMC Networks (AMCN); and develop a number of digital propositions and partnerships around the world.

Premium content

Specifically in the year, our progress remained strong across these three core areas. We had a healthy slate of content deliveries, including *Planet Earth II*, *Sherlock S4* and *Top Gear S24*. In content sales, we were recognised in September by *Broadcast* magazine as Distributor of the Year. Our excellent content sales momentum saw us pass our internal £400m target one year early, with growth of 9.9% taking us to £422.4m (2015/16: £384.2m). We entered partnerships with five world-class talent-led British indies, principally at the start-up stage: supporting British entrepreneurship and IP generation, while enhancing the future

of our own content supply. This move benefits indies and BBC Studios alike, as additional volume in content sales lets us invest more in world-class sales tools and services.

Global brands

Our branded services and channel Joint Ventures (JVs) performed well, despite pressures on pay TV, particularly in developed markets. Among our JVs, BBC AMERICA was the only US cable channel to post 12 straight years of prime time ratings growth, UKTV grew Share of Commercial Impacts (SOCi), revenue and profit, while BBC Earth debuted strongly as a JV in India and a channel partnership in Canada in the final quarter. Meanwhile, in our owned and operated channels, BBC Earth benefited from the year's blue chip natural history titles. BBC First topped its competitor set in Benelux and extended its reach in the Netherlands, where it took advertising for the first time. BBC First led a portfolio of strongly performing channels in Australia, which includes established local brands UKTV and BBC Knowledge. CBeebies was expanded across Africa, the Middle East and Taiwan and BBC Brit cemented its position in South Africa.

In addition to the superb performance of *Planet Earth II* around the world, we were also pleased to see a return to strength for *Top Gear S24*, achieving consolidated audiences of around 5m in the UK and significantly surpassing slot average on BBC AMERICA. In an otherwise quiet year for new *Doctor Who*

content, the Christmas special proved BBC AMERICA's top-performing title in the period, while *Doctor Who: The Power of the Daleks*, a specially commissioned animation for a newly discovered classic sound-track, proved a welcome innovation for fans everywhere.

Digital progress

On the digital front, channel companion TV Everywhere (TVE) app, BBC Player, launched on a number of new platforms in Asia. We also agreed a significant partnership with ITV plc for BritBox, a subscription video on demand service built around British television. Launched in the USA in March, with AMCN a minority shareholder, the service features the largest collection of Classic *Doctor Who* as well as continuing dramas such as *EastEnders* and *Emmerdale* within 24 hours of UK transmission. As outlined in the UK business update, download-to-own (DTO) service BBC Store will cease later this year, reflecting the dominance of subscription in the digital market.

The year also saw the move of a number of features-led verticals on BBC.com from BBC Worldwide to BBC Global News Ltd, to be closer to the editorial functions of News, along with the move of BBC.com/earth to the Natural History Unit and the closure of Autos. It was pleasing to see that the verticals received seven of the BBC's 22 nominations and honorees in the prestigious 2017 Webby awards, with BBC Culture and BBC Earth winning the People's award in their categories.



BOWIE

**'I find only freedom
in the realms
of eccentricity'**

David Bowie: The Last Five Years © Jimmy King 2017

BBC commitments

At a Group level, our relationship with our shareholder, and the wider public service, remains strong. We have a high level of strategic alignment to the wider BBC, with the majority of our services carrying the master brand, and our major content investments and franchise brands – including *Doctor Who*, *Top Gear*, *Dancing with the Stars*, and natural history landmarks under the BBC Earth banner – all much-loved BBC titles in their own right. As the Director-General points out, the transition of BBC Studios to a commercial enterprise is a bold and significant move. With BBC Studios the principal supplier of BBC Worldwide's IP, this company could not be more invested in supporting its future success through very close collaboration and, of course, continued investment in its programmes.

Market shifts

While I am clearly happy with this progress, there is more to be done. On the face of it, our industry is stable and modestly growing. Television viewing (which does not include Video on Demand (VOD)) around the world remains fairly steady, averaging three hours a day in 2016, a small decrease on three hours 10 minutes in 2010¹. Meanwhile, estimates of global expenditure on TV and video over the next five years predict a Compound

annual growth rate (CAGR) of 2.5%, reaching US\$318bn in 2020, with a TV subscription CAGR of 2.8% just above trend². The rise of VOD services continues at pace, with Netflix and Amazon Prime now jointly boasting 168m subscribers, a year-on-year increase of 25.7%³. However, the world of increased choice brings challenges alongside opportunities, with increased competitiveness and margin pressure present in the majority of our established business areas.

Accelerating strategy

To remain successful, we need to accelerate our strategy. The next few years will see us become even closer to content makers – both BBC Studios and independents – as development, financing, production, and sales become ever more indivisible. We are also building on our history of pioneering in content financing,

bringing new relationships and third party capital to our existing expertise in content partnerships, windowing and financing structures. In the year these relationships included Benchmark Capital, with Lookout Point and Access Entertainment, and a slate deal worth up to £150m over three years with Anton, both investing in premium drama.

Other areas where we are pushing hard on strategy include ensuring we have the right branded service offer and structure for each of our markets; raising our ambition in the management of our core franchises; ensuring that we have the right degree of flexibility in international format production; and actively managing our portfolio of ancillaries. Underpinning these, we are focusing heavily on operating efficiently, with an aspiration to be towards the top of our industry.

1 One Year in TV, Eurodata, 2015

2 Global Entertainment and Media Outlook, PwC, 2016

3 SVOD Service Provider Forecast: Amazon, 2016-2022, Ovum, September 2016

4 BBC Staff Survey 2017, Ipsos MORI, 2017

5 UK Television Exports Report 2015-2016, PACT, February 2017

Culture and people

All this work, however, would be superfluous if we were not also concentrating hard on our company culture. We already ask a lot of our people, and time and again they impress with their originality, generosity and dedication. Success in the years ahead will require all this and more: a company and employees who are bold, agile, inclusive and resilient while delivering at pace. It was heartening to see our employee engagement score increase by three percentage points to 73.0% versus a global media norm of 58.0%⁴.

£146.4m

Payments to Indies
(2015/16: £116.1m) +26.1%

Meanwhile the BBC's UK-wide Diversity and Inclusion Census confirmed statistically that our self-reported performance is in line with or above BBC targets at 54.4% female; 20.3% BAME; 7.5% with a disability; and 10.7% LGBT.

However, reporting is only one part of the story, and alongside this we want to keep building an inclusive culture: actively encouraging different perspectives and ensuring everyone feels comfortable to do their best work.

The year ahead

We begin the new financial year facing a complex set of conditions. The outlook for our markets, facing geopolitical uncertainties and industry change, remains unpredictable, but demand so far has largely held up well overall. We are actively transforming our company to stay ahead of market developments. We have an exciting slate of content, backed by strong relationships with producers and customers alike, which will see us working with a cast of creators and on screen talent ranging from Jane Campion, Elisabeth Moss, Nicole Kidman, Chris Chibnall and Andrew Davies to Sir David Attenborough and Hans Zimmer, Conor Macpherson and Denise Gough (pictured below), Matt LeBlanc and William Fichtner. Altogether, we believe these are robust reasons to give our shareholder, partners and stakeholders confidence in our future prospects.

Supporting UK creativity

As well as 'soft power' benefits, the success of our industry beyond these shores brings hard financial benefits. Returns to indies, excluding equity investments, were £146.4m (2015/16: £116.1m), above the £100m mark for a fourth year running. Our catalogue continues to represent over 250 independents, with BBC Worldwide accounting for an important element of the UK's £1.33bn⁵ TV exports.

 www.bbcworldwide.com/celebratingsuccess



PAULA

'I know what you are'

Strength in 2016/17 was driven by our broad range of businesses and franchises, our clear strategy and focus, and our stronger cash flow.

CHIEF FINANCIAL OFFICER'S REVIEW

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Financially robust in changing markets



Tom Fussell
Chief Financial Officer

A handwritten signature in black ink that reads "Tom Fussell". The signature is written in a cursive, slightly slanted style.



Ice Town © BBC Worldwide 2016

I'm delighted to present the CFO Review at the end of my first year with BBC Worldwide, which has been a good year for the business. It is a pleasure to return to the BBC, where I previously spent 10 years, and I am excited by the prospects for the business.

Headline results

Headline sales of £1,059.9m (2015/16: £1,029.4m) were up 3.0%, with strong growth in our Content Sales and Branded Services (including UKTV) business lines. This was particularly pleasing given market pressure on our consumer products business, which also had a prior year benefit from a music catalogue sale, and in Production & Formats from the end of North America-produced *Da Vinci's Demons* in 2015/16.

We manage our business on a geographic basis, through the major regions represented in Table 1. On this basis we delivered sales growth in three of our four regions, aided by a weaker pound, with Global Markets notably strong, while North America reflects the lower level of production activity noted above.

Headline profit of £157.3m (2015/16: £133.8m) was up by 17.6%, with strong growth in all four of our regions, and reflects both organic growth and the broad portfolio of our business lines, geographies and brands.



ICE TOWN

'I came here looking for adventure'

The major growth drivers were our Content Sales and Branded Services business areas. Branded Services showed sales growth of 5.6% and headline profit growth of 45.5%, driven by both our UKTV and BBC AMERICA partnerships performing strongly, along with our owned and operated channels. During the year a decision to move to a content sales-led strategy in Latin America resulted in the closure of the majority of our local channels business there.

We maintained our position as global market leader outside the US studios in Content Sales, with strong revenue growth at 9.9%. Lower profit growth reflects the increasing costs of content. We continued to see the shift in our customer base towards video-on-demand services (SVOD) and some pressure on our linear TV sales customers.

Across our Productions & Formats businesses we saw both sales and profit decline in the year, following the completion of *Da Vinci's Demons* in our North America business last year. However, *Dancing with the Stars* continued to be our strongest performing brand in this business line, with series 23 and 24 both rating well.

Our Consumer Products business declined year-on-year, driven by both market decline within DVD and also as a result of the non-recurring music catalogue sale in the UK during 2015/16.

1. Segmental results

£m	Headline sales		Headline profit	
	2016/17	2015/16	2016/17	2015/16
United Kingdom	381.3	379.3	66.6	62.4
Global Markets	331.4	305.7	42.6	26.4
North America	273.8	277.9	27.3	24.2
Australia and New Zealand	79.5	79.1	21.1	19.2
Eliminations	(6.1)	(12.6)	(0.3)	1.6
Total	1,059.9	1,029.4	157.3	133.8

2. Results by business area

£m	Headline sales		Headline profit	
	2016/17	2015/16	2016/17	2015/16
Content sales	422.4	384.2	68.8	68.2
Branded services	354.6	335.7	72.3	49.7
Production & Formats	164.3	173.0	8.2	10.6
Consumer products	146.0	179.1	4.1	6.9
Eliminations	(27.4)	(42.6)	3.9	(1.6)
Total	1,059.9	1,029.4	157.3	133.8

3. Statutory results

£m	2016/17	2015/16
Headline profit	157.3	133.8
Share of interest and tax of joint ventures and associates	(11.1)	(10.6)
Other specific items	(97.3)	(16.8)
Gains on disposals	7.7	1.5
Other gains and losses	0.5	(4.6)
Net finance expense	(2.6)	(2.8)
Profit before tax	54.5	100.5

4. Reconciliation of Free cash flow

£m	2016/17	2015/16
Cash generated from operations	106.2	59.1
Purchases of property, plant and equipment, and other intangible assets	(15.4)	(21.0)
Free cash flow	90.8	38.1
Investing activities	(20.0)	25.4
Tax and interest	(13.9)	(11.3)
Dividends paid to parent	(89.3)	(105.5)
Dividends paid to non-controlling interest	(0.2)	-
Foreign exchange translation gains	0.5	0.5
Increase in net debt	(32.1)	(52.8)





Class © BBC 2016

2016/17 saw significant fluctuations in foreign currencies. As our principal business activity involves the export of content which is predominantly purchased in pounds, we benefited from sterling's overall movements and in particular the movement against the US dollar. Our largest overseas trading businesses (North America and Australia and New Zealand) were in line with or ahead of their prior year performance in local currency. During 2016/17 we saw exchange rate benefits of £14.9m within headline profit.

Statutory results

Our headline and statutory results are reconciled in Table 3, left.

Specific items

Specific items totalled £97.3m (2015/16: £16.8m). The most significant items are described below, being content amortisation estimates, impairment of BBC Store and closure of channels in Latin America.

BBC Worldwide makes investments in content (both from BBC Studios and independent producers), with distribution rights having a carrying value of £210.3m as of 31 March 2016. In line with our accounting policy, BBC Worldwide's amortisation profiles for distribution rights are reviewed every three years, with a review conducted on 31 March 2017. Over the three years since the last review there have been significant changes in our industry, with the growth of recent entrants to the TV market, particularly SVOD services. This has resulted in content sales being achieved at a faster rate than historically, both through the acquisition of new customers and in meeting the need of customers for longer licensing periods.

To reflect this new market reality, our investment cost amortisation profile needs to match this new sales pattern, with a higher weighting to the early years of the sales lifecycle. This results in a charge of £67.9m in the year. This is a non-cash accounting charge, and has no impact on BBC Worldwide's returns to the BBC. The charge does not reflect content investment performance, which in management's view is best judged through headline profit.

A £12.5m charge within specific items relates to the impairment of BBC Store in full.

As a result of the closure of some of our Latin American operated channels, certain one-off costs were incurred, including the impairment of assets and redundancy costs.

Corporate activity

During 2016/17 we continued to make strategic investments in British independent production companies where we believe there is a good fit with BBC Worldwide, and where our backing can help secure access to premium content for distribution and help to drive growth in our invested companies. Our investments included taking an equity stake in Expectation Entertainment and increasing our stakes in Baby Cow and Lookout Point, as detailed on page 12.

During the year we made a number of small disposals and a dilution of ownership in BritBox North America to AMCN.

Employees

Average headcount in the year was 1,712, down from 1,764 in 2015/16, as we continued to look for efficiency savings, particularly in support areas. We did see some increases as a result of having a full year of consolidation for our Rapid Blue subsidiary, acquired in March 2016, and with the recognition of Baby Cow as a subsidiary from April 2016.

Tax

Our total tax charge for the year was £14.1m (2015/16: £14.9m) giving an effective tax rate of 25.7% (2015/16: 14.8%). Our tax rate is higher than the Standard UK Corporation Tax rate due to the high proportion of profits earned overseas in higher tax regions.

Cash and net debt

An increased focus on working capital management has helped free cash flow to increase by 138.3% to £90.8m as shown in Table 4. The strong operating cash flow improvement of £47.1m to £106.2m has meant that post tax, the dividend of £89.3m has been funded in full from operating cash flow with the increase of net debt funding investment activity.

A significant financial metric is the level of returns to our shareholder. In 2016/17 these totalled £210.5m (2015/16: £222.2m). When £15.0m of returns related to the partial disposal of BBC AMERICA are removed from the prior year numbers, this level of returns represents a record year for organically generated returns.

Closing net debt was £154.2m (2015/16: £122.1m). Our debt facility with BBC Commercial Holdings Limited was renewed on 31 March 2017 and provides us with a maximum net facility of £205.0m.

Auditors

Following the signing of the new BBC Charter, the statutory auditor for BBC Worldwide will be the National Audit Office (NAO) for 2017/18. I would like to thank Ernst & Young LLP for its significant contribution to BBC Worldwide and welcome the NAO as our incoming statutory auditor.

Looking forward

BBC Worldwide enters the new financial year in a strong position to benefit from the continuing change in the markets we operate in. We have seen the benefit of increasing efforts on our cash conversion this year. This will continue with the focus on sustainable long term returns for our shareholder and a strong return on capital.

Read more about how we have performed in our four geographical regions