

UKTV Media Holdings Limited

Directors' report and financial statements

Registered number 07596400

31 December 2015



Contents

| | Page Number |
|---|----------------|
| Strategic report | 1-2 |
| Directors' report | 3-4 |
| Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements | 5 |
| Independent auditor's report to the members of UKTV Media Holdings Limited | 6 |
| Consolidated profit and loss account | 7 |
| Consolidated balance sheet | 8 |
| Company balance sheet | 9 |
| Consolidated cash flow statement | 10 |
| Consolidated and Company statement of changes in equity | 11 |
| Notes | 12-26 |

Strategic report

Principal activity

The principal activity of the Group during the year was the operation of eleven TV brands: Dave, Gold, Watch, Alibi, Drama, Yesterday, Really, Good Food, Eden, Home and UKTV Play, which broadcast via pay, free-to-air and digital platforms.

UKTV Media Holdings Limited (the 'Company') is the holding company of UKTV Media Limited. At 31 December 2015, the joint venture partners of the Company were BBC Worldwide Limited (a wholly-owned subsidiary of the BBC) and Southbank Media Limited (a wholly-owned subsidiary of Scripps Networks Interactive Inc., a company incorporated in the state of Ohio, United States of America), each holding 50% of the ordinary share capital.

Results and business review

The aim of the Group is to maximise shareholder value, measured as operating profit and operating cash flow, as well as to increase audiences, measured as Share of Commercial Impacts (SOCI) which is inherently linked to financial targets.

Detailed results of the Group for the year ended 31 December 2015 are set out on page 7. Performance for the Group is based on the results from UKTV Media Limited and is measured against operating profit, operating cash flow and SOCI.

Key performance indicators

| | 2015 | 2014 |
|-----------------------------|--------|--------|
| | £'000 | £'000 |
| Operating profit | 79,605 | 72,293 |
| Operating cash flow | 65,867 | 68,152 |
| Share of commercial impacts | 9.32% | 9.00% |

Operating profit has increased year-on-year largely due to increased advertising revenues. During the year there was significant growth in commercial viewing, with SOCI growing from 9.00% to 9.32%, driven by investment in programming content and channels. Operating cash flow has decreased year-on-year mainly due to an increased working capital position at the year-end as a result of timing differences and continued investment in content and channels.

Strategic report *(continued)*

Principle risks and uncertainties

The major risks for the Group in the short to medium term are:

- 1) Competition. The Group operates in a highly competitive environment. The Group is committed to obtaining the best programming content available in order to retain its strong market share, despite a challenging advertising market.
- 2) Substitutes. Technological advances are changing the way people access and view content resulting in a shift in viewing habits away from traditional linear broadcast TV. The Group continues to invest in and expand its business beyond the linear broadcasting environment.
- 3) Reliance on key revenue streams. The Group's key revenue streams come from subscription and advertising revenues. Therefore a shift in market parameters or supplier relations could have a significant impact (positive or negative) on the business. Senior management is aware of this and seek to identify ways to diversify and lessen the exposure.

Future outlook

In 2016 the Group plans to continue to invest in content and promoting its channels, whilst looking to further expand its business beyond the linear broadcasting environment.

By order of the board



P Edmondson
Company Secretary

10 Hammersmith Grove
London
W6 7AP
Registered number: 7596400
23 March 2016

Directors' report

The directors present their annual report and the audited consolidated financial statements of UKTV Media Holdings Limited (the 'Company') and subsidiaries (the 'Group') for the year ended 31 December 2015.

Going concern

After reviewing the Group's forecasts and projections, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

Dividends

During the year, ordinary dividends of £48,500,000 (2014: £46,500,000), being equivalent to £4,850 (2014: £4,650) per ordinary share were proposed and paid. Preference dividends of £50,000 (2014: £50,000) were payable by subsidiary company UKTV Media Limited to Southbank Media Limited, a subsidiary of Scripps Networks Interactive Inc.

Directors

The directors who held office during the year and up to the date of this report are as follows:

| | |
|------------|-----------------------------|
| T Davie | |
| A Bott | (resigned 1 December 2015) |
| D Childs | (resigned 25 February 2015) |
| S Nardi | |
| M Arthur | |
| D Moody | (appointed 1 December 2015) |
| J NeCastro | (resigned 5 February 2016) |
| J Samples | |
| P Luff | (appointed 5 February 2016) |

Political and charitable contributions

During the year, the Group made charitable donations of £16,950 (2014: £66,785) and did not make any political contributions (2014: £nil).

Disclosure of information to auditor

The directors who held office at the date of approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each director has taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' report *(continued)*

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG LLP will therefore continue in office.

By order of the board



P Edmondson
Company Secretary

10 Hammersmith Grove
London
W6 7AP
Registered number: 7596400
23 March 2016

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for the period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of UKTV Media Holdings Limited

We have audited the financial statements of UKTV Media Holdings Limited (the 'Company') for the year ended 31 December 2015 as set out on pages 7 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the Group's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and parent Company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.


Hugh Green (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London, E14 5GL

24 March 2016

Consolidated profit and loss account

for the year ended 31 December 2015

| | <i>Note</i> | 2015 £'000 | 2014 £'000 |
|--|-------------|-----------------------------|-----------------------------|
| Turnover | 2 | 319,157 | 282,550 |
| Cost of sales | | (162,890) | (147,690) |
| Gross profit | | 156,267 | 134,860 |
| Distribution costs | | (56,103) | (44,385) |
| Administration expenses | | (20,559) | (18,182) |
| Operating profit | | 79,605 | 72,293 |
| Interest receivable and similar income | 3 | 2 | 15 |
| Interest payable and similar charges | 4 | (3,745) | (3,711) |
| Profit on ordinary activities before taxation | 5 | 75,862 | 68,597 |
| Tax on profit on ordinary activities | 8 | (14,963) | (14,550) |
| Profit for the financial year | | 60,899 | 54,047 |

All turnover and operating profit arose from continuing operations.

The Group has no recognised gains or losses for the current or prior financial years other than those included in the profit and loss account and therefore no separate statement of comprehensive income has been prepared.

There is no difference between profit on a historical cost basis and that shown in the profit and loss account.

Notes on pages 12 to 26 form an integral part of these financial statements.

Consolidated balance sheet

at 31 December 2015

| | Note | 2015 £'000 | 2014 £'000 |
|--|------|------------------|------------------|
| Fixed assets | | | |
| Intangible fixed assets | 9 | 3,523 | 2,717 |
| Tangible fixed assets | 10 | 3,434 | 3,041 |
| | | <u>6,957</u> | <u>5,758</u> |
| Current assets | | | |
| Programming stock | 13 | 122,942 | 104,856 |
| Debtors: amounts falling due within one year | 14 | 76,737 | 68,395 |
| Cash at bank and in hand | | 8,764 | 11,288 |
| | | <u>208,443</u> | <u>184,539</u> |
| Current assets | | | |
| Creditors: amounts falling due within one year | 15 | <u>(141,943)</u> | <u>(129,862)</u> |
| Net current assets | | <u>66,500</u> | <u>54,677</u> |
| Total assets less current liabilities | | <u>73,457</u> | <u>60,435</u> |
| Creditors: amounts falling due after more than one year | 16 | <u>(53,968)</u> | <u>(53,345)</u> |
| Net assets | | <u>19,489</u> | <u>7,090</u> |
| Total shareholders' funds | | | |
| Equity share capital | 17 | 10 | 10 |
| Profit and loss account | | 19,479 | 7,080 |
| | | <u>19,489</u> | <u>7,090</u> |
| Shareholders' funds | | <u>19,489</u> | <u>7,090</u> |

The notes on pages 12 to 26 form an integral part of these financial statements.

This balance sheet was approved by the board of directors on **23 March** 2016 and was signed on its behalf by:

S Nardi
Director 

Company balance sheet

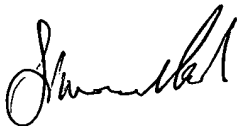
at 31 December 2015

| | Note | 2015 £'000 | 2014 £'000 |
|--|------|----------------|----------------|
| Fixed assets | | | |
| Investments | 11 | 550,000 | 550,000 |
| Current assets | | | |
| Debtors: amounts falling due within one year | 14 | 10 | 10 |
| | | <u>10</u> | <u>10</u> |
| Net current assets | | 10 | 10 |
| Total assets less current liabilities | | <u>550,010</u> | <u>550,010</u> |
| Net assets | | <u>550,010</u> | <u>550,010</u> |
| Total shareholders' funds | | | |
| Equity share capital | 17 | 10 | 10 |
| Profit and loss account | | 550,000 | 550,000 |
| Shareholders' funds | | <u>550,010</u> | <u>550,010</u> |

The notes on pages 12 to 26 form part of these financial statements.

This balance sheet was approved by the board of directors on **23 March** 2016 and was signed on its behalf by:

S Nardi
Director



Consolidated statement of cash flows

for the year ended 31 December 2015

| | 2015 £'000 | 2014 £'000 |
|---|-----------------|-----------------|
| Cash flows from operating activities | | |
| Profit for the financial year | 60,899 | 54,047 |
| Adjustments for: | | |
| Amortisation of intangible assets | 1,701 | 1,378 |
| Depreciation of tangible assets | 649 | 511 |
| Interest payable | 3,745 | 3,711 |
| Interest receivable | (2) | (15) |
| Taxation charge | 14,963 | 14,550 |
| (Increase) in trade and other debtors | (9,679) | (1,870) |
| (Increase) in stocks | (18,086) | (7,375) |
| Increase in trade and other creditors | 11,677 | 3,215 |
| Cash from operations | 65,867 | 68,152 |
| Income taxes paid | (13,222) | (13,814) |
| Net cash generated from operating activities | 52,645 | 54,338 |
| Cash flows from investing activities | | |
| Purchases of tangible assets | (1,042) | (3,286) |
| Purchases of intangible assets | (2,507) | (1,541) |
| Net cash from investing activities | (3,549) | (4,827) |
| Cash flows from financing activities | | |
| Interest received | 2 | 15 |
| Interest paid | (3,122) | (3,111) |
| Dividends paid | (48,500) | (46,500) |
| Net cash used in financing activities | (51,620) | (49,596) |
| Net decrease in cash and cash equivalents | (2,524) | (85) |
| Cash and cash equivalents at the beginning of year | 11,288 | 11,373 |
| Cash and cash equivalents at end of year | 8,764 | 11,288 |

Consolidated Statement of changes in equity

for the year ended 31 December 2015

| | Called-up Share Capital £'000 | Share Capital Redemption Reserve £'000 | Profit & Loss Account £'000 | Total £'000 |
|---|--|---|--|------------------------|
| At 1 January 2014 | 10 | 13,750 | (14,217) | (457) |
| Profit for the year | - | - | 54,047 | 54,047 |
| Dividends paid (note 12) | - | - | (46,500) | (46,500) |
| Redemption of non-cumulative preference shares | - | 20,000 | (20,000) | - |
| Elimination of share capital redemption reserve | - | (33,750) | 33,750 | - |
| At 31 December 2014 | 10 | - | 7,080 | 7,090 |
| Profit for the year | - | - | 60,899 | 60,899 |
| Dividends paid (note 12) | - | - | (48,500) | (48,500) |
| At 31 December 2015 | 10 | - | 19,479 | 19,489 |

Company Statement of changes in equity

for the year ended 31 December 2015

| | Called-up Share Capital £'000 | Profit & Loss Account £'000 | Total £'000 |
|----------------------------|--|--|------------------------|
| At 1 January 2014 | 10 | 550,000 | 550,010 |
| Profit for the year | - | 46,500 | 46,500 |
| Dividends paid (note 12) | - | (46,500) | (46,500) |
| At 31 December 2014 | 10 | 550,000 | 550,010 |
| Profit for the year | - | 48,500 | 48,500 |
| Dividends paid (note 12) | - | (48,500) | (48,500) |
| At 31 December 2015 | 10 | 550,000 | 550,010 |

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements, except as noted below.

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS102'), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis.

This is the first year in which the financial statements have been prepared under FRS 102. This had led to a reduction in consolidated shareholders' funds of £66,000 at 31 December 2014 and an increase of £71,000 in consolidated profit for the year then ended. There has been no impact on the Company's own financial statements. Refer to note 23 for an explanation of the transition.

Going concern

As stated in the Directors' Report, after reviewing the Group's forecasts and projections, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

Group accounts

Consolidated financial statements have been prepared for the Group which incorporate the financial statements of UKTV Media Limited. These consolidated accounts have been prepared in line with merger accounting principles of Financial Reporting Standard 102. The carrying value of the subsidiary company was initially included at fair value within the parent company financial statements.

Under section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit or loss account.

Turnover

Turnover represents net advertising revenue, subscription revenue and other commercial revenue. All turnover is stated net of valued added tax and is recognised on delivery.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Derivative financial instruments

Derivative financial instruments, such as foreign exchange forward contracts, are recognised at fair value with any gains or losses included in the profit and loss account.

Notes (continued)

1 Accounting policies (continued)

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Programming stock

Programming stock is stated at the lower of cost, being purchase price, and the value in use. Programming stock is the amount payable under licence agreements on agreed purchases and is transferred to cost of sales on a straight line basis over the number of transmission days or the number of transmission weeks, as appropriate.

Pensions

The Group does not operate a pension scheme but pays defined contributions into individual pension schemes. The amount charged against profits represents the contributions payable to those schemes in respect of the accounting period.

Operating leases

Rentals payable relating to assets under operating lease are taken to the profit and loss account evenly over the period of the lease, adjusted for any lease incentives.

Intangible fixed assets

Intangible fixed assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are tested for impairment when there is an indication that the asset may be impaired. Amortisation is provided to write off the cost less the estimated residual value of intangible assets by equal instalments over their estimated useful economic lives as follows:

- Software development costs – 33% per annum.

Tangible fixed assets

Tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses. Tangible assets are assessed for impairment at each reporting date. Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

- Furniture & Fittings – Integral features 7% per annum, in line with original lease term. Furniture and moveable fittings 33% per annum.
- IT Hardware & Software – 33% per annum.

Investments

In the Company financial statements, investments in subsidiary undertakings were initially stated at fair value. It is the intention to maintain these assets at historical cost and test for impairment each year, as appropriate.

Notes (continued)

1 Accounting policies (continued)

Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company, or Group as the case may be, to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company or Group; and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges.

2 Segmental reporting

The Group's operations are all considered to fall into a single class of business, namely the operation of TV channels which broadcast via pay, free-to-air and digital platforms. The revenue is derived from the geographical areas below.

| <i>Turnover by geographical location:</i> | 2015 £'000 | 2014 £'000 |
|---|-----------------------------|-----------------------------|
| UK | 314,101 | 277,475 |
| Republic of Ireland | 5,056 | 5,075 |
| | <hr/> | <hr/> |
| | 319,157 | 282,550 |
| | <hr/> | <hr/> |

3 Interest receivable and similar income

| | 2015 £'000 | 2014 £'000 |
|---------------------------|-----------------------------|-----------------------------|
| Interest on bank deposits | 2 | 12 |
| Other interest receivable | - | 3 |
| | <hr/> | <hr/> |
| | 2 | 15 |
| | <hr/> | <hr/> |

Notes (continued)

4 Interest payable and similar charges

| | 2015 £'000 | 2014 £'000 |
|---|---------------|---------------|
| Interest on redeemable unsecured loan stock (note 19) | 2,247 | 2,247 |
| Interest on revolving credit facility (note 19) | - | 1 |
| Interest on variable rate unsecured loan stock (note 19) | 1,448 | 1,408 |
| Finance costs on shares classified as liabilities (note 19) | 50 | 50 |
| Other interest | - | 5 |
| | <u>3,745</u> | <u>3,711</u> |

5 Profit on ordinary activities before taxation

| | 2015 £'000 | 2014 £'000 |
|--|---------------|---------------|
| <i>Profit on ordinary activities before taxation is stated after charging:</i> | | |
| Auditor remuneration: | | |
| Audit of the Company's financial statements | 9 | 8 |
| Audit of the Company's subsidiaries | <u>79</u> | <u>82</u> |
| Total audit fees | 88 | 90 |
| Tax services | 20 | 63 |
| Other non-audit services | <u>23</u> | <u>204</u> |
| Total non-audit fees | 43 | 267 |
| Amortisation of programming inventory | 115,292 | 102,941 |
| Operating lease rentals in respect of land and buildings | 1,204 | 944 |
| Operating lease rentals in respect of hire of plant and machinery | 31,511 | 25,011 |
| Amortisation of intangible fixed assets | 1,701 | 1,378 |
| Depreciation of tangible fixed assets | <u>649</u> | <u>511</u> |

The Company audit fee of £9,000 was borne by subsidiary undertakings.

Notes (continued)

6 Staff numbers and costs

All staff costs are incurred wholly by UKTV Media Limited and are disclosed in the financial statements for UKTV Media Limited, which are available from Companies House.

The average number of persons employed by the Group during the year (including directors and employees of BBC contracted to work for the Group) was as follows:

| | Number of employees | |
|----------------|---------------------|------|
| | 2015 | 2014 |
| Administration | 250 | 212 |

The aggregate payroll costs of these persons were as follows:

| | 2015 | 2014 |
|-------------------------------|--------|--------|
| | £'000 | £'000 |
| Wages and salaries | 17,296 | 15,408 |
| Social security costs | 1,305 | 1,303 |
| Other pension costs (note 21) | 930 | 867 |
| | 19,531 | 17,578 |

7 Remuneration of directors

The aggregate directors' remuneration was as follows:

| | 2015 | 2014 |
|---|-------|-------|
| | £'000 | £'000 |
| Directors' remuneration | 126 | 631 |
| Company contribution to money purchase pension scheme | 8 | 33 |
| | 134 | 664 |

The remuneration of the highest paid director was £126,000 (2014: £631,000) and Group pension contributions of £8,000 (2014: £33,000) were made to a money purchase scheme.

The Group paid defined contributions into the money purchase scheme of one director in 2015 and 2014.

Notes (continued)

8 Taxation

Analysis of charge in period:

| | 2015 | | 2014 | |
|---|--------|---------------|--------|---------------|
| | £'000 | £'000 | £'000 | £'000 |
| <i>UK Corporation tax</i> | | | | |
| Current tax on income for the period | 13,431 | | 14,060 | |
| Adjustments in respect of prior periods | 195 | | 5 | |
| | <hr/> | | <hr/> | |
| Total current tax charge | | 13,626 | | 14,065 |
| Deferred tax | 1,337 | | 485 | |
| | <hr/> | | <hr/> | |
| Total deferred tax | | 1,337 | | 485 |
| | | <hr/> | | <hr/> |
| Tax on profit on ordinary activities | | 14,963 | | 14,550 |
| | | <hr/> | | <hr/> |

Factors affecting tax charge for the current period.

The current tax charge for the period is lower (2014: lower) than the standard rate of corporation tax in the UK. The differences are explained below.

| | 2015 | 2014 |
|--|---------------|---------------|
| | £'000 | £'000 |
| <i>Current tax reconciliation</i> | | |
| Profit on ordinary activities before tax | 75,862 | 68,597 |
| Current tax at 21% to 1 April 2015, and 20% thereafter (2014: 21.5%) | 15,362 | 14,748 |
| <i>Effects of:</i> | | |
| Utilisation of tax losses | (1,290) | (750) |
| Expenses not deductible for tax purposes | 142 | 147 |
| Differences between capital allowances & depreciation | 128 | 70 |
| Group relief received | (911) | (155) |
| Adjustments to tax charge in respect of prior periods | 195 | 5 |
| | <hr/> | <hr/> |
| Total current tax charge | 13,626 | 14,065 |
| | <hr/> | <hr/> |

Factors affecting future tax charges

In 2015, the UK Government substantively enacted legislation to reduce the main rate of UK Statutory Corporation Tax to 19% effective from 1 April 2017, with a further reduction to 18% effective 1 April 2020.

This will reduce the Group's future tax charge accordingly.

The deferred tax asset is measured at the rate of 20% reflecting the expected timing of its realisation.

Notes (continued)

8 Taxation (continued)

Deferred tax

| | 2015 £'000 | 2014 £'000 |
|----------------------------------|---------------|---------------|
| Carried forward tax losses | - | 1,290 |
| Timing differences | 218 | 265 |
| | <hr/> | <hr/> |
| Deferred tax asset | 218 | 1,555 |
| | <hr/> | <hr/> |
| At beginning of the year | 1,555 | 2,040 |
| Utilised during the year | (1,290) | (750) |
| Timing differences | (47) | 265 |
| | <hr/> | <hr/> |
| At the end of the year (note 14) | 218 | 1,555 |
| | <hr/> | <hr/> |

As at 31 December 2015, the Group has £nil (2014: £nil) unrecognised tax losses available to relieve against future profits.

9 Intangible fixed assets

| | Software development costs £'000 |
|---|---|
| Cost | |
| At 1 January 2015 | 5,179 |
| Additions | 2,507 |
| | <hr/> |
| At 31 December 2015 | 7,686 |
| | <hr/> |
| Amortisation | |
| At 1 January 2015 | 2,462 |
| Provided during the year | 1,701 |
| | <hr/> |
| At 31 December 2015 | 4,163 |
| | <hr/> |
| Net book value at 31 December 2015 | 3,523 |
| | <hr/> |
| Net book value at 31 December 2014 | 2,717 |
| | <hr/> |

As part of the transition to FRS 102, software development costs are now classified as intangible fixed assets whereas they were previously classified as tangible fixed assets. Refer to note 23 for an explanation of the transition.

Notes (continued)

10 Tangible fixed assets

| | Furniture & Fittings £'000 | IT Hardware £'000 | Total £'000 |
|---|---|----------------------------------|------------------------|
| Cost | | | |
| At 1 January 2015 | 3,197 | 1,138 | 4,335 |
| Additions | 835 | 207 | 1,042 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2015 | 4,032 | 1,345 | 5,377 |
| | <hr/> | <hr/> | <hr/> |
| Depreciation | | | |
| At 1 January 2015 | 1,095 | 199 | 1,294 |
| Provided during the year | 249 | 400 | 649 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2015 | 1,344 | 599 | 1,943 |
| | <hr/> | <hr/> | <hr/> |
| Net book value at 31 December 2015 | 2,688 | 746 | 3,434 |
| | <hr/> | <hr/> | <hr/> |
| Net book value at 31 December 2014 | 2,102 | 939 | 3,041 |
| | <hr/> | <hr/> | <hr/> |

11 Fixed asset investments

Company investments in subsidiary undertakings

| | £'000 |
|---|----------------|
| Cost and net book value at beginning of the year | 550,000 |
| | <hr/> |
| Movements in the year | |
| Net movement in the year | - |
| | <hr/> |
| Cost and net book value at end of the year | 550,000 |
| | <hr/> |

Notes (continued)

11 Fixed asset investments (continued)

Subsidiary undertakings

The following companies were subsidiaries at 31 December 2015:

| | Business | Class of shares | Group Holding | Country of incorporation |
|--------------------|--|-----------------|---------------|--------------------------|
| UKTV Media Limited | Broadcasting Entertainment TV Channels | Ordinary | 100% | England and Wales |

In the opinion of the directors, the investments in, and amounts due from, the Company's subsidiary undertakings are worth at least the amounts at which they are stated in the balance sheet.

On 30 November 2014 the UKTV Group undertook a legal entity reduction to simplify the group structure. The trade, net assets and employees of fellow joint venture undertakings UK Channel Management Limited and UK Gold Holdings Limited and its subsidiaries were transferred into UKTV Media Limited at book value. Following this restructure, on the 29 June 2015, subsidiary undertakings UK Channel Management Limited and UK Gold Holdings Limited and its subsidiaries were placed into members' voluntary liquidation.

12 Dividends

| | 2015 £'000 | 2014 £'000 |
|--------------------------------------|---------------|---------------|
| Equity shares | | |
| Ordinary dividends proposed and paid | 48,500 | 46,500 |

Dividends were paid at the end of every calendar quarter.

13 Programming stock

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 |
| Programming licence fees and production costs | 122,942 | 104,856 | - | - |

There is no material difference between the replacement cost of stocks and their carrying value.

14 Debtors: amounts falling due within one year

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 |
| Trade debtors | 38,213 | 32,278 | - | - |
| Amounts owed by joint venture parent and its subsidiaries (note 19) | 1,289 | 259 | - | - |
| Amounts owed by fellow joint venture undertakings | - | - | 10 | 10 |
| Prepayments | 17,494 | 14,572 | - | - |
| Accrued income | 19,492 | 19,699 | - | - |
| Net deferred tax asset (note 8) | 218 | 1,555 | - | - |
| Other debtors | 31 | 32 | - | - |
| | 76,737 | 68,395 | 10 | 10 |

Notes (continued)

15 Creditors: amounts falling due within one year

| | Group | | Company | |
|---|----------------|----------------|---------------|---------------|
| | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 |
| Trade creditors | 1,083 | 2,619 | - | - |
| Amounts owed to joint venture parent and its subsidiaries (<i>note 19</i>) | 2,278 | 13,218 | - | - |
| Other creditors including taxation and social security | 11,001 | 9,201 | - | - |
| Shares classified as liabilities (<i>note 17, 19</i>) | 20,000 | 20,000 | - | - |
| Accruals and deferred income | 85,603 | 62,931 | - | - |
| Redeemable unsecured loan stock (<i>note 19</i>) | 21,460 | 21,460 | - | - |
| Other creditors | 518 | 433 | - | - |
| | <u>141,943</u> | <u>129,862</u> | <u>-</u> | <u>-</u> |

Redeemable unsecured loan stock is repayable on shareholder request in accordance with the terms of the Shareholders' Agreement. As at date of signing, this request had not taken place. Interest is payable at the higher of 10.5% per annum and the National Westminster bank base rate.

Shares classified as liabilities are redeemable on shareholder request in accordance with the terms of the Shareholders' Agreement. As at date of signing, this request had not taken place.

16 Creditors: amounts falling due after more than one year

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 |
| Variable rate unsecured loan stock (<i>note 19</i>) | 45,232 | 45,232 | - | - |
| Capitalised interest on variable rate unsecured loan stock (<i>note 19</i>) | 8,736 | 8,113 | - | - |
| | <u>53,968</u> | <u>53,345</u> | <u>-</u> | <u>-</u> |

The variable rate unsecured loan stock is repayable out of "available cash" in accordance with the terms of the Shareholders' Agreement between the Company and the shareholders. Interest is payable at 2% above the six month London Interbank Offered Rate for sterling deposits, as published in the Financial Times.

Notes (continued)

17 Called up share capital

| | Group | | Company | |
|--|-----------------|--------------|----------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| | £'000 | £'000 | £'000 | £'000 |
| 10,000 ordinary shares of £1 each (divided into 5000 'A' shares and 5000 'B' shares) | 10 | 10 | 10 | 10 |
| 20,000,000 non-cumulative redeemable 0.25% preference shares of £1 each | 20,000 | 20,000 | - | - |
| | 20,010 | 20,010 | 10 | 10 |
| Shares classified as liabilities | (20,000) | (20,000) | - | - |
| | 10 | 10 | 10 | 10 |

Rights attaching to each class of share are summarised below:

Save as summarised below, the holders of the 'A' ordinary shares and the 'B' ordinary shares rank pari passu in all respects.

Only the holders of the 'A' ordinary shares and the 'B' ordinary shares are entitled to voting rights at meetings of the members. The holders of a majority of 'A' ordinary shares also have the right to appoint and remove 'A' shareholder directors and the holders of a majority of 'B' ordinary shares have the right to appoint and remove 'B' shareholder directors.

To the extent that there are profits available for distribution, the holders of the non-cumulative redeemable 0.25% preference shares shall be entitled to a fixed non-cumulative cash dividend at the rate of 0.25 pence per share per annum.

The non-cumulative preference shares are redeemable on shareholder request or on 1 January 2030 in accordance with the terms of the Shareholders' Agreement between the Company and the shareholders. No premium will be payable on redemption of these shares.

Notes (continued)

18 Reserves

Called up share capital – represents the nominal value of shares that have been issued.

Profit and loss account – includes all current and prior period retained profits and losses.

19 Related party transactions

Income from the BBC and BBC Worldwide Limited relates to program sales and other commercial revenue. Expenses from BBC Worldwide Limited relate to BBC archive programming and channel management costs. Expenses from Scripps Networks Interactive Inc. and its subsidiaries relate to interest payable and consortium tax relief payable.

| | Income | | Expenses | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 |
| BBC and BBC Worldwide Limited | 2,179 | 1,348 | (51,994) | (48,754) |
| Scripps Networks Interactive Inc. and its subsidiaries | - | - | (8,301) | (4,483) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Balances outstanding at the year-end in respect of related parties are as follows:

| | Receivables outstanding | | Creditors outstanding | |
|--|-------------------------|-------------------|-----------------------|-------------------|
| | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 |
| BBC and BBC Worldwide Limited | 1,289 | 259 | - | (12,771) |
| Scripps Networks Interactive Inc. and its subsidiaries | - | - | (97,706) | (95,252) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Transactions with key management personnel

Total compensation of key management personnel in the year amounted to £3,521,000 (2014: 3,616,000).

Notes (continued)

20 Commitments

The Group's future minimum operating lease payments are as follows:

| | Land & Buildings | | Other | | Total | |
|----------------------------|-----------------------------|---------------|-----------------------|----------------|-----------------------|----------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Within one year | 1,474 | 1,455 | 32,133 | 31,744 | 33,607 | 33,199 |
| Between two and five years | 5,895 | 5,819 | 99,789 | 109,666 | 105,684 | 115,485 |
| Over five years | 12,408 | 13,703 | 23,647 | 44,444 | 36,055 | 58,147 |
| | <u>19,777</u> | <u>21,077</u> | <u>155,569</u> | <u>185,854</u> | <u>175,346</u> | <u>196,831</u> |

| | 2015 | 2014 |
|---|-----------------------|---------------|
| | £'000 | £'000 |
| Commitments with regard to the purchase of programming licences and other non-cancellable contracts | 194,368 | 86,114 |
| | <u>194,368</u> | <u>86,114</u> |

As at 31 December 2015, the Group had forward commitments to purchase €4,428,744 in 2016 for £3,296,486

Notes (continued)

21 Pension scheme

The group does not operate a pension scheme but pays defined contributions into individual pension schemes. The amount charged against profits represents the contributions payable to those schemes in respect of the accounting period and amounted to £929,836 (2014: £867,195). There were outstanding contributions as at 31 December 2015 of £69,350 (2014: £60,529).

22 Ultimate joint venture parents

At 31 December 2015, the joint venture partners of UKTV Media Holdings Limited were BBC Worldwide Limited (a wholly-owned subsidiary of the BBC) and Southbank Media Limited (a wholly-owned subsidiary of Scripps Networks Interactive Inc., a company incorporated in the state of Ohio, United States of America), each holding 50% respectively.

The accounts of both of these companies are available to the public and may be obtained from the following addresses:

Scripps Networks Interactive Inc.
9721 Sherrill Boulevard
Knoxville
Tennessee
37932
United States

BBC Trust
180 Great Portland Street
London
W1W 5QZ

23 Transition to FRS 102

The Group has adopted FRS 102 for the year ended 2015 and has restated the comparative prior year amounts.

Changes for FRS 102 adoption

1. Foreign exchange forward contracts are now recognised at fair value at the end of the year with changes in fair value recognised in profit or loss. Previously foreign exchange forward contracts were not recognised on the balance sheet.
2. An accrual for holiday pay has been recognised for annual leave accrued by employees as a result of services rendered in the year, and which employees are entitled to carry forward and use within the next 12 months.
3. Software development costs are now classified as intangible fixed assets whereas they were previously classified as tangible fixed assets.

Transition to FRS 102 - reconciliations

| | 31 December 2014 £'000 | 1 January 2014 £'000 |
|---|------------------------------|----------------------------|
| Restated Consolidated Balance Sheet | | |
| Original shareholders' funds/(deficit) | 7,156 | (320) |
| <i>Adjustments:</i> | | |
| Financial instruments at fair value | (14) | (84) |
| Accrued holiday pay | (71) | (91) |
| Intangible fixed assets | 2,717 | 2,553 |
| Tangible fixed assets | (2,717) | (2,553) |
| Taxation | 19 | 38 |
| Restated shareholders' funds/(deficit) | 7,090 | (457) |

Notes *(continued)*

23 Transition to FRS 102 *(continued)*

| | |
|--|-----------------|
| Restated consolidated profit and loss for the year ended 31 December 2014 | £'000 |
| Original profit on ordinary activities before tax | 68,507 |
| Financial instruments at fair value | 70 |
| Accrued holiday pay | 20 |
| | <hr/> |
| Restated profit on ordinary activities before tax | 68,597 |
| Original tax on profit on ordinary activities | (14,531) |
| Amendment due to financial instruments at fair value | (15) |
| Amendment due to accrued holiday pay | (4) |
| | <hr/> |
| Restated tax on profit on ordinary activities | (14,550) |
| | <hr/> |
| Restated profit for the financial year | 54,047 |
| | <hr/> <hr/> |