Recovery, advertising and the future of commercial PSB

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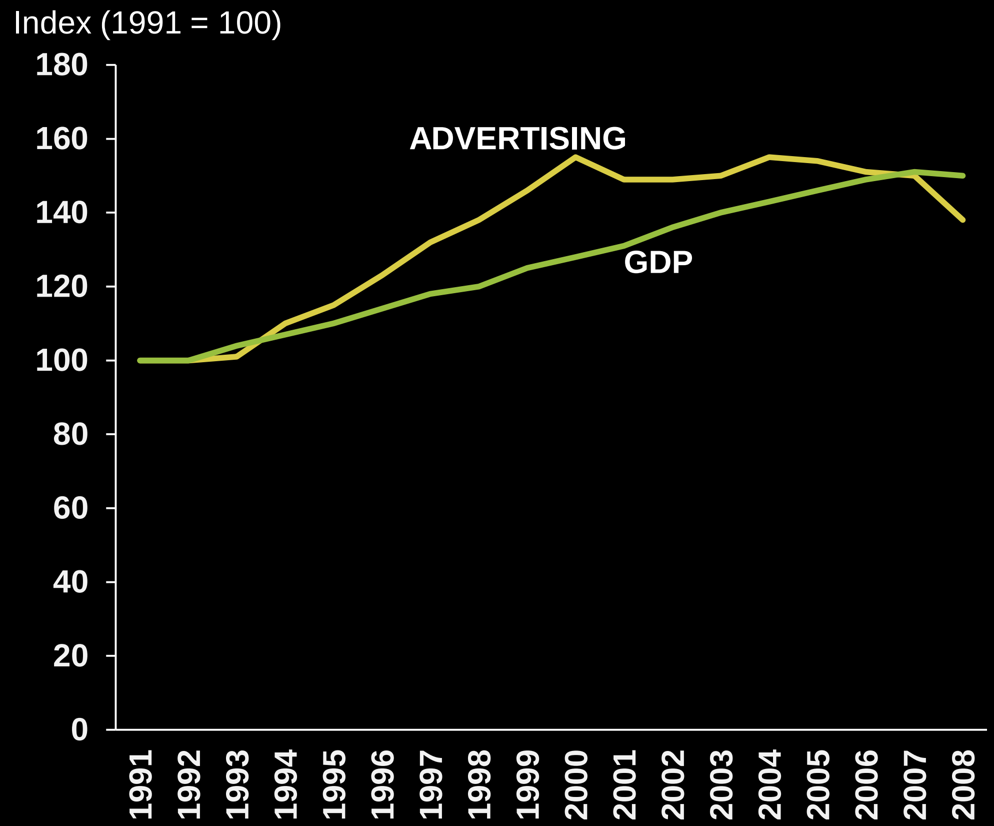
Structural change

Advertising funded media hurting

The traditional link between advertising spend growth and GDP growth broke down ten years ago

- Overall marketing budgets continue to rise at a faster rate than GDP
- Media advertising spend down from 51% to just 33% of all marketing spend since 2000
- Spend diverted into online infrastructure and also non-media marketing, such as PR and events

Index of total UK GDP and advertising spend in real terms, 1991 to 2008



Note: data in real terms at 2008 prices
Source: ONS, Advertising Association, UBS, Oliver & Ohlbaum Analysis

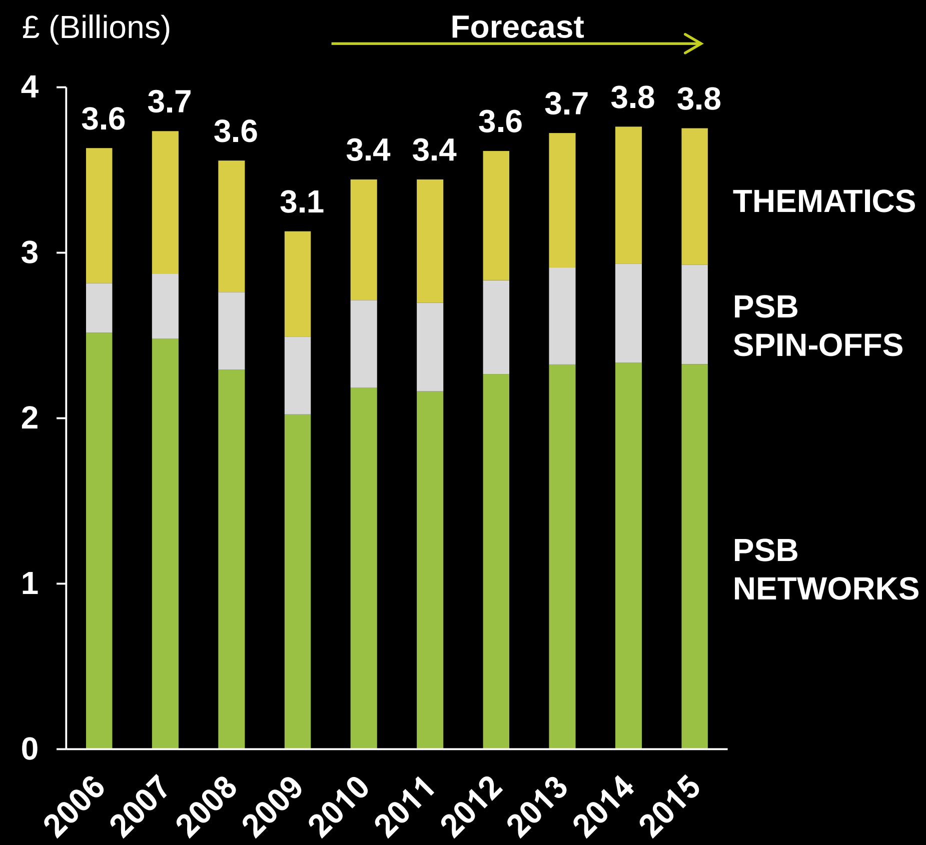
Television advertising

Structural or cyclical?

Television advertising revenues should recover but by 2013/14 structural factors will dominate once again

- Macro advertising spend shift from display media to response media continuing
- Television relatively robust within display
- Broadly flat outlook for traditional TV advertising after recovery is complete

UK television net advertising revenues by channel type, 2006 to 2015



Note: data in nominal terms
Source: Advertising Association, Company Accounts, Oliver & Ohlbaum Analysis

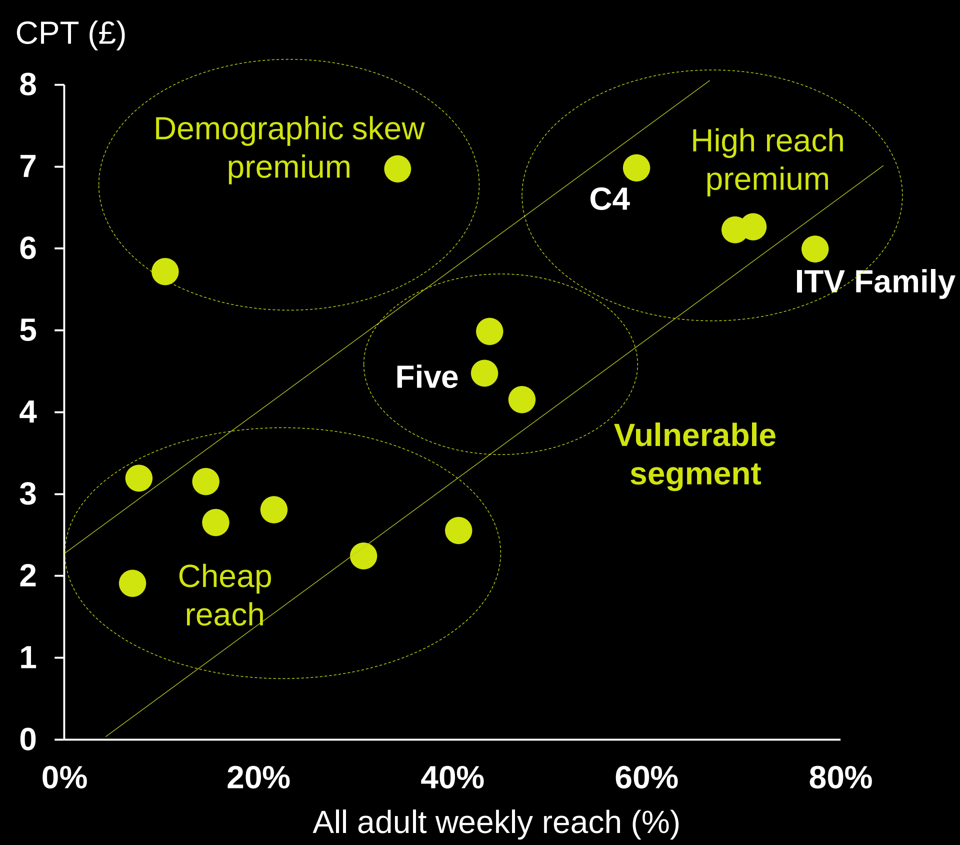
Reach still commands a premium

Commercial PSB not dead

Reach continues to drive television pricing – ITV and Channel 4 will continue to benefit from their high reach

- Reach remains the most important driver of television advertising CPT prices
- Fragmentation and loss of audience share as a result of the transition to digital is now abating
- Linear viewing will continue to dominate even as VOD usage grows, limiting further viewing fragmentation

UK CPT and weekly reach by channel, 2008



Note: weekly reach data is 15 minute cumulative
Source: Company Accounts, BARB, Oliver & Ohlbaum Analysis

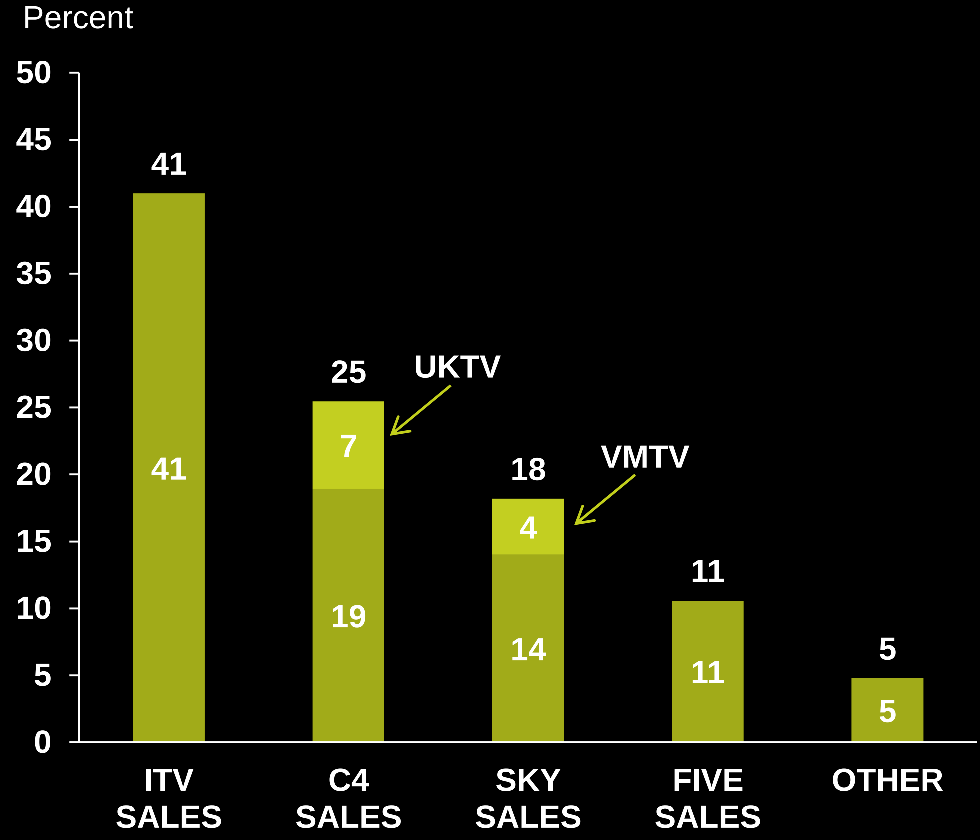
Impact of consolidation

Further threatens Five's position

When Sky's acquisition of the Virgin channels is complete, Five will fall further behind, in terms of SOCI

- Five is also likely to fall from third-place to fourth place in terms of sales house reach
- Advertisers may well devalue Five leading to CPT price pressure
- Significant question marks over future sustainability of investment in PSB by Five

Estimated UK TV sales house SOCI after ad sales consolidation, 2010/11



Source: Company Accounts, BARB, Oliver & Ohlbaum Analysis

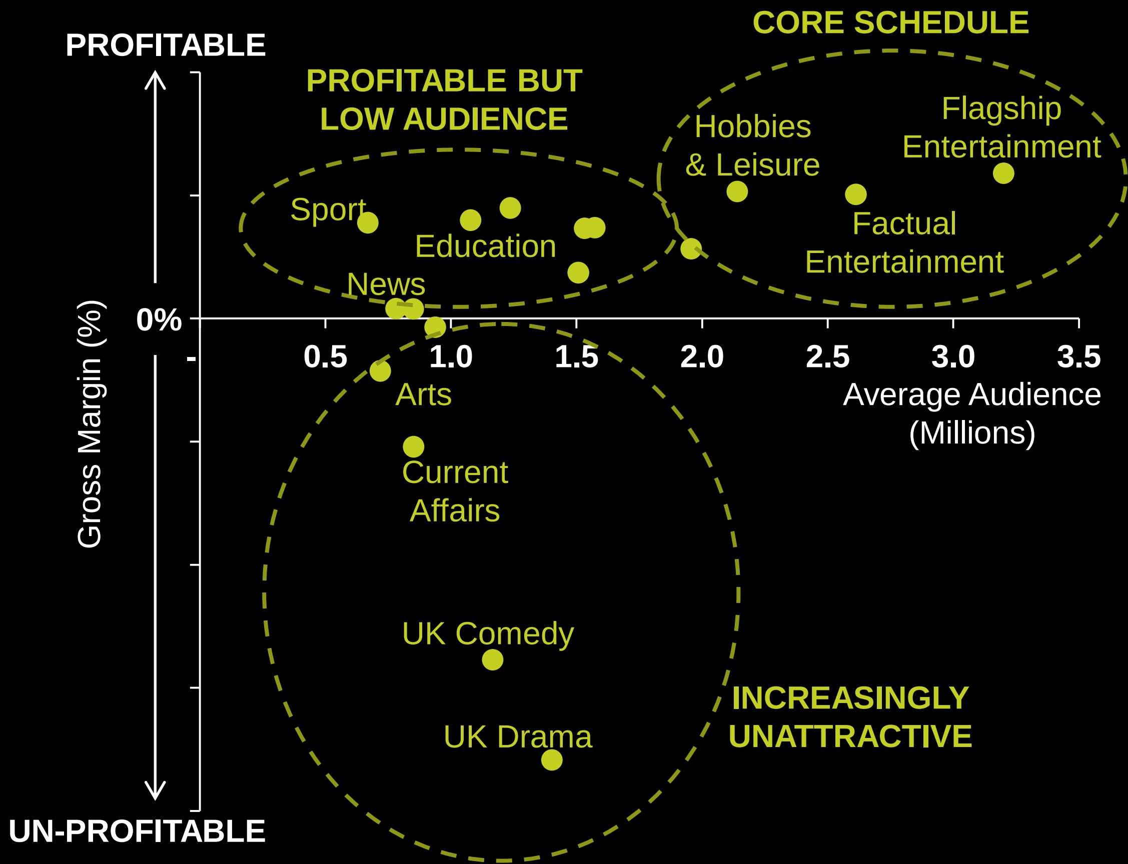
Implications for PSB

Cross-subsidisation model less sustainable

Increased schedule polarisation – more high-audience programmes required to cross-subsidise loss making genres

- While PSB channels will endure, the threat to PSB will be more subtle at the genre level
- Genres that are currently marginal will increasingly become unprofitable
- Lower ability to cross-subsidise heavily loss-making key PSB genres such as UK drama

Channel 4: estimated gross margin and average audience by genre, 2008



Note: data based on BARB average audiences and O&O estimates of cost per transmitted hour
Source: Company Accounts, BARB, Oliver & Ohlbaum Analysis