Accelerating ITV's digital transformation

Full year results for the year ended 31st December 2019

Carolyn McCall, ITV Chief Executive, said

"Thanks to the hard work of our teams across the business, our full year results have come in ahead of expectations helped by revenue growth in the second half of the year in ITV Studios, advertising and online. We are making good progress in each area of our strategy and our investments in data, technology, online and in streaming will enable ITV to be a sustainable, diversified and structurally sound digital media and entertainment business."

Full year results are ahead of expectations

- Total external revenue up 3% at £3,308 million (2018: £3,211 million)
- ITV total advertising revenue down 1.5%, better than previously guided
- Adjusted EBITA down 10% at £729 million (2018: £810 million) and adjusted EPS down 10% at 13.9p (2018: 15.4p), impacted by the decline in TAR and strategic investments we are making to drive future growth
- Statutory EBITA down 12% and Statutory EPS up 1% at 11.8p (2018: 11.7p)

Successfully executing our strategy to build a digitally led media and entertainment company

- **Grow ITV Studios**
  - Total ITV Studios organic revenue up 9%, with external revenue up 12%, benefiting from the phasing of deliveries
  - Solid pipeline of new and returning shows
  - ITV Studios adjusted EBITA up 5% to £267 million (2018: £255 million)

- **Transform Broadcast**
  - Continued strong growth in online revenue, up 21%
  - Good onscreen and online viewing:
    - ITV Family SOV flat at the second highest level for a decade
    - VOD viewing up 13% against tough comparatives
  - Built and rolling out Planet V, our programmatic addressable advertising platform
  - ITV Broadcast total revenue down 2% at £2,063m (2018: £2,096 million) with adjusted EBITA down 17% to £462 million (£555 million)

- **Expand Direct to Consumer**
  - BritBox UK is on plan, following its successful launch in November 2019
  - Strong growth in subscribers:
    - ITV Hub+ over 400,000, and
    - BritBox US over 1 million

Continued strong cash generation

- Delivered £25 million of cost savings, £5 million ahead of target
- Strong profit to cash conversion of 87%
- 1.0x reported net debt to adjusted EBITDA
- Full year dividend of 8p, in line with our guidance

Outlook

- Total advertising revenue is forecast to be up 2% in Q1
- Early indications suggest total advertising revenue will be down 10% in April
- In March and April, we have seen an impact from travel advertising deferments relating to the Coronavirus. All deferments to date have been included in this guidance.
- Despite the ongoing economic uncertainty around the outlook for the UK following its departure from the EU, over the full year we are currently confident that

- We will continue to execute well on the strategy
- ITV Studios will deliver revenue growth over the full year, but as previously guided it will be impacted by the phasing of deliveries in 2019. Over the medium term we continue to expect that ITV Studios revenues will grow by at least 5% CAGR with a 14%-16% margin.
- We will deliver double digit growth in online revenues and growth in direct to consumer

- At this stage it is too difficult to assess the further implications of the Coronavirus but we continue to monitor the situation closely.
- The Board intends to pay another full year dividend of 8p for 2020

Notes to editors

1. Unless otherwise stated, all financial figures refer to the 12 months ended 31 December 2019, with growth compared to the same period in 2018.

2. Group income statement

Twelve months to 31 December	**2019 £m**	2018 £m	Change £m	Change %
Total advertising revenue	1,768	1,795	(27)	(1.5)
Broadcast non-advertising revenue	295	301	(6)	(2)
Broadcast total revenue	**2,063**	**2,096**	**(33)**	**(2)**
ITV Studios total revenue	**1,822**	**1,670**	**152**	**9**
Total non-advertising revenue	2,117	1,971	146	7
Total group revenue	**3,885**	**3,766**	**119**	**3**
Internal supply	(577)	(555)	(22)	(4)
Group external revenue	**3,308**	**3,211**	**97**	**3**
Group adjusted EBITA	**729**	**810**	**(81)**	**(10)**
Group adjusted EBITA margin	22%	25%		
Statutory EBITA	693	785	(92)	(12)
Adjusted EPS	**13.9p**	**15.4p**	**(1.5)p**	**(10)**
Statutory EPS	**11.8p**	**11.7p**	**0.1**	**1**
Dividend per share	8.0p	8.0p	-	-
Net debt as at 31 December	(804)	(927)	123	13

3. Total advertising is forecast to be up 2% in Q1 with January down 1%, February up 8% and March up 1%. Early indications are that total advertising revenue will be down 10% in April. In March and April, we have seen an impact from travel advertising deferments. All deferments to date have been included in this guidance. At this stage it is too difficult to assess the further implications of the Coronavirus.

   These revenues include spot advertising, online, sponsorship and other advertising revenues and excludes self-promotion. Figures for ITV plc are based on ITV estimates and current forecasts.

4. Broadcast key performance indicators

Twelve months to 31 December	**2019**	2018	Change %
ITV Total viewing (hrs)	**16.3bn**	17.0bn	(4)
ITV Family SOV	**23.2%**	23.2%	-
Long form online viewing (hrs)	**506m**	447m	13
ITV Hub registered user accounts	**30.8m**	27.6m	12

- ITV Total viewing is the total number of hours spent watching ITV channels live, recorded broadcast channels within 28 days, third party VOD platforms, ITV Hub on owned and operated ad funded platforms, ITV Hub+, and managed YouTube channels.
- SOV data based on BARB/AdvantEdge. SOV data is for individuals and is based on 7 days (C7). ITV Family includes: ITV, ITV2, ITV3, ITV4, ITV Encore, ITVBe, CITV, ITV Breakfast, CITV Breakfast and associated "HD" and "+1" channels. All viewing on TV set, therefore includes catch up and Hub on television.
- Long form online viewing is the total number of hours ITV VOD content is viewed on owned and operated ad funded platforms, and Hub+ viewing on owned and operated platforms, based on data from Crocus.
- A registered user account is an individual viewer who has signed up to the ITV Hub using one email address. The individual has to have been active within the last 3 years to remain a registered user.
- % change for performance indicators is calculated on unrounded numbers.

5. The final dividend will be paid on 21 May 2020. The ex-dividend date is 9 April 2020. The record date is 14 April 2020.

6. This announcement contains certain statements that are or may be forward looking with respect to the financial condition, results or operations and business of ITV. By their nature forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward looking statements. These factors include, but are not limited to (i) a major deterioration in the current outlook for UK advertising and consumer demand, (ii) significant change in regulation or legislation, (iii) failure to identify and obtain, or significant loss of, optimal programme rights, (iv) the loss or failure of transmission facilities or core systems and (v) a significant change in demand for global content.

   Undue reliance should not be placed on forward looking statements which speak only as of the date of this document. The Group accepts no obligation to revise publicly or update these forward looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.

7. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2019 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the registrar of companies, and those for 2019 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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Chief Executive's Report

ITV delivered a good performance in 2019 in spite of the uncertain economic and political environment. Full year results were ahead of expectations and we made good progress in executing our strategy to build a digitally led media and entertainment company.

We are growing our stable margin Studios business, transforming Broadcast and expanding our Direct to Consumer business. The investments in our strategic priorities are delivering. We are strengthening our creative talent in ITV Studios; accelerating the growth of ITV Hub; rolling out Planet V, our addressable advertising platform; strengthening our data and tech capabilities; and we successfully launched BritBox UK.

We are very focused on building a stronger, more diversified and structurally sound business. The media market is changing rapidly and our strategy continues to evolve to position ITV to take advantage of the opportunities in advertising video on demand (AVOD) and streaming, while mitigating the effect of competition for viewing.

2019 Financial highlights

Total ITV revenue increased by 3% driven by 7% growth in total non-advertising revenue as we continue to diversify the business. ITV Studios total revenue was up 9% in 2019 with growth in all areas, particularly ITV Studios US and ITV Studios International. Direct to Consumer revenues grew 4% driven by ITV Hub+. Broadcast revenues declined by 2%, with continued strong growth in online advertising, up 21%, and growth in sponsorship and creative partnerships, more than offset by the decline in spot advertising revenues.

Adjusted EBITA and adjusted EPS declined by 10%. This was a result of the 1.5% decline in total advertising revenue and the strategic investments we are making to drive future growth in the schedule; the essential investments; and the launch of BritBox UK. ITV Studios adjusted EBITA was up 5% year-on-year at £267 million with an adjusted EBITA margin stable at 15% – firmly within our target range. Broadcast adjusted EBITA was down 17% at £462 million.

Statutory profit before tax fell by 7% to £530 million (2018: £567 million) which includes a £62 million gain on the sale of the London Television Centre (LTVC). Statutory EPS increased by 1% to 11.8p (2018: 11.7p), with the decline in statutory profit before tax offset by the decline in the reported effective tax rate, partly as a result of the sale of LTVC.

We were highly cash generative in 2019, with profit to cash conversion at 87% and our reported net debt to adjusted EBITDA leverage was 1.0x. We expect to continue to deliver good profit to cash conversion in 2020, and there are a number of one-off cash outflows which can be seen in further detail in the Finance Review.

Reflecting ITV's continued strong operational performance, the Board has proposed a full year dividend of 8.0p for 2019.

ITV purpose

We are focused on all our stakeholders: our viewers, our customers, partners, programme participants, regulators, government, shareholders and debt investors. Our own people are extremely important to us and we have a range of ways to ensure we listen to them and respond.

Our purpose is to be More than TV. We connect millions of people every day, make content they can't get enough of and reflect and shape the world we live in… and we do all this through the power of creativity.

As a commercial public service broadcaster ITV is a major investor in regional creative economies. We create shared national moments and make programmes for people across the whole of the UK, available for free to everyone. We contribute to the health of democracy, providing trusted, impartial and high-quality local and national news.

It is our purpose and our culture which defines our organisation and everything we do.

Our strategic vision

Viewing habits, technological innovation and the competitive landscape are all developing. While television continues to reach 90% of the population each week, viewers and particularly younger viewers, are watching less live linear television. We continue to see strong growth in online viewing and particularly SVOD, which is now a significant feature of the market. Advertising is also changing with the rapid growth in online advertising and the market is becoming increasingly competitive.

While ITV has a strong market position we recognise that we need to develop at pace to deliver future success and to mitigate the risks of the changing market. Our strategic vision is to be a digitally led media and entertainment company that creates and brings our brilliant content to audiences wherever, whenever and however they choose.

We have evolved our strategy to deliver this with three clear priorities:

- Continue to grow UK and Global Production
- Transform our Broadcast business, and
- Expand our Direct to Consumer activities

At the centre of this is the production and commissioning of great content, which we are able to monetise through our multiple touchpoints in three different business models: advertising through linear, online and creative partnerships around our brands; selling our content to broadcasters and platform owners; and directly to consumers through SVOD, merchandise, gaming, and events around our brands.

Being an integrated producer broadcaster gives us a competitive advantage. Owning and managing our own content enables us to drive maximum value from our intellectual property (IP). We also have a significant promotional engine and have the ability to cross promote across our business models.

Strategic progress in 2019

While there is a great deal to do to deliver our vision, we are making good progress and the benefits of the investments are already evident.

"Being an integrated producer broadcaster gives us a competitive advantage. Owning and managing our own content enables us to drive maximum value from our IP."

Growing UK and Global Production

ITV Studios is now a scaled international business, delivering good growth at a stable margin and we are well on track to deliver our target of a 5% average compound annual growth rate (CAGR) in total revenue at a 14% to 16% margin. In line with our strategy, we are growing scripted revenues strongly, up 37%, partly driven by the significant increase in the original hours commissioned by OTT platforms which was up 95%. ITV Studios has a large portfolio of successful formats that return and travel and increasingly we are producing them locally, therefore capturing the full margin. In 2019 we sold 62 formats with 14 sold in three or more countries. We continue to attract new creative talent and in 2019 two highly regarded producers, Patrick Spence and Dominic Treadwell-Collins, joined ITV. Reflecting growth in key global production markets, 58% of Studios revenue was generated outside the UK, up from 56% in 2018, and ITV Studios delivered 37% of ITV plc's adjusted EBITA.

We are also on track to deliver 10,000 production hours by 2021 but in 2019 this was impacted by the discontinuation of The Jeremy Kyle Show and a number of other high volume and lower value daytime programmes not returning in the UK and internationally.

Transforming Broadcast

In 2019 we repositioned the ITV brand to drive more light viewers and increase reach and we have seen an increase in share of viewing (SOV) for light viewers. As the media market is changing, we are now competing with SVOD platforms as well. Our brand consideration across all adults was down 6% as the streamers are reaching real scale and investing heavily in marketing. The cancellation of The Jeremy Kyle Show has affected this score. However, ITV outperformed our closest public service broadcasters (PSBs) with its decline in brand consideration lower than the other PSBs. Critical to our strategy is reaching light viewers and brand consideration for light viewers only declined by one percentage point. Given that light viewers is the measure we watch most closely, going forward we believe it is more appropriate to measure our light viewer brand consideration.

We have delivered a good viewing performance on-screen and online. We maintained ITV Family SOV at the second highest level for a decade. We continued to deliver mass audiences, with 98% of all commercial audiences over five million as well as key demographics, with 16-34's SOV on ITV2 up 6%. Total viewing, which combines live viewing of ITV channels, recorded and video on demand (VOD) was down 4%, impacted by the tough comparatives of the Football World Cup last year. Over two years, total viewing was down 2%.

Online viewing was strong, up 13%, with a 6% increase in dwell time and 28% increase in monthly active users. We are very pleased to already have 31 million registered users on the ITV Hub, ahead of our target of 30 million by 2021. This performance has been driven by our great content and improved user experience, supported and enhanced by a process of continued development and investment around the user interface and our underlying digital platform.

We continue to invest in our data capabilities from a technical, value realisation, and compliance perspective. A better understanding of our data processing activities across the business enables us to manage privacy risk, whilst consolidating our data across the business. This enables us to drive viewing – scaling our recommendation model and optimising our marketing spend. It allows us to drive consumer revenues with our SVOD subscriber acquisition and churn models and grow our addressable advertising opportunities.

We have built and successfully started to run live programmatic addressable advertising campaigns delivered through Planet V, and this will ramp up in March. We saw very strong growth in online revenue in 2019 but this was more than offset by the decline in spot advertising revenues impacted by the political and economic uncertainty of 2019. ITV's proposition is strong giving immediate reach and scale to advertisers in a safe, trusted and transparent environment and the ITV Hub offers more targeted demographics and addressable advertising. In 2019 we also strengthened our client strategy team and our creative partnerships to drive our sponsorship and partnerships revenues.

Our significant progress during the year has been enabled and supported by our tech investment and delivery. We have evolved the digital video platform which supports the ITV Hub, ITV Hub+ and BritBox; we have designed and built Planet V with our tech partner, Amobee; and evolved the audience data platform.

Expanding Direct to Consumer (DTC)

In November we successfully launched BritBox UK, the largest collection of British box sets all in one place, with the BBC as a strategic and equity partner, C4 and C5 as content partners and EE and BT as distribution partners. Early results show a good performance in line with our business plan, with brand awareness high following a successful advertising and brand launch. We are seeing strong subscriber appeal with the majority of customers converting to become paying subscribers after the free trial period. BritBox UK is now on ten platforms making it available on 15 million UK TV screens.

Our other SVOD platforms are performing well – ITV Hub+ has over 400,000 subscribers which is up over 50% year-on-year, and BritBox US has over one million subscribers and is profitable.

We are also driving competition revenues through our competition portal ITV Win, and we are building customer relationships and engagement around our key brands, including merchandise, live events and gaming.

Delivering our strategic vision

To deliver our strategic vision we have very clear priorities across the business.

Growing UK and Global Production

Demand for great content has never been stronger – so this continues to be a real growth opportunity. We will continue to grow our scripted business, where we are seeing strong demand, and increasingly from the OTT platforms; we will globalise and maximise the value of our key format and brands; and we will focus on organic growth with mergers and acquisitions (M&A) when appropriate.

Transforming Broadcast
ITV remains the only place to get mass simultaneous reach at scale and we continue to focus on light viewers and digital viewing. We will accelerate ITV Hub growth; grow addressable VOD; roll out Planet V; and build more strategic and creative partnerships with advertisers.

Expanding Direct to Consumer
As we build our relationships directly with consumers we will grow SVOD subscribers and optimise retention on BritBox UK; grow ITV Hub+; continue to develop and expand BritBox US and roll out BritBox internationally. We will also drive direct to consumer revenues through ITV Win and focused merchandise and events.

Priorities for 2020
We are very focused on the execution of our strategy and have specific priorities for 2020.

Growing UK and Global Production
We have three key priorities for ITV Studios. Firstly, integrating Talpa into ITV Studios and reorganising the distribution and commercial division into our three centres of excellence – The Creative Network, Global Distribution and Global Entertainment. This will enable ITV to create more hits, build international brands and formats more effectively and maximise the value of them.

Secondly, to further strengthen creative talent, in January we announced that Lisa Perrin will join ITV as Managing Director of ITV Studios International, bringing both creative and commercial expertise.

Thirdly, we are continuing to build and monetise a strong pipeline of programmes internationally; growing scripted; creating global formats; creating programmes for OTT platforms; and sustaining our core content for ITV Broadcast and Direct to Consumer.

Transforming Broadcast
Key to the strategy is delivering digital transformation in Broadcast using data, tech and analytics effectively (see further detail below). We will also accelerate the growth of the ITV Hub to increase viewing and monetisable monthly active users (MAUs). We will do this by strengthening our content offering, further improving the user experience with increased personalisation, better navigation and features, and enhancing its prominence. We will further roll out and embed Planet V and key to this is a strong VOD offering. We will continue to work more closely with advertisers through our strategic and creative partnership teams to further drive our advertising revenues.

A strong schedule which drives the audiences needed by advertisers and the engagement of our viewers is essential. We are focused on driving mass simultaneous audiences, light viewers, live audiences, digital and young viewers. In 2020 we will increase our schedule cost investment to around £1.11 billion.

Our marketing plans will be focused on driving light viewers and ITV Hub viewers, with programme prioritisation and equal billing for the ITV Hub, and smarter use of our data assets.

Expanding Direct to Consumer
We will grow our subscription business through BritBox UK, BritBox US and the ITV Hub+.

Our priorities for BritBox UK are growing distribution, strengthening the content offering and continuing to deliver effective marketing. We have a good pipeline of new content coming onto BritBox with C4 in Q2, Film4 in Q3 and our first original commission, Spitting Image, expected in Q4. With our EE distribution partnership going live in Q1 and BritBox UK becoming available on YouView and all Freeview Play devices in Q2, BritBox UK will be available on 20 million UK TV screens in the spring. Our marketing will be very focused around these planned content and distribution launches. While there is clearly increasing competition in the SVOD market, research shows that there continues to be strong demand for uniquely British content and for multiple subscriptions. BARB data shows the annual growth in homes with any SVOD service is 16% and the growth in homes with multiple services is 37% year-on-year, with over five million homes now having more than one subscription.

We are continuing to develop the ITV Hub+ and BritBox US, and in 2020 we will be launching BritBox in Australia and will work to identify other possible international markets.

Our other DTC activities will include further growing the ITV Win competition portal and focusing on fewer, more valuable activities and products around our key successful brands. For example, through introducing an I'm A Celebrity live attraction, scaling the Hell's Kitchen and Love Island games and growing merchandising globally. We have decided to stop low margin pay per view Boxing.

Enablers
To deliver the strategy, we need to do four things extremely well: ensure we have the right capabilities, skills, tools and culture to be more agile and flexible; manage our rights effectively to maximise the value of our IP; build strong partnerships to improve the distribution, discoverability and prominence of all our content; and deliver digital transformation right across the business.

This includes work in three areas. Firstly, in growing our consumer facing products – ITV Hub, ITV Hub+, BritBox, ITV Win and our programme apps.

Secondly, it includes digitising our content supply chain and core processes. We are embedding data-driven insights and automation into our processes which will deliver efficiency gains, business agility, operational scale and revenue uplift. We have already started a project to provide our scheduling teams with modern digital planning tools and data enabled real-time insights. We will also shortly be launching our rights management project.

Thirdly, we are looking in depth at our core central functions. We recognise that to deliver new digital models and ways of working we need to invest in developing new capabilities across ITV. This means ensuring teams have the rights tools and skills and our culture is shifting to embrace digital ways of working. We have already delivered Talent Pay, a new system to pay our talent, and we are now working on FreeCon which will enable

efficient management of the entire freelance contracting process. We have also launched a workplace tech project to ensure people have the right tools and this will help smart working.

Social Purpose strategy – shaping culture for good

With the massive reach of our platforms, our much-loved shows and creative talent, we have a unique ability to drive meaningful change. In 2019, ITV launched its new Social Purpose strategy, setting ambitious targets to shape culture for good. We have identified four priority areas in which we are committed to making a difference, both on and off-screen.

Investments and cost savings
Delivering our strategy and ensuring ITV has a sustainable future requires investment – in the schedule, in BritBox UK and in data, tech and the ITV Hub.

In 2018, we set out our £60 million essential investment plan over three years to 2021, which is on track. In 2019 we invested £32 million, which is lower than previously guided principally due to the timing of payments in relation to our addressable advertising platform which will now fall in 2020. As previously announced these investments will be partly offset by cost savings. We continue to target £55 million to £60 million of savings by 2022. We delivered £25 million in 2019, ahead of our £20 million target.

BritBox UK venture losses were £21 million in 2019 and we expect the venture losses to be around £55 million to £60 million in 2020, broadly equivalent to the net investment we previously guided to.

Social purpose
As a commercial public service broadcaster and a responsible business, our social purpose is very important to our people and to delivering our strategy. With the massive reach of our platforms, our much-loved shows and creative talent, we have a unique ability to drive meaningful change. We recognise the climate crisis, and the role we must play in mitigating the impact on both the wider world and our business.

In 2019, we launched our new Social Purpose strategy, setting ambitious targets to shape culture for good. We've identified four priority areas in which we are committed to making a difference, both on-screen and behind the screens. These are:

- Better Health – inspiring change in how we look after our mental and physical health

- Environment – creating programmes with the biggest impact on the audience and the smallest impact on the planet

- Giving Back – giving back to our local and international communities through causes we care about

- Diversity and Inclusion – fostering creativity by embracing diversity and encouraging inclusion.

We have made a good start in 2019. We launched our five year mental wellness campaign, including our on-air campaign Britain Get Talking, which was the most well-known mental health campaign of the autumn. We have signed up for and support the Taskforce for Climate-related Financial Disclosures (TCFD) and were carbon neutral in 2019. We helped raise £7.9 million for Unicef with Soccer Aid and we continue to work hard to try and ensure that ITV reflects and represents society on and off-screen.

Colleagues
Our people are the driving force of ITV and are vital to our success as a business. I want ITV to be a nurturing and inclusive company where everyone can reach their full potential and thrive. We have five active colleague networks to help strengthen and build our diverse and inclusive environment and I have set up the ITV Inclusion and Diversity Council to share and learn how to drive our progress in this area. And the ITV Way reinforces our values, defines our ways of working and how we treat each other.

Our ambition is to be the most flexible employer across the media and entertainment industry and we launched Smart Working in 2019. Our investment in technology and our digital transformation will help deliver this.

Regulation
In 2018 the Government announced the Second Chapter in its Obesity strategy. As part of that, there was a consultation which closed in June 2019 on the possibility of introducing a 9pm watershed on TV advertising of High Fat Salt and Sugar (HFSS) products and similar protection for children viewing adverts online. The government consultation also included an option to make no change to the current rules and it has committed to explore options to ensure that any restrictions are proportionate and evidence based. We are fully engaged with this process and believe that there is a strong, evidence-based case for alternatives to a pre 9pm ban.

The Company continues to keep the potential implications of the UK's departure from the European Union under review. Workstreams are in place across the business to identify, manage and mitigate the impact across advertising, broadcast licensing, tax, data, copyright and IP. The most significant risk is the potential impact on the wider advertising market.

Outlook
Our outlook for the full year 2020 remains on track to deliver our medium term targets. We have started the year well with very strong online viewing up 89% driven particularly by The Masked Singer and Love Island. ITV's Family SOV is flat year to date and, we have a strong schedule coming up with the return of Saturday Night Takeaway, new entertainment show The Epic Gameshow, dramas including the second series of The Bay, and Quiz, and the European Football Championships.

Total advertising revenue is expected to be up 2% in Q1. Early indications are that total advertising revenue will be down 10% in April. In March and April, we have seen an impact from travel advertising deferments relating to the Coronavirus. All deferments to date have been included in this guidance.

Despite the ongoing economic uncertainty around the outlook for the UK following its departure from the European Union, we currently remain on track to deliver our medium term targets. At this stage it is too difficult to assess the further implications of the Coronavirus but we continue to monitor the situation closely.

We are clear about what we need to do and it requires a relentless focus on delivery to build a stronger, more diversified and structurally sound business. Our people have embraced the changes we are making and are fully committed and enthusiastic about delivering the strategy. I would like to thank everyone for their hard work in what has been a very busy year at ITV.

We have strong foundations in place and the next phase of the strategy will further position ITV to take advantage of evolving viewing and advertising trends as we become a digitally led media and entertainment company. In line with 2018 and 2019, the Board intends to pay another 8.0p dividend in 2020.

Carolyn McCall
Chief Executive

Investor Proposition

ITV has a clear strategy which is already making significant progress in building a digitally led media and entertainment company.

A strong platform for delivery

ITV is an increasingly global and diversified business, with more than half of ITV total revenue coming from non-advertising.

However, the market continues to change and we have a vision and strategy to build on ITV's unique and winning combination of creativity and commercial strength. We have clear priorities and initiatives which we believe will deliver growth and strengthen ITV to ensure that it is well positioned to address the opportunities and challenges of a competitive media landscape. We are continuing to grow our stable margin Studios business, transforming Broadcast, and expanding our Direct to Consumer business.

We have delivered a good operational performance in 2019, despite the economic and political uncertainty, which means we are executing the strategy from a position of strength.

54%

of total revenue is from non-advertising revenue streams (2018: 52%)

87%

profit to cash conversion (2018: 88%)

Unique market position

As an Integrated Producer Broadcaster, ITV is in a unique position to create and own world-class content, broadcast it on one of the biggest and most trusted marketing platforms in the UK, distribute it globally through its international network and use it to build valuable relationships directly with consumers. Therefore we drive revenue and profit through three different business models – advertisers, broadcasters and platform owners, and consumers.

ITV Studios is a strong and scaled international production business, creating, owning and managing rights. We will continue to grow in key creative markets, driving value from the strong demand for new and returning quality content from new and established distribution platforms.

Broader market uncertainty has impacted the advertising market and ITV is sensitive to this. However, our on-screen and online viewing performance is strong. We continue to deliver unrivalled audience scale and reach and creative marketing solutions for advertisers as well as addressable advertising on the ITV Hub. With trusted and engaging brands ITV is well positioned to create value by developing and nurturing direct relationships with our viewers, where people want to spend money on a range of content and experiences.

Good cash generation

We believe that if we successfully execute our strategy we will continue to deliver good cash generation and our disciplined approach to cash, costs and capital will enable us to continue to invest across the business in line with our strategic priorities.

Attractive investment opportunities

We have highlighted a number of investment opportunities across the business, to strengthen and grow the business. Areas of focus for this investment are in BritBox, in the ITV Hub and in data, analytics and technology which we will embed right across the business as we drive our digital transformation. These investments will partly be funded by cost savings as we become a more lean and agile organisation.

8.0p

full year dividend proposed by the Board (2018: 8.0p)

Shareholder returns

Reflecting ITV's continued strong operating performance, the Board has proposed a dividend of 8.0p for 2019 in line with its intention. The Board plans to pay another 8.0p dividend for the full year 2020. The Board intends to announce a medium-term dividend policy with the full year 2020 results, once greater clarity has been established on the economic environment and outlook in the UK following its departure from the European Union.

Key Performance Indicators (KPIs)

We defined our KPIs to align our performance and accountability to our strategic priorities. As we continue to evolve our strategy, our KPIs may be redefined to ensure they remain appropriate to our business and our priorities. In 2018, we set targets or strategic ambitions for our KPIs for three years to 2021 where it is appropriate to do so.

ITV Group

Adjusted EPS[1]

Definition

Adjusted EPS represents the adjusted profit for the year attributable to equity shareholders. Adjusted profit is defined as profit for the year attributable to equity shareholders after adding back exceptional items and including high-end production tax credits. Further adjustments include amortisation and impairment of assets acquired through business combinations, net financing costs and the tax effects relating to these items. It reflects the business performance of the Group in a consistent manner and in line with how the business is managed and measured on a day-to-day basis.

Performance

Adjusted EPS decreased by 10% from 15.4p to 13.9p. This was predominantly due to a decline in net advertising revenue (NAR), higher schedule costs, and the impact of our investments to support our strategic priorities. This more than offset growth in VOD and ITV Studios.

Total non-advertising revenues

Definition

Total non-advertising revenue is total ITV revenue (including internal revenue) excluding advertising revenue from net advertising revenue (NAR), VOD and sponsorship. This is an important measure as we continue to rebalance the business away from our reliance on advertising.

Performance

Non-advertising revenue increased by 7% in 2019 driven by growth in ITV Studios total revenue of 9% to £1,822 million along with 4% growth in Direct to Consumer revenue to £84 million. This growth was marginally offset by a decline in SDN revenues and other Broadcast revenues.

Target

3 years to 2021

Grow by at least 5% CAGR

Cost savings

Definition

Cost savings are permanent savings to the business. Managing our cost base is key as we aim to run our business as efficiently as possible and fund investments in line with our strategic priorities.

Performance

We delivered £25 million of cost savings in 2019 which was ahead of the target of £20 million for the year. ITV's cost savings target remains at £55 million to £60 million by 2022.

Target

4 years to 2022

Deliver £55–£60 million run-rate of savings by 2022

Profit to cash conversion[1]

Definition

This is our measure of our effectiveness of cash generation used for working capital management. It is calculated as our adjusted cash flow as a proportion of adjusted EBITA. Adjusted cash flow, which reflects the cash generation of our underlying business, is calculated on our statutory cash generated from operations and adjusted for exceptional items, net of capex on property, plant and equipment (excluding capex relating to the relocation to our new London headquarters) and intangible assets, and including the cash impact of high-end production tax credits.

Performance

Profit to cash conversion was 87% in the year and included investment in Planet V, in scripted content and in BritBox UK (2018: 88%). Excluding the investment into BritBox UK, profit to cash was 88%.

Target

3 years to 2021

Maintain at around 85%

1. A full reconciliation between our adjusted and statutory results is provided in the APMs.

Grow

UK and Global production

Total Studios revenue growth

Definition

Total Studios revenue measures the scale and success of our global studios business. It includes revenues from programmes sold to the ITV Network, which as an integrated producer broadcaster are an important part of our business.

Performance

ITV Studios total revenue grew 9% to £1,822 million. Revenue growth was driven by ITV Studios US and ITV Studios International, as we continue to build our capabilities in key creative markets.

Total organic revenue, which excludes our 2019 acquisitions and is adjusted for currency, was also up 9%. There was no net currency impact in the year.

Target

3 years to 2021

Grow by at least 5% average CAGR

Studios adjusted EBITA margin[2]
Definition
This is the key profitability measure used across the Studios business. The profile of adjusted EBITA margin differs for production and distribution activities, and further varies with each production due to genre and maturity. Adjusted earnings before interest, tax and amortisation (EBITA) is calculated by adding back exceptional items and including high-end production tax credits. It reflects the underlying performance of the business and provides a more meaningful comparison of how the business is managed and measured on a day-to-day basis. The margin is calculated based on total ITV Studios revenue.

Performance
ITV Studios adjusted EBITA margin was 15%, consistent with prior year and with our target range.

Target
3 years to 2021
Maintain at 14% to 16%

Total production hours
Definition
Total hours of programming produced is an important measure of the scale and success of our global studios business. It measures the number of hours produced across all genres and geographies for ITV and other broadcasters and platform owners.

Performance
The number of hours of content produced by ITV Studios declined by 6% to 8,393 hours. This was driven by a reduction in a number of high volume shows not returning in the UK and Internationally. However, total revenue grew by 9% in the year.

We remain on track to deliver our target of 10,000 production hours by 2021.

Target
3 years to 2021
Grow to 10,000

2. A full reconciliation between our adjusted and statutory results is provided in the APMs.

Transform

Broadcast

Total advertising revenue
Definition
Total advertising revenue measures all our advertising revenues and includes ITV Family NAR, VOD, sponsorship and other advertising revenues.

Performance
Total advertising revenue declined by 1.5% to £1,768 million with strong growth in online revenues, up 21%, along with growth in sponsorship and creative partnerships revenue. This was more than offset by a decline in NAR which continued to be impacted by the macro environment.

Strategic ambition
To grow total advertising in a flat NAR market

Online revenue growth
Definition
Online revenues are advertising revenues from VOD via the ITV Hub. With the investment in the ITV Hub and the significant growth of viewing on the ITV Hub these are now a material part of our advertising revenues and an important measure of our success.

Performance
Online revenue continued to grow strongly, up 21% in 2019, as we delivered significant growth in online viewing, up 13%.

Target
3 years to 2021
Double digit growth per annum

Total ITV viewing[1]
Definition
Keeping our viewing healthy is vital for our advertising proposition. Total ITV viewing is the total number of hours spent watching ITV channels live and recorded within 28 days, third-party VOD platforms, ITV Hub on owned and operated and ad-funded platforms, ITV Hub+, and managed YouTube channels.

Performance
Total ITV viewing declined by 4% to 16.3 billion hours. This was in line with the market and includes strong comparatives from the Football World Cup in 2018. Across two years, ITV total viewing was down 2% compared to the market which was down 8% over the same period.

External source: BARB, Crocus, comScore Data Analytics and third-party platforms

Strategic ambition
To maintain total viewing[1]

ITV Family share of viewing (SOV)
Definition
Keeping our free-to-air proposition strong and our audiences healthy is vital for the Broadcast business, and ITV Family SOV helps measure this. ITV Family SOV is the total viewing audience over the year achieved by ITV's family of channels as a proportion of total television viewing, including the BBC Family.

Performance
ITV Family SOV was flat in 2019 at 23.2%, which is our second highest SOV performance for a decade. Within this, ITV main channel and the other ITV channels were flat at 16.9% and 6.3% respectively, which was a strong performance given 2018 included the Football World Cup. ITV2 was the most watched digital channel for 16-34s, growing 6% to a SOV of 6.4% for the target demographic.

External source: BARB/AdvantEdge

Strategic ambition
Above 21%

Online viewing
Definition
Online viewing is an important indicator of our online success as it measures how long viewers are spending online watching long-form content[2]. It is calculated as the total number of hours ITV VOD content is viewed on owned and operated ad-funded platforms and ITV Hub+ viewing.

Performance
The ITV Hub and ITV Hub+, the online home for our family of channels and content, is growing rapidly, driven by viewers' appetite for our content on catch up, VOD and simulcast. Online viewing was up 13% in 2019, driven by viewing on connected TVs.

External source: Crocus

Target
3 years to 2021
Double digit growth per annum

1. Maintain total viewing compared to the 2015 – 2018 average of 16.8 billion hours.
2. Long-form is content which is more than ten minutes in length.

ITV Hub registered user accounts
Definition
A registered user is an individual viewer who has signed up to the ITV Hub who has been active in the last three years. The size of our viewer online reach is key for our advertising proposition.

Performance
The ITV Hub grew the number of registered user accounts by 12% to 31 million in 2019, achieving the 2021 target two years early. This growth is driven by the great content and good user experience, supported and enhanced by a process of continued improvement and investment.

The ITV Hub helps ITV reach valuable younger audiences, who are increasingly using the ITV Hub for simulcast as well as catch up. Over 80% of the UK's 16-34 year olds are registered on the ITV Hub. Simulcast requests were up 17% year-on-year.

Target
3 years to 2021
Increase to 30 million

Brand consideration
Definition
UK public perception of the ITV brand as measured by YouGov. Our brand perception is very important as we look to attract light viewers to ITV and build a Direct to Consumer business.

Performance
Brand consideration in 2019 was 53%, down six percentage points on 2018. This was impacted by the strong competition from the SVOD platforms who are reaching real scale and investing heavily in marketing. It was also impacted by the discontinuation of The Jeremy Kyle Show. ITV outperformed the other PSB's with a lower decline in brand consideration than our closest PSBs. Critical to our strategy is reaching light viewers and brand consideration for light viewers only declined by one percentage point.

Given that light viewers is the measure we watch most closely, going forward we believe it is more appropriate to measure our light viewer brand consideration.

External source: YouGov

Target
3 years to 2021
Increase to 60% for all adults

Expand

Direct to Consumer

Direct to Consumer revenue
Definition
Direct to Consumer revenue is a key measure of the success of our strategy. It measures revenue generated directly from relationships with a customer through the purchase of goods and services, and entry into competitions.

Performance
Direct to Consumer revenue grew 4% to £84 million in 2019, and we are on track to achieve the £100 million revenue by 2021 as set out in the strategy. The target excludes revenue from BritBox UK.

Growth was predominantly driven by an increase in subscriptions to ITV Hub+, the subscription ad-free version of the ITV Hub.

Target
3 years to 2021
Grow to at least £100 million

Paying product relationships

Definition
We aim to grow ITV's Direct to Consumer revenues through increasing the number of people who pay for an ITV product as well as increasing spend per customer. This KPI measures the total number of paying relationships we have with consumers.

Performance
Paying product relationships declined by 2% to 8.4 million in 2019. The target excludes relationships from BritBox UK.

There was a decline in the number of pay per view relationships in the year, largely due to the discontinuation of the low value Boxing pay per view proposition as we focus on more profitable opportunities. Excluding Boxing pay per view, paying relationships were marginally up year-on-year, driven by ITV Hub+ subscribers and live event attendees.

We are on track to deliver our target of 10 million paying product relationships by 2021.

Target
3 years to 2021
Grow to 10 million

Operating and Performance Review

ITV delivered a strong operating performance in 2019, demonstrating good progress in executing the strategy, and in building a digitally led media and entertainment company.

Group external revenue

£3,308m

(+3%) (2018: £3,211m)

Total advertising revenue

£1,768m

(-1.5%) (2018: £1,795m)

Total non-advertising revenue

£2,117m

(+7%) (2018: £1,971m)

Adjusted EBITA

£729m

(-10%) (2018: £810m)

Adjusted EPS

13.9p

(-10%) (2018: 15.4p)

Statutory EPS

11.8p

(+1%) (2018: 11.7p)

Net debt

£804m

(2018: £927m)

Dividend per share (ordinary)

8.0p

(2018: 8.0p)

See APMs for a full reconciliation between our statutory and adjusted results.

Overview

ITV delivered a strong operating performance in 2019, with our financial performance better than expected, despite the uncertain economic environment. We made good progress in executing the strategy and investing in our priorities, the benefits of which started to deliver during the year. We have successfully launched BritBox in the UK, as well as Planet V (our programmatic addressable advertising platform), and we continue to strengthen our capabilities in advertising, data and technology. ITV Studios is a scaled global business delivering strong revenue and profit growth. We remain focused on building a digitally led media and entertainment company to create a stronger, more diversified and structurally sound business, ensuring that ITV is well positioned to address the opportunities and challenges of an increasingly competitive media landscape.

On-screen and online, our viewing performance was strong. We maintained ITV Family SOV at 23.2% (2018: 23.2%), with strength across the schedule. There were outstanding contributions from the Rugby World Cup, Love Island and drama. The ITV Hub continued to deliver strong viewing, up 13%. Total ITV viewing combining ITV channels live, recorded and VOD, was down 4% year-on-year against tough comparatives of the Football World Cup.

Total advertising revenue declined by 1.5% due to a decrease in NAR, which more than offset 21% growth in online revenues and the increase in sponsorship and creative partnerships. ITV Studios total revenue increased 9% driven by ITV Studios US and ITV Studios International. We have developed a solid pipeline of high-quality programmes, particularly drama and entertainment, and we continue to perform well across the key genres that return and travel.

We delivered £25 million of cost savings in the year, which was ahead of our planned £20 million. Our target of £55 million to £60 million of cost savings to 2022 remains unchanged.

Our essential investments to support our strategic priorities totalled £32 million in the year, which was lower than our planned £40 million due to timing. We expect this timing difference to unwind in 2020. The BritBox venture loss was £21 million, which is lower than the £25 million expected due to the timing of content costs.

We measure performance through a range of metrics, particularly through our alternative performance measures and KPIs, as well as statutory results, all of which are set out in this report.

Total ITV revenue increased 3% to £3,885 million (2018: £3,766 million), with external revenue up 3% at £3,308 million (2018: £3,211 million). Total non-advertising revenue grew 7% to £2,117 million (2018: £1,971 million), now accounting for 54% of total revenue (2018: 52%).

Adjusted EBITA declined by 10% to £729 million (2018: £810 million), with a 17% decline in Broadcast adjusted EBITA, driven by the fall in total advertising revenue, our strategic investments in the schedule, our essential investments and the launch of BritBox UK. This decline was partially offset by a 5% increase in ITV Studios adjusted EBITA, along with lower share-based payments in the year.

Net exceptional items were £22 million, down £61 million year-on-year, primarily due to a £62 million gain on sale from the London Television Centre. Adjusted financing costs were up £4 million year-on-year at £40 million due to the inclusion of IFRS 16, and our adjusted tax rate has come down to 18% (2018: 19%). Adjusted EPS declined 10% to 13.9p (2018: 15.4p).

Statutory EBITA was £693 million, down 12% (2018: £785 million), which was more than the decline in adjusted EBITA due to an increase in production tax credits in the year.

Statutory financing costs were £68 million, up £25 million year-on-year (2018: £43 million) due to the one-off fees and premiums in relation to the buy-back of bonds in the year. Our reported effective tax rate was lower at 10% (2018: 17%) due to the tax impact of the gain on sale of the London Television Centre and an increase in high-end production tax credits in the year. Statutory profit before tax fell by 7% to £530 million (2018: £567 million) and statutory EPS increased by 1% to 11.8p (2018: 11.7p), with the decline in statutory profit before tax offset by the reported effective tax rate reducing from 17% to 10% due to the gain on sale of the London Television Centre as explained above. See Finance Review for further detail.

We have good access to liquidity. Our profit to cash conversion was 87% and we ended the year with net debt of £804 million (2018: £927 million), reflecting the exceptional cash inflow of £146 million following the sale of the London Television Centre.

Our objective is to run an efficient balance sheet and manage our financial metrics appropriately, consistent with investment grade metrics. Our aim is to continue to invest in growing a more robust business and executing our strategy, whilst continuing to deliver returns to our shareholders. Our adjusted net debt was £1,215 million (31 December 2018: £1,364 million. Our reported net debt to adjusted EBITDA was 1.0x (31 December 2018: 1.1x) and adjusted net debt to adjusted EBITDA, which better reflects how credit agencies look at us, was 1.5x (31 December 2018: 1.6x).

Reflecting ITV's continued good operational performance, the Board has proposed a full year dividend of 8.0p, flat year-on-year. This is in line with the Board's intention to pay a full year dividend of at least 8.0p in 2019. The Board plans to pay another 8.0p dividend for the full year 2020. The Board intends to announce a medium term dividend policy with the full year 2020 results, once greater clarity is established on the economic environment and outlook in the UK following its departure from the European Union.

We are More than TV

Our strategic vision is to be a digitally led media and entertainment company that creates and brings our brilliant content to audiences wherever, whenever and however they choose. To deliver this we are focused on three priorities; (i) transforming our Broadcast business, (ii) growing our UK and global production business, and (iii) expanding our strong direct to consumer relationships. We have a clear vision, priorities and initiatives for how we can compete in a changing environment. We have strong foundations – our integrated producer broadcaster (IPB) model, world-class content, strong advertiser and customer relationships, a powerful brand, talented commercial and creative people and sufficient financial flexibility to invest and grow.

The Company continues to keep the potential implications of the UK's departure from the European Union under review. Workstreams are in place across the business to identify, manage and mitigate the impact across advertising, broadcast licensing, tax, data, copyright and IP. The most significant risk continues to be the impact on the wider advertising market. See Risks and Uncertainties.

ITV Studios

ITV Studios is the number one commercial producer in the UK, one of the largest producers in Europe and one of the largest independent unscripted producers in the US. It is a scaled business delivering growth at a stable margin. Growing UK and global production is central to ITV's strategy and our aim is to be a leading creative force in global content production. As ITV creates and owns more content, our channels in the UK provide a platform to showcase our programmes before distributing them across multiple platforms in the UK and internationally. We have built significant scale in key creative markets around the world, creating and producing programmes and formats that return and travel, namely drama, entertainment and factual.

As part of the strategy to grow UK and global production, we have reorganised our international distribution and commercial business in order to strengthen our position as a creator, producer and distributor of world-leading formats.

The new structure focuses on three centres of excellence which will work closely together and with ITV Studios' world-class international production business.

Twelve months to 31 December	**2019 £m**	2018 £m	Change £m	Change %
ITV Studios UK	**725**	695	30	4
ITV Studios US	**271**	245	26	11
ITV Studios International	**508**	418	90	22
Global Formats and Distribution	**318**	312	6	2
Total ITV Studios revenue*	**1,822**	1,670	152	9
Total ITV Studios costs	**(1,555)**	(1,415)	(140)	(10)
Total ITV Studios adjusted EBITA**	**267**	255	12	5
ITV Studios adjusted EBITA margin	**15%**	15%	–	–

* In line with the reorganisation of the business, 2018 comparatives have been reclassified.

** Includes the benefit of production tax credits.

Twelve months to 31 December	**2019 £m**	2018 £m	Change £m	Change %
Sales from ITV Studios to Broadcast and DTC	**573**	551	22	4
External revenue	**1,249**	1,119	130	12
Total ITV Studios revenue	**1,822**	1,670	152	9

Twelve months to 31 December	**2019 £m**	2018 £m	Change £m	Change %
Scripted	**520**	380	140	37
Unscripted	**1,018**	997	21	2
Core ITV* and Other	**284**	293	(9)	(3)
Total ITV Studios revenue	**1,822**	1,670	152	9

* Core ITV includes the soaps and daytime shows produced by ITV for the ITV main channel.

The three centres are:

1. **The Creative Network**, which will boost creativity across the 36 unscripted format labels in ITV Studios to increase the potential of developing global hit shows;

2. **Global Entertainment**, which brings together international unscripted format sales and exploitation across the Group under one roof. It will be the home of licensing for some of the most powerful unscripted formats in the world such as The Voice, Hell's Kitchen, Come Dine With Me and The Four. It will represent the catalogues of Talpa Media, Armoza Formats, Twofour and the existing ITV Studios unscripted format catalogue; and

3. **Global Distribution**, which will focus on the international distribution of drama and the finished tape versions of all other ITV Studios programmes. It will also build on the expertise it has in high-end drama financing and co-production deals.

ITV Studios will now be reported with three distinct production businesses; ITV Studios UK, ITV Studios US and ITV Studios International (previously Rest of World). Global Entertainment and Global Distribution will be reported as Global Formats and Distribution, which includes what we previously disclosed as Global Entertainment.

Financial performance

ITV Studios saw strong external revenue growth in 2019, up 12% to £1,249 million (2018: £1,119 million), with total revenue up 9% to £1,822 million (2018: £1,670 million). There was growth across all areas, particularly ITV Studios US and ITV Studios International, which both had strong growth in scripted revenues. Total organic revenue at constant currency, which excludes our 2019 acquisitions, was also up 9%. The net impact of foreign exchange was nil. The number of hours delivered in the year was down 6% mainly driven by high volume, non-returning commissions in the UK and International Studios business.

Reflecting our growth in key global production markets, 58% of Studios revenue was generated outside the UK, up on prior year (2018: 56%) due to strong growth in scripted revenue in the US and Europe.

Adjusted EBITA was up 5% year-on-year at £267 million (2018: £255 million). Adjusted EBITA margin was stable at 15%. In the year, there was a £2 million unfavourable impact from foreign exchange on ITV Studios adjusted EBITA.

Strong global demand for content

The demand for quality content from broadcasters and platform owners has never been stronger and this provides a significant opportunity for ITV Studios. We estimate that the global content market is growing at around 3% - 5% per annum, with some genres, such as drama, growing more rapidly. A key driver of this change over recent years has been the evolution in the delivery and availability of content with a substantial increase in the number of ways to consume content. We have built a healthy pipeline of returning programmes, which we will continue to nurture and develop. To continue to build upon our strong creative pipeline and capitalise on growth, our investments within ITV Studios over the next few years are focused on: strengthening our creative talent; growing our scripted business; and building our monetisation capabilities to further globalise and maximise the value of our key formats and brands.

Strengthening creative talent

A key part of ITV Studios investment is to strengthen and retain our creative talent. We made good progress in 2019 in attracting key talent to the business, including Patrick Spence – the award-winning producer behind programmes such as Fortitude and Silent Witness joining from Endemol, along with Dominic Treadwell-Collins – the executive producer behind the multi-award winning A Very English Scandal. In July 2019, we increased our minority stake to take a controlling interest in Monumental Television, the production company behind Harlots. In 2020 we appointed Lisa Perrin as Managing Director of International Studios, joining from Endemol Shine Group.

Growing scale in key creative markets

ITV Studios has three production divisions – ITV Studios UK, ITV Studios US and ITV Studios International. Our performance in different territories is impacted by phasing, with the risk managed through the portfolio.

The US and UK are the dominant creative markets, with the US the largest exporter of scripted content globally and the UK the world leader in exported formats. Over the last few years we have built scale in these key markets, both organically and through acquisitions, and we now have a significant portfolio of successful series and formats. In recent years in the US, we have invested in backing talent and IP, rather than large scale acquisitions. This allows us to attract and collaborate with innovative and entrepreneurial creatives, with minimal risks and attractive returns. Europe is a growing creative market, with particular demand for foreign language drama internationally and local scripted content from broadcasters and OTT platforms. Over recent years, we have also strengthened our position in the European market with the acquisition of Tetra Media in France and Cattleya in Italy, both of which produced a number of scripted titles that were delivered in 2019. Our portfolio of acquisitions (since 2012), delivered a return in excess of our corporate weighted average cost of capital (WACC) during the year.

ITV Studios UK

In 2019, total ITV Studios revenue in the UK was up 4% at £725 million (2018: £695 million) and also up 4% on an organic basis. Sales to Broadcast and Direct to Consumer, grew 4% driven by extra episodes of Emmerdale and new dramas such as The Bay, A Confession, Sticks and Stones and Singapore Grip. ITV Studios UK's share of original content on ITV main channel was marginally down at 65% (2018: 67%) driven by lower volumes of Judge Rinder and the discontinuation of The Jeremy Kyle Show. The first half of 2020 will see the delivery of new and returning programmes, including, The Bay, Cold Feet, Unforgotten, The Chase, and Love Island winter and summer series.

Off-ITV revenues in the UK increased by 13%, with new and returning dramas, including: Line of Duty, Gold Digger, World on Fire, Noughts and Crosses, and Poldark all for the BBC; Save Me for Sky Atlantic, along with returning factual entertainment commissions 24 Hours in A&E and Countdown for Channel 4. Partly offsetting this growth were 2018 commissions not returning in the year, including Bodyguard, Vanity Fair, and Friday Night Dinner.

ITV Studios US

ITV Studios US total revenue was significantly weighted towards the second half of 2019 and grew 11% to £271 million (2018: £245 million), and 7% to £263 million when adjusted for the favourable foreign exchange impact. The increase was driven by a number of new and returning unscripted titles, including: Love Island US for CBS, Crank Yankers for Comedy Central, Queer Eye for Netflix, Forged in Fire for History and Hell's Kitchen for Fox, along with new and returning scripted titles: Snowpiercer for TNT and Good Witch for Hallmark, which returned for its fifth season. This growth offset The Four not returning following the delivery of two series in 2018. Deliveries in the first half of 2020 include: Cannonball, the sixth season of Good Witch, Marriage Bootcamp and Alone.

ITV Studios International

ITV Studios International has production bases in Australia, Germany, France, the Netherlands, the Nordics, Italy and the Middle East, where we produce original content as well as local versions of key formats from the Global Formats and Distribution business. Revenue grew 22% to £508 million (2018: £418 million), and by 24% to £517 million when adjusted for the unfavourable impact of foreign currency. This growth was driven mainly by our European scripted business in France and Italy, which had strong demand from broadcasters and OTT platforms for local content with global appeal. Key scripted titles delivered by Tetra in France included Profilage (S10) and Balthazar (S2), both for TF1, and by Cattleya in Italy were Zero Zero Zero and Gomorrah for Sky Italia, Tre Metri Sopra for Netflix, and Carlo & Malik for RAI. ITV Australia also produced a new scripted title Seachange, which was the revival of a series from the 1990s. Unscripted productions included The Voice in France, Dancing on Ice in Germany, I'm A Celebrity…Get Me Out Of Here! in Australia and Germany, and Love Island in Australia and Germany. In 2020 we will continue to focus on growing our European scripted business to allow us to benefit from the increasing demand for locally produced content with global appeal. Tetra has new titles Vampires for Netflix and Paris Police for TFI. Cattleya has the third season of Suburra for Netflix and also has Romulus in production, the archaic latin drama series for Sky Italia, and due for delivery in 2021.

Investing in scripted and serving OTTs

Polarisation of content demand remains a feature of the market. This is driven by the growth of viewing platforms looking for channel defining content, along with demand for both local adaptations of proven entertainment formats and standout original scripted content.

We have seen very strong growth in scripted revenue in the year, up 37%, driven by the UK, US and Europe. While ITV Studios is predominantly unscripted in terms of scale, scripted, especially driven by demand from the OTT platforms, is likely to be an area of higher growth over the medium term. We are seeing increasing demand from platforms internationally for original long-form and secondary rights.

To capitalise on this increasing demand, we are investing in our global scripted business. We are strengthening our development and creative capabilities, growing our European business and investing in a number of development relationships in the US.

Through our Global Distribution business, we finance our large-scale scripted projects, and to a limited degree some unscripted projects, through our underlying cash flows or through co-productions and partnerships with broadcasters and OTT platforms. The production costs are partly funded by the initial sale of the series to a broadcaster, while the deficit is recovered through distribution revenue from selling the finished product globally

to other broadcasters and platforms. Doing more scripted deals and deals with OTT platforms will impact our working capital going forward due to the upfront cash requirements and the extended payment profile from the OTTs.

We balance our financial exposure through building a portfolio of programmes across genres and across their content life cycle, with successful international dramas offsetting the risk that we will not recover the full deficit on every show. This efficiently uses the rights windows of our content to maximise monetisation opportunities.

As well as distributing library content to OTT platforms, including BritBox, in 2019 we produced and jointly commissioned a number of scripted and unscripted programmes with OTT platforms, including Queer Eye, Girls Incarcerated, Tre Metri Sopra with Netflix along with Harlots for Hulu. In 2020 we have a number of deliveries, including the fifth season of Queer Eye, The Great Flower Fight, the third season of Suburra and Vampires, all for Netflix, as well as international rights for The Serpent and Snowpiercer on Netflix, Love Island France for Amazon – the first reality show on the service, Hot Drop for Quibi – which we are an investor in, and Becoming for Disney+. Original hours supplied to OTTs increased by 95% in 2019.

Globalising and maximising the value of key formats and monetising our strong pipeline of programmes
Global Formats and Distribution revenues were up 2% year-on-year to £318 million (2018: £312 million), with nil impact from foreign exchange. The growth was driven by a number of multi-year deals secured for The Voice, along with the distribution revenue of new ITV Studios UK scripted commissions mentioned earlier.

A key strength of our Global Formats business is the large portfolio of successful entertainment and factual entertainment formats that return and travel, which we are strengthening each year. This includes programmes such as The Voice, Love Island, Hell's Kitchen, The Graham Norton Show, I'm A Celebrity…Get Me Out Of Here!, Catchpoint, The Chase, Dancing on Ice, Come Dine With Me, and Four Weddings. In 2019 we sold 62 (2018: 57) different formats internationally, 14 of which were sold to three or more countries.

We are very focused on maximising the value of our formats and brands internationally. There are exciting opportunities to licence our brands and library content and drive value through merchandising using our significant capabilities across our network of labels and our global relationships.

During the year we acquired Armoza Formats, an Israeli based creator and distributor of several top-selling global formats, including primetime singing show The Four, and non-scripted format Still Standing, as we look to continue to build our creative strength and monetisation capabilities.

Global Distribution is a strong and expanding business driven by our strong pipeline of high-end scripted programmes, and our valuable library, which we sell to our vast network of linear broadcasters, the global OTTs and new and emerging digital platforms, such as FilmRise. The content pipeline is healthy with the international distribution of War of the Worlds, World on Fire, Gold Digger, A Confession, Good Witch and Balthazar. 2020 will see the international distribution of Flesh and Blood, The Serpent, Noughts & Crosses, Singapore Grip, and Snowpiercer, the second season of which has been commissioned before the first season has even aired. We also have multiple deals with Netflix, Amazon and Hulu. Unscripted deliveries included: Hell's Kitchen US, Love Island, I'm A Celebrity...Get Me Out Of Here! and The Voice all delivering across a number of different territories.

Our content continues to sell well internationally to both broadcasters and OTT platforms and in particular our scripted programmes. Over ten of our scripted programmes have been sold to date in more than 100 countries, including War of the Worlds, Harlots, Vera, Poldark, Endeavour and Cold Feet.

Our distribution business also sells content to BritBox US and Canada and during the year, started selling content to BritBox UK for its launch in November 2019.

The media market environment in which we operate is dynamic. The viewing and advertising landscape is evolving rapidly and becoming increasingly competitive, presenting both challenges and opportunities. Our Broadcast business is constantly adapting and our strategy and digital transformation must be delivered at pace to take advantage of the opportunities, and address the challenges that arise.

ITV, through our family of free-to-air channels and platforms, offers unique audience scale and reach, as well as more targeted demographics demanded by advertisers. The ITV Hub and ITV Hub+, the online home for content on our family of channels, is growing rapidly, driven by viewers' appetite for our content on catch up, VOD and simulcast. Through our Direct to Consumer business we are building relationships with consumers who are increasingly willing to pay to engage with our brands, content and IP. This is through SVOD, competitions, voting, live events, gaming and merchandising. Data and technology are key to evolving our broadcast business and driving revenue growth and new revenue streams.

Twelve months to 31 December	**2019 £m**	2018 £m	Change £m	Change %
Total advertising revenue	**1,768**	1,795	(27)	(1.5)
Direct to Consumer	**84**	81	3	4
SDN	**69**	73	(4)	(5)
Other revenue	**142**	147	(5)	(3)
Total Broadcast revenue	**2,063**	2,096	(33)	(2)
Network schedule costs	**(1,091)**	(1,055)	(36)	(3)
Variable costs	**(134)**	(123)	(11)	(9)
Broadcast infrastructure and overheads	**(376)**	(363)	(13)	(4)
Total Broadcast costs	**(1,601)**	(1,541)	(60)	(4)
Total Broadcast adjusted EBITA	**462**	555	(93)	(17)
Total adjusted EBITA margin	**22%**	26%	(4)%	
BritBox UK venture loss	**(21)**	-	(21)	-
Adjusted EBITA Broadcast (ex BritBox UK)	**483**	555	(72)	(13)
Adjusted EBITA margin (ex BritBox UK)	**23%**	26%	(3)%	

Financial performance

Broadcast total revenue was down 2% in the year at £2,063 million (2018: £2,096 million). Total advertising revenue declined by 1.5% to £1,768 million (2018: £1,795 million) which was slightly better than our expectations. The decline was driven by NAR, with VOD revenue up 21% and good growth in sponsorship and creative partnerships. TV advertising continued to be impacted by political and economic uncertainty in the year, however, we saw an improvement in the second half of 2019, with total advertising up 2% compared to the same period in 2018. There has been a great deal of change in viewing and advertising trends which we are keeping under constant focus. Our strategy is focused to ensure we adapt and respond to the change in behaviour in the market. Research shows that digital is less effective than TV advertising, but it allows advertisers to gain short-term impact and benefit from low production costs.

The composition of TV advertisers is changing as markets are being disrupted by new categories and insurgent brands. Some categories are growing rapidly. Publishers, Airlines and Travel and Cars and Car Dealers have spent more in the year. Spend by online brands grew by 11% excluding gambling spend, which is no longer permitted around live sport following the self-imposed whistle to whistle advertising ban by the gambling industry . These online brands can see the immediate benefits of TV advertising and demonstrate how valuable it is. The continued challenges faced by the high street, retail and fast moving consumer goods (FMCG) companies have put pressure on their budgets and they are spending less across all media. There was also a decline in Entertainment & Leisure compared to the significant gambling spend around the Football World Cup in 2018.

Direct to Consumer revenue grew 4% to £84 million (2018: £81 million) with growth driven by an increase in ITV Hub+ subscriptions. We remain on track to achieve the targeted £100 million revenue by 2021 as set out in the strategy.

Total costs were up 4%, driven by higher schedule costs, up £36 million to £1,091 million, primarily due to coverage of the Rugby World Cup, England football qualifiers for the European Football Championships, and new and returning dramas. Our variable costs were up 9% at £134 million, with higher bandwidth and rights costs associated with our online business, and marketing investment in our brand to support the launch of BritBox UK. Broadcast infrastructure and overhead costs also increased by 4% to £376 million, with higher property costs for our new London buildings as previously announced, along with £22 million of investments around our advertising capabilities, data, the ITV Hub, ITV Hub+ and technology to enable us to deliver our strategic priorities. This increase was partly offset by £16 million of cost savings made across Broadcast in the year, and lower share-based payments.

Broadcast adjusted EBITA (excluding BritBox UK) declined 13% to £483 million (2018: £555 million), with a margin of 23%. Total Broadcast adjusted EBITA (including BritBox) was £462 million, with a 22% margin.

Viewing

During 2019 we invested to reposition ITV, drive more light viewers and increase reach. Our investments focused on evolving the brand to be more creative and contemporary, which is now visible on ITV and the ITV Hub. We launched our new ‘More than TV’ viewer campaign and developed consistent off-air marketing across multiple media channels, including established media and social media. ITV Family SOV for light viewers was up 0.1 percentage points. Spontaneous consideration amongst light viewers was down one percentage points year-on-year, however, this decline was significantly lower than that of the BBC and Channel 4 and demonstrates the impact our marketing investment has made to date.

In 2019 we delivered a good viewing performance both on-screen and online, against tough comparatives in 2018 from the Football World Cup. We maintained our ITV Family SOV at 23.2% (2018: 23.2%) which is now the second highest SOV performance in a decade.

Total ITV viewing, which combines live viewing of ITV channels, recorded and video on demand (VOD), decreased by 4% year-on-year against the Football World Cup in 2018 which saw strong viewing volumes. This decline was in line with the market. Over two years, total ITV viewing was down 2%, compared to the market which was down 8% over the same period. On the main channel, many daytime shows grew their audiences year-on-year, including: Good Morning Britain – with its highest share ever, Loose Women, Tenable and The Chase. Our soaps, Coronation Street and Emmerdale, maintained their position as the UK’s two largest soaps, although their viewing was marginally down year-on-year against big storylines in 2018. We successfully aired a range of new programmes, including five of the top six most watched new dramas such as Manhunt, A Confession and The Bay; new entertainment shows, including In For A Penny; and successful factual entertainment, including; Ant and Dec’s DNA Journey, Bradley Walsh & Son: Breaking Dad and Harry’s Heroes. We continue to drive significant audiences with our returning brands such as Vera – which had its most successful series to date, Cold Feet, I’m A Celebrity…Get Me Out Of Here! – which was the most watched entertainment programme in the year, Britain’s Got Talent and The Voice UK. Our news programming continues to perform well, as does our sporting schedule with the Rugby World Cup – the final of which was the most watched sporting programme in the year, horse racing and the Six Nations Rugby Championships. While overall our schedule is performing strongly, not all of our programmes will return, including Sanditon and Wild Bill, and The Jeremy Kyle Show has been discontinued.

We continue to target the demographics most highly demanded by advertisers – particularly young and male audiences – through our family of channels and online, and have seen good share growth in our target demographics on ITV2, ITV3 and the ITV Hub.

ITV2 remained the most watched digital channel for the 16-34s for the third year in a row. This was helped by the summer series of Love Island which had its best performing series to date. It averaged 4.3 million TV viewers (share of 19%), which increased to 5.6 million including non-TV viewing. It was the largest 16-34s audience across all channels averaging 2.2 million TV viewers with a 55% share. Love Island, together with Plebs, Ibiza Weekender, Hey Tracey! and Celebrity Juice, helped ITV2 achieve a SOV of 6.4% and SOCI of 10.0% for the 16-34s demographic, up 6% and 9% respectively. ITV3’s viewing performance improved in the year due to the strong slate of dramas, such as Midsomer Murders, Vera, Poirot, Doc Martin, as well as repeats of Emmerdale and Coronation Street. ABC1 adults SOV and SOCI on ITV3 were both up 4% in 2019. On ITV4, Male SOV was up 2% while Male SOCI was down 1% year-on-year. The ITV4 sports schedule remained healthy in 2019 with horse racing, the French Open, the British Touring Car Championships, darts and snooker.

We have a strong schedule in 2020 with new dramas, including: Flesh and Blood, Quiz, Honour, and Belgravia; returning dramas including: Liar, Vera, Marcella, The Bay and Endeavour; and new and returning entertainment including: The Masked Singer, the Epic Gameshow, Saturday Night Takeaway, and I’m A Celebrity...Get Me Out Of Here! Our sporting schedule includes the Rugby Six Nations and the European Football Championships.

ITV Hub

The ITV Hub continues to grow rapidly. This is driven by our viewers’ appetite to watch our content whenever and wherever they want, be it catch up or, increasingly, simulcast. The ITV Hub is available on 28 platforms and is pre-installed on the majority of connected televisions currently sold in the UK.

Online viewing, which measures the total number of hours viewers are spending online, was up 13% driven by viewing on connected TVs and through streaming devices. Dwell time, which measures the average time spent viewing per session across all platforms, was up 6% in the year. The ITV Hub now has 31 million registered user accounts (2018: 28 million), already ahead of the 30 million target by 2021 and monthly active users was up 28%.

This growth was driven by our great content and good user experience, supported and enhanced by a process of continued improvement and the investment we have made in the year in the ITV Hub. This was specifically around the brand, the user experience and interface – including offering recommendations on what to watch, cross platform resume, and a redesign of the homepage, along with data-driven marketing to target light viewers, and evolving the underlying digital platform, which also supports ITV Hub+ and BritBox UK. Our 2020 investment in the ITV Hub will be focused on further accelerating its growth through increased personalisation and prominence to make it a destination for viewing our content, enhancing data and technology to support it, and increasing the monetisation of our monthly active users for our advertisers particularly through the roll out of Planet V.

The ITV Hub helps ITV reach valuable younger audiences – over 80% of the UK's 16-34 year olds are registered. Younger viewers use the ITV Hub for simulcast viewing, as well as catch up. The 2019 summer series of Love Island achieved an average of 0.5 million viewers via simulcast per episode, up from 0.3 million in 2018. The Rugby World Cup delivered 0.9 million simulcast viewers for England's final against South Africa, which is greater than linear audiences on most digital channels. Total simulcast viewing hours was up 17% year-on-year, driven by more simulcast viewing on connected TVs and digital media players in the year.

Growth in ITV Hub and our investment in our data and tech capabilities enables us to collect, consolidate and unify data sources from across the business. This has helped us drive viewing and customer relationships through data-driven marketing and testing of our recommendation engine on the ITV Hub. We are also growing consumer revenue with our ITV Hub+ subscriber acquisition model and have established a data framework for BritBox UK. In 2020 we will continue to build upon the progress we have made in our data capabilities, scaling and strengthening them and deploying them more widely across the business. This includes BritBox UK, ITV Interactive, and Planet V, our programmatic addressable advertising platform which will roll out to agencies across 2020.

Strong advertising proposition
While political and economic uncertainty has led advertisers to reduce their current spend in order to maintain margins, television remains one of the most efficient and effective mediums for advertisers to achieve mass simultaneous reach. As viewing and advertising becomes more fragmented, the scale and reach of advertising that television, and particularly ITV, delivers becomes increasingly valuable. We provide a safe, trusted and transparent environment in which to advertise, and television generates the highest return on investment of any media.

TV, and specifically ITV, remains the only place to get immediate reach and scale. In 2019, ITV delivered 98% of all commercial audiences over five million and 95% of all commercial audiences over three million.

Online advertising is growing rapidly and we have seen double digit growth in our VOD advertising on the ITV Hub, which delivers more targeted demographics in a high-quality, trusted and measured environment for online advertisers. Online advertising can deliver a more targeted advertising proposition and to develop our VOD advertising capabilities we signed a perpetual UK licence for the Amobee technology in April 2019 enabling us to deliver programmatic addressable advertising around our premium VOD inventory. Planet V, our scaled, programmatic addressable advertising proposition for the ITV Hub, will be rolled out to media buyers and advertisers during 2020. This will put buying in advertisers' hands, enabling them, from their own terminals, to buy ITV Hub inventory seamlessly and cost effectively, build their own audiences, add their own data and monitor their own campaigns. Our Commercial business is therefore able to offer our clients the best of both worlds, mass audiences with simultaneous reach on linear channels, and addressable targeting at scale around our premium inventory on the ITV Hub.

ITV aims to maximise the value of its airtime and drive new revenue streams through sponsorship, brand extension and creative collaboration. ITV utilises the core assets of its strong brand and reputation, unique commercial relationships and quality production capability to deliver a wide variety of innovative marketing solutions. To enhance our offering to advertisers we have built a client relationship team and scaled up the creative partnerships team to work closely with advertisers and provide original, engaging and brand-defining marketing propositions. During 2019, Marks & Spencer (M&S) engaged with ITV in a fully integrated linear and digital advertising proposition around Britain's Got Talent with sponsorship, product placement, a bespoke spot ad made by ITV as well as instore branding and social media content. Following the positive impact for M&S, they decided to also sponsor the autumn series of Britain's Got Talent: The Champions. The 2019 series of Love Island attracted nine commercial partners, including Uber Eats, Samsung and Superdrug, engaging in programme and podcast sponsorship, brand licences, instore branding, exclusive product lines and merchandise, and product placement. This drove total incremental revenue of around £8 million year-on-year.

Responsive to a changing media environment
The way in which people watch television has changed rapidly over the last few years, particularly for younger demographics. ITV's position overall is strong but there is increasing competition for eyeballs and advertisers. Our strategy has evolved to address this shift, and our priorities are aimed at making sure we continue to maintain mass audiences, drive light viewers, attract live audiences and grow the number of 16-34 year old viewers. Most importantly it is ensuring that we are bringing our quality content to audiences wherever, whenever and however they choose.

Linear television viewing remains resilient despite significant changes in the availability and delivery of content. On average, viewers watched 183 minutes of television per day in 2019, down 5% from 192 minutes in 2018 (Source: BARB C7 data). Including all viewing across TV, SVOD and all devices, the majority of viewing remains live at 70%, as television continues to have the power to bring audiences together. VOD viewing continues to grow rapidly while PVR (recorded) viewing has remained relatively constant over the last few years at around 13%. Younger viewers are watching less linear television than they used to, but through delivering great content such as Britain's Got Talent, I'm A Celebrity…Get Me Out Of Here! and Love Island, the ITV Family remained the largest family of channels for the 16-34s demographic in the year. Nevertheless, it is a constant challenge to maintain total advertising revenue in light of declining viewing, especially amongst 16-34 year olds.

SVOD has seen strong growth over the last few years and is now a developed market in the UK, with approximately 51% of UK households subscribing to at least one of Netflix, Amazon or Now TV. As a creator, owner and distributor of sought after content, ITV is well positioned to take advantage of the opportunities from the changes we are seeing in the media environment and consumer behaviour. The growth in viewers' appetite for having SVOD subscriptions and increasingly multiple subscriptions (37% of households have more than one SVOD service), also means that we are well placed to benefit from this demand with the launch of our SVOD service BritBox UK (Source data: BARB Q4 2019). Our recent research shows that people's intent to buy BritBox is on a par with Now TV and Apple TV+.

Direct to Consumer
Direct to Consumer generates revenue directly from the customer, and includes SVOD, competitions, merchandise, live events and gaming. In 2019, total revenue increased by 4% to £84 million (2018: £81 million) predominantly due an increase in ITV Hub+ subscriptions. Direct to Consumer revenue does not include BritBox UK or US.

Our SVOD propositions include BritBox UK, ITV Hub+ in the UK, BritBox in the US and Canada, and Cirkus in the Nordics, Germany, Austria and Switzerland.

We successfully launched BritBox UK, with the BBC in November 2019. The service provides UK audiences with an unrivalled collection of British box sets and original series all in one place. BritBox UK includes both ITV and BBC box sets, and has content partnerships with Channel 4 (including Film4 content) and Channel 5, and distribution partnerships with, BT and EE. Our EE distribution partnership is currently in the pre-sale phase, launching fully on 13 March 2020. BritBox UK is an ITV controlled entity with a holding of 90% and the BBC holding 10% of the equity with an option to increase it to 25%.

The service had a successful operational launch, which was issue free and on time, and early results show a good performance in line with the business plan. We are seeing strong subscriber appeal with the majority of customers converting to become a paying subscriber after the free trial period. BritBox UK is now on ten platforms and available on 15 million UK screens. We are continuing to explore opportunities to expand the distribution of BritBox UK, and by April 2020, we expect it to be available on 20 million UK screens. In addition to the breadth of content currently available on BritBox UK, the first original commission, Spitting Image, is expected to launch on the service in the second half of 2020. Channel 4 content will also be available in April with Film4 content arriving in the autumn.

The 2019 net investment in BritBox UK was £19 million, which was lower than the £25 million expected due to the timing of content costs. The BritBox UK venture loss, which excludes the benefit of other revenues earnt across ITV, was £21 million. We expect venture losses in BritBox UK of £55 million to £60 million in 2020, which is broadly in line with the £40 million net investment previously guided and the £6 million timing difference from the 2019 investment, unwinding in 2020. We anticipate that BritBox UK will remain in the net investment phase for a number of years as we build its subscriber base, but in time will provide a meaningful profit stream to ITV.

ITV Hub+ offers an ad-free subscription version of the ITV Hub with content download capability and EU portability, although, following the UK's departure from the European Union, this may not be available once trading arrangements are agreed at end of 2020. The number of subscribers increased by over 50% year-on-year to over 400,000. The subscriber growth has been driven by our great content, increased marketing and EU portability. We are using our investment in data capabilities to understand what drives customer acquisition and retention, and to provide us with high quality insights into our subscribers.

Our joint venture (JV) with the BBC, BritBox US, provides an ad-free SVOD service offering the most comprehensive collection of British content available in the US and Canada. Subscribers have continued to grow steadily, currently exceeding one million, and the service is now profitable, just three years following launch. We plan to launch BritBox in Australia in 2020 as we continue to explore opportunities for BritBox US on other platforms and in other territories internationally.

A significant portion of our Direct to Consumer revenues comes from competitions. The majority of our competitions have performed well across the schedule, benefiting from the investment in the competition portal which has been rebranded to ITV Win, along with marketing of the platform through some of our key programming. Programme related app downloads were strong in the year, encouraging engagement and driving linear viewing. The Love Island app had over six million downloads, and over nine million votes were cast via the app in 2019. The Love Island game has also been downloaded over 3.5 million times in the UK and ten million times globally.

We continue to host a number of live events based around our key brands, including: the Coronation Street set tour and Emmerdale village tour and studio experience, five branded Ninja Warrior Experiences around the UK, and we are due to launch an I'm A Celebrity…Get Me Out Of Here! leisure attraction which will open in the UK during 2020. All of these initiatives help build relationships directly with our viewers and we will continue to have a focused approached to opportunities in this area.

SDN

SDN generates revenue by licensing multiplex capacity to broadcast channels, radio stations and data providers on digital terrestrial television or Freeview. Currently, the SDN platform utilises the radio spectrum licensed to it to provide capacity for 16 broadcast channels and a number of data and radio services.

SDN customers include ITV and third parties, with external revenue (non-ITV) declining by 5%, driven by deal renewals in the year. SDN's multiplex licence expires in 2022 and we are fully engaged with both Government and Ofcom in relation to the possible renewal or extension of the licence.

Other revenue

Other revenue includes revenue from platforms, such as Sky and Virgin, and third-party commissions, e.g. for services we provide to STV. This is down 3% year-on-year due to the closure of Encore at the end of April 2018, along with lower revenue from our non-consolidated license.

Alternative Performance Measures

The Annual Report and Accounts includes both statutory and adjusted measures (Alternative Performance Measures or APMs), the latter of which, in management's view, reflect the underlying performance of the business and provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis.

Our APMs and KPIs are aligned with our strategy and business segments and together are used to measure the performance of our business and form the basis of the performance measures for remuneration.

Adjusted results exclude certain items because, if included, these items could distort the understanding of our performance for the year and the comparability between periods.

The Audit and Risk Committee have oversight of ITV's APMs and actively review, revise and approve the policy for classifying adjustments and exceptional items. Further detail is included below.

Key adjustments for adjusted EBITA, profit before tax and EPS
Adjusted EBITA is calculated by adding back exceptional items and high-end production tax credits to EBITA. Further adjustments, which include the gain/loss on the sale of non-current assets, amortisation and impairment of assets acquired through business combinations and investments, and certain net financing costs, are made to remove their effect from adjusted profit before tax and EPS. The tax effects of all these adjustments are reflected in the adjusted tax charge. These adjustments are detailed below.

Production tax credits
The ability to access tax credits, which are rebates based on production spend, is fundamental to our Studios business when assessing the viability of investment in green-lighting decisions, especially with regards to high-end drama. ITV reports tax credits generated in the US and other countries (e.g. Norway, New Zealand, Italy, Canada and Spain) within cost of sales, whereas in the UK tax credits for high-end drama must be classified as a corporation tax item. However, in our view all tax credits relate directly to the production of programmes. Therefore, to align treatment, regardless of production location, and to reflect the way the business is managed and measured on a day-to-day basis, these are recognised in adjusted EBITA. Our cash measures, including profit to cash conversion and free cash flow are also adjusted for the impact of production tax credits. Further detail on this is included in the Tax section of the Financial Review.

Exceptional items
These items are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis. They are typically gains or losses arising from events that are not considered part of the core operations of the business or are considered to be one-off in nature, though they may cross several accounting periods. These include, but are not limited to, acquisition-related costs, reorganisation and restructuring costs, property costs, non-routine legal costs and non-routine pension-related costs. We also adjust for the tax effect of these items. Note 2.2 to the financial information includes further detail.

Acquisition-related costs
We structure our acquisitions with earnouts or put and call options, to allow part of the consideration to be based on the future performance of the business as well as to lock in and incentivise creative talent. Where consideration paid or contingent consideration payable in the future is employment-linked, it is treated as an expense (under accounting rules) and therefore part of our statutory results. However, we exclude all consideration of this type from adjusted EBITA, adjusted profit after tax and adjusted EPS as, in our view, these items are part of the capital transaction and do not form part of the Group's core operations. The Finance Review explains this further. Acquisition-related costs, including legal and advisory fees on completed deals or significant deals that do not complete, are also treated as an expense (under accounting rules) and therefore on a statutory basis form part of our reported results. In our view, these items also form part of the capital transaction or are one-off in nature and are therefore excluded from our adjusted measures.

Restructuring and reorganisation costs
These arise from initiatives to reduce the ongoing cost base and improve efficiency in the business, to enable the delivery of our strategic priorities. We consider each project individually to determine whether its size and nature warrant separate disclosure. Where there has been a material change in the organisational structure of a business area or a material initiative, these costs are highlighted and are excluded from our adjusted measures.

Amortisation and impairment
Amortisation and impairment of assets acquired through business combinations and investments are not included within adjusted earnings. As these costs are acquisition-related, and in line with our treatment of other acquisition-related costs, we consider them to be capital in nature as they do not reflect the underlying trading performance of the Group. Amortisation of software licences and development is included within our adjusted results as management consider these assets to be core to supporting the operations of the business.

Net financing costs
Net financing costs are adjusted to reflect the underlying cash cost of interest for the business, providing a more meaningful comparison of how the business is managed and funded on a day-to-day basis. The adjustments made remove the impact of mark-to-market on swaps and foreign exchange, one-off fees and premiums relating to the buyback of bonds, imputed pension interest and other financial gains and losses, which do not reflect the relevant interest cash cost to the business and are not yet realised balances.

A full reconciliation between our adjusted and statutory results is provided below.

Other Alternative Performance Measures
Total revenue
As an integrated producer broadcaster, we look at the total revenue generated in the business which includes internal revenue, which is the sale of ITV Studios programmes to Broadcast. Selling programmes to the Broadcast and Direct to Consumer business is an important part of our strategy as an integrated producer broadcaster, and it ensures we own all the rights to the content.

A reconciliation between external revenue and total revenue is provided below.

Twelve months to 31 December	**2019** **£m**	2018 £m
External revenue (Reported)	**3,308**	3,211
Internal supply	**577**	555
Total revenue (Adjusted)	**3,885**	3,766

Reconciliation between statutory and adjusted results

Twelve months to 31 December	**2019** **Statutory** **£m**	**2019** **Adjustments** **£m**	**2019** **Adjusted** **£m**	2018 Statutory £m	2018 Adjustments £m	2018 Adjusted £m
EBITA[1]	**693**	**36**	**729**	785	25	810
Exceptional items (operating)[2]	**(84)**	**84**	**–**	(93)	93	–
Amortisation and impairment[3]	**(74)**	**63**	**(11)**	(92)	85	(7)
Operating profit	**535**	**183**	**718**	600	203	803
Net financing costs[4]	**(68)**	**28**	**(40)**	(43)	7	(36)
Share of profits on JVs and Associates	**1**	**–**	**1**	–	–	–
Gain on sale of non-current assets and subsidiaries (non-operating exceptional items)[2]	**62**	**(62)**	**–**	10	(10)	–
Profit before tax	**530**	**149**	**679**	567	200	767
Tax[5]	**(52)**	**(67)**	**(119)**	(97)	(49)	(146)
Profit after tax	**478**	**82**	**560**	470	151	621
Non-controlling interests	**(5)**	**–**	**(5)**	(4)	–	(4)
Earnings	**473**	**82**	**555**	466	151	617
Shares (million), weighted average	**4,000**		**4,000**	3,999	–	3,999
EPS (p)	**11.8p**		**13.9p**	11.7p		15.4p
Diluted EPS (p)	**11.8p**		**13.8p**	11.6p		15.4p

1. £36 million adjustment relates to production tax credits which we consider to be a contribution to production costs and working capital in nature rather than a corporate tax item.
2. Exceptional items largely relate to acquisition costs, primarily employment linked consideration, as well as restructuring and property costs, along with the gain on sale from the London Television Centre. Further detail is included in the Finance Review.
3. £63 million adjustment relates to amortisation and impairment of assets acquired through business combinations and investments. We include only amortisation on purchased intangibles, such as software within adjusted profit before tax.
4. £28 million adjustment is primarily for non-cash interest cost. This provides a more meaningful comparison of how the business is managed and funded on a day-to-day basis.
5. Tax adjustments are the tax effects of the adjustments made to reconcile profit before tax and adjusted profit before tax. A full reconciliation is included in the Finance Review.

Adjusted net debt

Net debt (as defined in note 4.1 to the financial information) is adjusted for all our financial commitments. This better reflects how credit rating agencies look at our balance sheet. A reconciliation between net debt and adjusted net debt is provided below.

At 31 December	**2019** **£m**	2018* £m
Net debt	**(804)**	(927)
Expected contingent payments on acquisitions	**(230)**	(252)
Net pension deficit	**(87)**	(38)
Lease liabilities**	**(89)**	(147)
Adjusted net debt	**(1,210)**	(1,364)
Adjusted net debt to adjusted EBITDA	**1.5x**	1.6x
Reported net debt to adjusted EBITDA	**1.0x**	1.1x

* The Group has adopted IFRS 16 under the modified retrospective approach and is not required to restate 2018 numbers.

** The 2018 lease liabilities represent the undiscounted operating lease commitments of £147 million which when converted to IFRS 16 discounted liabilities is £121 million.

Net pension deficit/surplus

This is our defined benefit pension deficit under IAS 19 adjusted for other pension assets, mainly gilts, which are held by the Group as security for future unfunded pension payments for four Granada executives and over which that pension scheme holds a charge. A full reconciliation is included within note 3.7 to the financial information.

Profit to cash conversion

This is our measure of our effectiveness of cash generation used for working capital management. It is calculated as our adjusted cash flow as a proportion of adjusted EBITA. Adjusted cash flow, which reflects the cash generation of our underlying business, is calculated on our statutory cash generated from operations and adjusted for exceptional items, net of capex on property, plant and equipment and intangible assets, and including the cash impact of high-end production tax credits.

Adjusted free cash flow

This is our measure of adjusted free cash flow after we have met our financial obligations. It takes our adjusted cash flow (see above) and removes the impact of net interest, adjusted cash tax (which is total tax paid adjusted to exclude the receipt of production tax credits) and pension funding. A full reconciliation is included in the Finance Review.

Finance Review

ITV delivered a strong operating performance in 2019 despite the uncertain economic environment, and is making good progress in executing the strategy to build a digitally led media and entertainment company.

"While the macro environment in 2019 continued to impact the demand for television advertising and therefore ITV's financial performance, our full year results were ahead of expectations, and we have made good progress in executing our strategy. Our investment and cost saving programmes are on track, and our focus on cash and costs enables us to make the right investment decisions to build a robust and growing business and to deliver returns to shareholders in line with our guidance."

This Finance Review focuses on the more technical aspects of our financial results while the operating and financial performance has been discussed within the Operating and Performance Review. Our Alternative Performance Measures section explains the adjustments we make to our statutory results and focuses on the key measures that we report on internally and use as KPIs across the business.

Twelve months to 31 December	**2019 £m**	2018 £m	Change £m	Change %
Total advertising revenue	**1,768**	1,795	(27)	(1.5)
Total non-advertising revenue	**2,117**	1,971	146	7
Total revenue	**3,885**	3,766	119	3
Internal supply	**(577)**	(555)	(22)	(4)
Group external revenue	**3,308**	3,211	97	3
•	•	•	•	•
Group adjusted EBITA	**729**	810	(81)	(10)
Group adjusted EBITA margin	**22%**	25%	•	•
Group statutory EBITA	**693**	785	(92)	(12)
•	•	•	•	•
Adjusted EPS	**13.9p**	15.4p	(1.5)p	(10)
Statutory EPS	**11.8p**	11.7p	0.1p	1
Dividend per share	8.0p	8.0p	–	–
Net debt as at 31 December	**(804)**	(927)	123	13

Total ITV revenue grew by 3% to £3,885 million (2018: £3,766 million), with external revenue also up 3% to £3,308 million (2018: £3,211 million). Total advertising revenue was down 1.5%, slightly better than expectations. VOD revenue was up 21% year-on-year but was more than offset by the decline in NAR. Total non-advertising revenue was up 7% to £2,117 million (2018: £1,971 million). ITV Studios total revenue increased by 9% to £1,822 million (2018: £1,670 million), with growth across all parts of the business. The net impact of currency in the year was nil. Direct to Consumer revenue grew 4% to £84 million (2018: £81 million), with strong growth in ITV Hub+ subscriptions.

Group adjusted EBITA declined 10% to £729 million (2018: £810 million). ITV Studios adjusted EBITA was up 5% at £267 million (2018: £255 million) with the adjusted EBITA margin flat at 15%, in line with our guidance. Broadcast adjusted EBITA (excluding the £21 million investment in BritBox UK) declined 13% to £483 million (2018: £555 million), with a margin of 23%. Total Broadcast adjusted EBITA (including BritBox UK) was £462 million, with a 22% margin. This was impacted by the decline in TAR and the investments we are making in schedule costs with higher spend on sport and drama, marketing, the ITV Hub, ITV Hub+, data, technology and BritBox UK to build a robust and growing business. Group statutory EBITA declined 12% to £693 million (2018: £785 million) which was more than the decline in adjusted EBITA due to an increase in high-end production tax credits in the year, which are included only in adjusted EBITA.

Adjusted financing costs were up £4 million year-on-year and our adjusted tax rate came down to 18% from 19% in 2018. The net of these movements resulted in a 10% decline in adjusted EPS to 13.9p (2018: 15.4p). Statutory EPS was up 1% to 11.8p, predominantly due to the gain on sale of the London Television Centre on the South Bank, our previous London headquarters.

Our key strengths include our high margins and cash conversion, which, together with our ongoing focus on costs, put us in a good position to balance investment in growing an even stronger and more resilient business going forward, while delivering returns to our shareholders in line with our guidance.

Exceptional items

Twelve months to 31 December	**2019 £m**	2018 £m
Acquisition-related expenses	**(75)**	(60)
Restructuring and property-related costs	**(24)**	(26)
Pension related costs	**1**	4
Other	**14**	(11)
Total operating exceptional items	**(84)**	(93)
Non-operating exceptional items	**62**	10
Net exceptional items	**(22)**	(83)

Total exceptional items in the period were £22 million (2018: £83 million). Operating exceptional items principally relate to acquisition-related expenses, which are predominantly performance based, employment-linked consideration to former owners, and professional fees (mainly financial

due diligence and legal costs in respect of potential acquisitions during the year). Restructuring and property-related costs of £24 million relate primarily to one-off restructuring projects stemming from the Group-wide commitment to reduce the overhead cost base and those costs associated with the delivery of the strategy.

Included within other items are: the release of legal cost accruals in relation to litigation outside the normal course of business settled in the year; the release of the Box Clever provision; and the movement in the insured trade receivables provision. This was partly offset by costs in relation to the cancellation of The Jeremy Kyle Show.

Non-operating exceptional items relate to the gain on sale of the London Television Centre, which was sold in November 2019. Further details are provided in note 3.2 to the financial information.

Net financing costs

Twelve months to 31 December	**2019 £m**	2018 £m
Financing costs directly attributable to loans and bonds	**(31)**	(30)
Cash-related net financing costs	**(8)**	(5)
Amortisation of bonds	**(1)**	(1)
Adjusted financing costs	**(40)**	(36)
Imputed pension interest	**(1)**	(2)
Other net financial losses and unrealised foreign exchange	**(27)**	(5)
Net financing costs	**(68)**	(43)

2.

Adjusted financing costs were up £4 million year-on-year at £40 million (2018: £36 million) reflecting higher levels of net debt during the year, foreign exchange and the impact of IFRS 16. Statutory net financing costs were £68 million, up £25 million year-on-year (2018: £43 million), largely due to one-off fees and premiums in relation to the buyback of €506 million of Eurobonds in the year as well as the acceleration of amortisation on these bonds. The cash impact of the buyback was small.

JVs and associates

There was a £1 million share of profits from JVs and associates in the year (2018: £nil), relating to the net profit from a range of investments, including BritBox US and Canada, Blumhouse and Circle of Confusion.

Profit before tax

Adjusted profit before tax, after amortisation and impairment of assets and financing costs, was down 11% at £679 million (2018: £767 million). Statutory profit before tax decreased by 7% to £530 million (2018: £567 million) in the year. Production tax credits increased to £36 million in the year (2018: £25 million) as a result of more high-value dramas such as World on Fire, Line of Duty, A Confession and Noughts and Crosses.

Profit before tax (PBT)

Twelve months to 31 December	**2019 £m**	2018 £m
Profit before tax	**530**	567
Production tax credits	**36**	25
Net exceptional items	**22**	83
Amortisation and impairment*	**63**	85
Adjustments to net financing costs	**28**	7
Adjusted profit before tax	**679**	767

* In respect of assets arising from business combinations and investments.

Tax

Adjusted tax charge

The total adjusted tax charge for the period was £119 million (2018: £146 million), corresponding to an effective tax rate on adjusted profit before tax (PBT) of 18% (2018: 19%), which is slightly lower than the standard UK corporation tax rate of 19% (2018: 19%). We expect the effective tax rate to be between 18% and 19% over the medium term, if, as is expected, the UK government announce that the previously enacted reduction in the UK statutory tax rate to 17% from 1 April 2020 is reversed. On a reported basis, the tax charge of £52 million (2018: £97 million) corresponds to an effective tax rate of 10% (2018: 17%). The reported rate is lower than the prior year due to the tax treatment of the sale of the London Television Centre and an increase in high-end production tax credits. The adjustments made to reconcile the tax charge with the adjusted tax charge are the tax effects of the adjustments made to reconcile PBT and adjusted PBT, as discussed earlier.

Twelve months to 31 December	**2019 £m**	2018 £m
Tax charge	**(52)**	(97)
Production tax credits	**(36)**	(25)
Charge for exceptional items	**(6)**	(9)
Charge in respect of amortisation and impairment*	**(19)**	(14)
Charge in respect of adjustments to net financing costs	**(6)**	(1)
Adjusted tax charge	**(119)**	(146)
Effective tax rate on adjusted profits	**18%**	19%

* In respect of intangible assets arising from business combinations and investments. 2018 also reflects the cash tax benefit of tax deductions for US goodwill.

Cash tax

Cash tax paid in the period was £108 million (2018: £92 million) and is net of £37 million of production tax credits received (2018: £27 million). The majority of the cash tax payments were made in the UK. The cash tax paid is higher compared to the previous year due to the timing of tax credit receipts, and the receipt in the previous year of a prior year repayment. A reconciliation between the tax charge for the year and the cash tax paid in the year is shown below.

Twelve months to 31 December	**2019 £m**	2018 £m
Tax charge	**(52)**	(97)
Temporary differences recognised through deferred tax	**(21)**	(37)
Prior year adjustments to current tax	**(8)**	14
Current tax, current year	**(81)**	(120)
Phasing of tax payments (including in respect of pension contribution benefits)	**(28)**	26
Production tax credits – timing of receipt	**1**	2
Cash tax paid	**(108)**	(92)

Tax strategy

ITV is a responsible business, and we take a responsible attitude to tax, recognising that it affects all of our stakeholders. In order to allow those stakeholders to understand our approach to tax, we have published our Global Tax Strategy, which is available on our corporate website.

www.itvplc.com/investors/governance/policies

We have four key strategic tax objectives:

- Engage with tax authorities in an open and transparent way in order to minimise uncertainty
- Proactively partner with the business to provide clear, timely, relevant and business focused advice across all aspects of tax
- Take an appropriate and balanced approach when considering how to structure tax sensitive transactions
- Manage ITV's tax risk by operating effective tax governance and understanding our tax control framework with a view to continuously adjusting our approach to be compliant with our tax obligations

Our tax strategy is aligned with that of the business and its commercial activities, and establishes a clear Group-wide approach based on openness and transparency in all aspects of tax reporting and compliance, wherever the Company and its subsidiaries operate. The strategy confirms that ITV does not engage in or condone tax evasion or the facilitation of tax evasion in any form, and that we have in place appropriate procedures to prevent the facilitation of tax evasion. Within our overall governance structure, the governance of tax and tax risk is given a high priority by the Board and Audit and Risk Committee. The ITV Global Tax Strategy as published on the ITV plc website is compliant with the UK tax strategy publication requirement set out in Part 2 Schedule 19 of the Finance Act 2016.

EPS – adjusted and statutory

Overall, adjusted profit after tax was down 10% at £560 million (2018: £621 million). After non-controlling interests of £5 million (2018: £4 million), adjusted basic earnings per share was 13.9p (2018: 15.4p), down 10%, which is consistent with the decrease in adjusted EBITA of 10%. The weighted average number of shares remained broadly flat year-on year at 4,000 million (2018: 3,999 million). Diluted adjusted EPS in 2019 was 13.8p (2018: 15.4p) reflecting a weighted average diluted number of shares of 4,018 million (2018: 4,013 million).

Statutory EPS increased by 1% to 11.8p (2018: 11.7p) predominantly due to the gain on sale of the London Television Centre in the year and the related tax impact.

A full reconciliation between statutory and adjusted EPS is included within the Alternative Performance Measures section.

Dividend per share

Reflecting ITV's continued good operational performance, the Board has proposed a full year dividend of 8.0p which is flat year-on-year. This is in line with the Board's intention to pay a full year dividend of at least 8.0p in 2019.

The Board is planning to pay another full year dividend of 8.0p in 2020. The Board intends to announce a medium-term dividend policy with the full year 2020 results, once greater clarity is established on the economic environment and outlook in the UK following its departure from the European Union.

Dividends are distributed based on the realised distributable reserves (within retained earnings) of ITV plc (the Company) and not based on the Group's retained earnings. The 2019 full year dividend will be paid on 21 May 2020.

Acquisitions

Since 2012, we have acquired a number of content businesses in the UK, US and creative locations across Europe and the Middle East, developing a strong portfolio of programmes that return and travel. As we have grown in size and expanded our network relationships and distribution capability, this has helped to renew and strengthen our creative talent and build our reputation as a leading European producer and distributor and a leading unscripted independent production company in the US.

Our Studios business is performing well and we will consider selective value creating M&A and talent deals in both scripted and unscripted to obtain further creative talent and IP.

During 2019, we increased our holding in Monumental Television in the UK to take a controlling interest and we acquired Armoza Formats, an Israeli formats creator and distributor.

We have strict criteria for evaluating potential acquisitions. Financially, we assess ownership of intellectual property, earnings growth and valuation based on return on capital employed and discounted cash flow. Strategically, we ensure an acquisition target has a strong creative track record

and pipeline in content genres that return and travel, namely drama, entertainment and factual, as well as retention and succession planning for key individuals in the business.

We generally structure our deals with earnouts or with put and call options in place for the remainder of the equity, capping the maximum consideration payable by basing a significant part of the consideration on future performance. In this way, not only can we lock in creative talent and ensure our incentives are aligned, but we also reduce our risk by only paying for the actual, not expected, performance delivered over time. We believe this is the right way to structure our deals as we should not pay upfront for future performance and should incentivise and reward delivery by the business over time.

The majority of earnouts or put and call options are dependent on the seller remaining within the business. Where future payments are directly related to the seller remaining with the business, these payments are treated as employment costs and therefore are part of our statutory results. However, we exclude them from adjusted profits and adjusted EPS as an exceptional item, as in our view, for the reasons set out above, these items are part of capital consideration reflecting how we structure our transactions and do not form part of the core operations.

Acquisitions – between 2012 and 2019 (undiscounted)

Company	Geography	Genre	Initial consideration £m	Additional consideration paid £m	Expected future payments* £m	Total expected consideration** £m	Expected payment period
Total for 2012–2019	Various	Content & Broadcast TV	**972**	**191**	**230**	**1,393**	**2020-2025**

* Undiscounted and adjusted for foreign exchange. All future payments are performance related.

** Undiscounted and adjusted for foreign exchange, including the initial cash consideration and excluding working capital adjustments. Total maximum consideration which was potentially payable at the time of acquisition was £2.4 billion

The table above sets out the initial consideration payable on our acquisitions, our expected future payments based on our current view of performance and the total expected consideration payable, which is only payable if exceptional compound earnings growth is delivered.

Acquisition-related liabilities or performance-based employment-linked earnouts are amounts estimated to be payable to previous owners. The estimated future payments of £230 million are sensitive to forecast profits as they are based on a multiple of earnings. The estimated future payments, treated as employment costs, are accrued over the period the sellers are required to remain with the business, and those not linked to employment are recognised at acquisition at their time discounted value.

We closely monitor the forecast performance of each acquisition and, where there has been a change in expectations, we adjust our view of potential future commitments. Expected future payments of £230 million have decreased by £22 million since 31 December 2018, due to payments made to acquire full ownership of Gurney Productions and High Noon and earnouts paid to Mainstreet and Leftfield. This was partly offset by an increase in expected future payments on certain acquisitions. At 31 December 2019, £197 million of expected future payments had been recorded on the balance sheet.

A large proportion of the expected future payments relate to our best estimate of the final payment we will make in relation to the acquisition of Talpa. The amount payable will depend on the average EBITDA from 2017 to 2019 being between €75 million and €100 million. Contractually the payment is capped at €400 million if the average EBITDA for 2017-2019 is €100 million or more. See Note [X] of the Financial information for further detail.

Cash generation

Profit to cash conversion

Twelve months to 31 December	**2019 £m**	2018* £m
Adjusted EBITA	**729**	810
Working capital movement	**(63)**	(93)
Adjustment for production tax credits	**1**	2
Depreciation	**56**	28
Share-based compensation and pension service costs	**10**	10
Acquisition of property, plant and equipment and intangible assets	**(68)**	(82)
Capex relating to redevelopment of new London headquarters	**2**	37
Lease liability payments	**(35)**	–
Adjusted cash flow	**632**	712
Profit to cash ratio	**87%**	88%

Note: Except where disclosed, management views the acquisition of operating property, plant and equipment and intangibles as business as usual capex, necessary to the ongoing investment in the business.

* 2018 has not been restated for the impact of IFRS 16

One of ITV's strengths is its cash generation reflecting our ongoing tight management of working capital balances. We manage risk when making all investment decisions, particularly into scripted content and BritBox UK, through having a disciplined approach to cash and costs. This is particularly important when there is wider political and economic uncertainty.

In the year, we generated £632 million of adjusted operational cash (2018: £712 million) from £729 million of adjusted EBITA (2018: £810 million), resulting in a profit to cash ratio of 87% (2018: 88%) which included investment in Planet V, our addressable advertising platform, in scripted productions and in BritBox UK. Profit to cash conversion excluding BritBox UK was 88%.

We have a £100 million non-recourse receivables purchase agreement (free of financial covenants), which gives us the flexibility to access additional liquidity when required. At 31 December 2019, £100 million of receivables were sold under the purchase agreement (2018: £100 million). From 2020 onwards, movements in this receivables facility will be excluded from our profit to cash conversion calculation.

Adjusted free cash flow

Twelve months to 31 December	**2019 £m**	2018 £m
Adjusted cash flow	**632**	712
Net interest paid	**(54)**	(42)
Adjusted cash tax*	**(145)**	(119)
Pension funding	**(74)**	(82)
Adjusted free cash flow	**359**	469

* Adjusted cash tax of £145 million is total cash tax paid of £108 million plus receipt of production tax credits of £37 million, which are included within adjusted cash flow from operations, as these production tax credits relate directly to the production of programmes.

Our adjusted free cash flow after payments for interest, cash tax and pension funding in the period was £359 million (2018: £469 million).

Overall, after dividends, acquisitions and acquisition-related costs, pension and tax payments, we ended the period with net debt of £804 million, compared with net debt of £1,082 million at 30 June 2019 and £927 million at 31 December 2018. Included within 2019 net debt is £50 million of restricted cash in relation to the sale of the London Television Centre. There was a £12 million net exceptional cash inflow in the year (2018: £90 million outflow) largely due to the timing of VAT received on the sale of the London Television Centre, and acquisition related cashflows.

Funding and liquidity
Debt structure and liquidity
The Group's financing policy to manage its liquidity and funding risk is to fund itself for the medium to long-term. ITV uses debt instruments with a range of maturities to ensure access to appropriate short-term borrowing facilities with a minimum of £250 million of undrawn facilities available at all times. To manage our liquidity, during the year we extended the maturity of our debt instruments. We also have a number of facilities in place to preserve our financial flexibility, which includes a £630 million Revolving Credit Facility (RCF) in place until 2023. We also have a bilateral financing facility of £300 million, which is free of financial covenants and matures in 2021. This provides us with sufficient liquidity to meet the requirements of the business in the short to medium term. The RCF has the usual financial covenants for this type of financing. In total £930 million of facilities remained undrawn at 31 December 2019.

Net debt

At 31 December	**2019 £m**	2018 £m
Gross cash	**246***	95
Gross debt	**(1,050)**	(1,022)
Net debt	**(804)**	(927)

* Gross cash includes £50 million of restricted cash in relation to the LTVC Pension Funding Partnership.

Financing – gross debt
We are financed using debt instruments and facilities with a range of maturities. Borrowings at 31 December 2019 were repayable as follows:

Amount repayable as at 31 December 2019	**£m**	Maturity
£630 million Revolving Credit Facility	**–**	Various
€600 million Eurobond	**508**	Sep 2026
€335 million Eurobond	**283**	Sep 2022
€259 million Eurobond	**219**	Dec 2023
Other loans	**16**	Various
Total debt repayable on maturity*	**1,026**	

* Net of £24 million cross-currency swaps.

In September, ITV issued a new €600 million seven year Eurobond at a coupon of 1.375% which was swapped into sterling using a number of cross currency swaps. The net sterling interest rate payable on these swaps is 2.94%. The proceeds of the bond were used to partly refinance the existing notes which expire in 2022 and 2023 to extend ITV's debt maturity, and to pay down part of the RCF.

At 31 December 2019, the £630 million RCF was undrawn.

Capital allocation and leverage
Our objective is to run an efficient balance sheet and manage our financial metrics appropriately, consistent with investment grade metrics. At 31 December 2019 reported net debt to adjusted EBITDA was 1.0x (31 December 2018: 1.1x).

We also use an adjusted measure of net debt, taking into consideration all of our other debt-like commitments, including the expected, undiscounted contingent payments on acquisitions, the net pension deficit and the discounted IFRS 16 lease liabilities, which mainly relate to property. This adjusted leverage metric better reflects how the credit rating agencies look at our balance sheet. At 31 December 2019 adjusted net debt was £1,210 million (31 December 2018: £1,364 million) and adjusted net debt to adjusted EBITDA was 1.5x (31 December 2018: 1.6x). A reconciliation of net debt to adjusted net debt is provided in the APMs.

Our priority remains to invest to drive organic growth and we have made acquisitions where we have found the right opportunities. We will continue to look at opportunities in line with our strategy. We will balance this investment with returns to shareholders. Our investment decisions are based upon value creation and returns analysis. Our returns analysis looks at all aspects of value creation and the long-term future value of our investments in ITV Studios, Broadcast and Direct to Consumer.

Credit ratings
We continue to be rated investment grade by two ratings agencies: BBB- (stable outlook) by Standard and Poor's and Baa3 (stable outlook) by Moody's Investor Services. The factors that are taken into account in assessing our credit rating include our degree of operational gearing, exposure to the economic cycle, as well as business and geographical diversity.

Foreign exchange
As ITV continues to grow internationally, we are increasingly exposed to foreign exchange on our overseas operations. We do not hedge our exposure to revenues and profits generated overseas, as this is seen as an inherent risk. We may elect to hedge our overseas net assets, where material. To date, we have hedged a significant portion of the euro net assets arising from the Talpa Media acquisition.

ITV is also exposed to foreign exchange risk on transactions we undertake in a foreign currency. Our policy is to hedge a portion of any known or forecast transaction where there is an underlying cash exposure for the full tenor of that exposure, to a maximum of five years forward, where the portion hedged depends on the level of certainty we have on the final size of the transaction.

Finally, ITV is exposed to foreign exchange risk on the retranslation of foreign currency loans and deposits. Our policy is to hedge such exposures where there is an expectation that any changes in the value of these items will result in a realised cash movement over the short to medium term.

The foreign exchange and interest rate hedging strategy is set out in our Treasury policies which are approved by the ITV plc Board.

Foreign exchange sensitivity
The following table highlights ITV's sensitivity, on a full year basis, to translation resulting from a 10% appreciation/depreciation in sterling against the US dollar and euro, assuming all other variables are held constant. An appreciation in sterling has a negative effect on revenue and adjusted EBITA; a depreciation has a positive effect.

Currency	Revenue £m	Adjusted EBITA £m
US dollar	+/- 50-60	+/- 7-9
Euro	+/- 35-45	+/- 4-6

Pensions
The net pension deficit for the defined benefit schemes at 31 December 2019 was £87 million (31 December 2018: £38 million deficit). The year-on-year increase in the deficit was principally due to a decrease in bond yields, offset by a reduction in the market implied inflation, our deficit funding contributions and an increase in asset values following a strong performance in the equity markets.

The net pension assets include £58 million of gilts, which are held by the Group as security for future unfunded pension payments to four former Granada executives, the liabilities of which are included in our pension obligations.

A full reconciliation is included within note 3.7 in the notes to the Financial information.

Actuarial valuation
The last triennial actuarial valuation was undertaken in 2017. On the basis agreed with the Trustees, the combined deficits of the ITV defined benefit pension scheme as at 1 January 2017
amounted to £470 million. The next actuarial valuation will be
as at 1 January 2020.

Closure to future accrual
Following a member consultation, in 2019 the Group decided to close the defined benefit sections of the UTV Pension Scheme to future benefit accrual with effect from 31 March 2019. Members' benefits are no longer linked to pensionable salary; the benefits are now linked to statutory revaluation until retirement. This change has resulted in a one-off, non-cash curtailment credit of £1 million and is recognised within exceptionals.

Deficit funding contributions
The Group continues to make deficit funding contributions in line with the most recent actuarial valuation in order to eliminate the deficits in each section. The accounting deficit does not drive the deficit funding contribution.

The Group's deficit funding contributions in 2019 were £74 million. Further details are included within note 3.7 to the financial information. In 2020 we expect deficit funding contributions to be in line with 2019 at around £75 million.

SDN pension funding partnership
In 2010, ITV established a Pension Funding Partnership (PFP) with the Trustees backed by SDN which resulted in the assets of Section A of the defined benefit pension scheme being increased by £200 million. The Group is contracted to provide additional collateral to support the original value of the structure at the rate of £50.7 million each year from March 2019 to March 2022. This cash collateral would not leave the Group, but would be maintained in a restricted bank account. The Trustee agreed to accept a bank guarantee as an alternative to the 2019 collateral instalment with the result that £101 million becomes due in March 2020. However, we are looking to agree with the Trustee a similar approach in respect of that payment. The PFP is currently being reviewed as we look to replace it with an alternative asset. If the asset in the SDN PFP structure is not replaced, the Group will pay to the pension scheme the lower of any deficit calculated on the funding basis in 2022 or £200 million.

London property
On 8 November 2019, ITV exchanged contracts for the sale of the London Television Centre on the South Bank to Mitsubishi Estate London Limited in an all-cash transaction for £145.6 million. Completion of the sale occurred at the end of November. In 2014, ITV established a Pension Funding Partnership with the Trustees backed by the London Television Centre which resulted in the assets of Section A of the defined benefit pension scheme being increased by £50 million. Part of the proceeds of the sale of the South Bank site, net of tax and fees, has been used to replace the asset security, and therefore £50 million of the proceeds has been held in a restricted bank account as a replacement asset in the pension funding arragement. The remaining sale proceeds have been used to reduce ITV's net debt. The accounting profit on the sale of the South Bank has been treated as exceptional.

New accounting standards
IFRS 16 'Leases', was effective from 1 January 2019. The Group has adopted the modified retrospective approach with the right of use asset equal to the lease liability at transition date. IFRS 16 has no impact at a profit before tax level but increases both our full year EBITA and interest by £4 million and gross liabilities by £89 million with net assets remaining largely unchanged. Section 1 of the notes to the financial information provides further detail on this new accounting standard.

2020 full year planning assumptions
Profit and Loss impact
Total schedule costs are estimated to be around £1.11 billion

Total essential investment of around £18 million in 2020, which includes £10 million as previously guided, and the phasing of 2019 investments which fall into 2020

Total BritBox UK venture losses of £55 million to £60 million, £6 million higher than previously anticipated due to the timing of 2019 investment which falls into 2020. This is broadly in line with the £40 million of net investment previously guided, plus the £6 million of 2019 investment which has been rephased into 2020

Cost savings expected to be around £10 million

Adjusted interest is expected to be around £40 million, which is in line with 2019

The adjusted effective tax rate for 2020 is expected to be around 18% to 19% and remain at that level over the medium term

The translation impact of foreign exchange, assuming rates remain at current levels, could have an adverse impact of around £50 million on revenue and around £7 million on profit

Exceptional items are expected to be around £25 million, mainly due to acquisition related expenses, and restructuring and reorganisation costs

Cash impact
Cash tax will reflect six quarters of UK corporation tax payments, rather than the standard four quarters. This is a one-off phasing impact and will return to four quarters in 2021

Total capex is expected to be around £95 million which includes investment in our addressable advertising platform and our US property moves

The cash cost of exceptionals are expected to be around £210 million, largely relating to accrued earnouts which includes the final earnout payment for Talpa

Profit to cash conversion is expected to be around 75% to 80% reflecting our continued good cash generation, investment in ITV Studios scripted working capital, our addressable advertising platform and BritBox

Total pension deficit funding contribution for 2020 is expected to be around £75 million, in line with 2019

The Board intends to pay a full year dividend of 8.0p for 2020

Chris Kennedy
Group Chief Financial Officer

Risks and Uncertainties

ITV operates in an increasingly complex business environment and the level of uncertainty we face continues to evolve. Risks are impacting more quickly and more significantly than in the past and our continued success is dependent on how well we understand and respond to these risks. ITV's risk management framework is designed to provide the tools to identify, manage and continually review our risks.

Enterprise risk framework

The key objective of our risk management framework is to support the achievement of our strategic goals. Our risk management framework seeks to drive accountability and proactivity in managing our risks. We have defined Management Board ownership for each of our principal risks and have established reporting and escalation procedures to provide the Board with the insight required to continually monitor our risk management and internal control systems.

In 2019, we have undertaken an exercise to review the existing risk management framework and identify opportunities where we can do things differently to better support our teams in managing risks. As an outcome of this review, we will be introducing a series of enhancements to the enterprise risk management framework during 2020 that are designed to increase confidence in our capability to understand and respond effectively to key risks and opportunities.

Risk governance structure

Board

- Sets strategic objectives
- Identifies and evaluates principal risks and uncertainties
- Sets our strategy on risk and establishes tolerance levels and risk appetite
- Continually monitors the risk management framework and internal control systems

Management Board

Has responsibility for:

- The development and operation of the risk management framework and systems of internal control, including:
  - Risk identification and assessment and establishing controls and procedures to monitor and mitigate risks
  - Reviewing and monitoring the effectiveness of internal controls and putting in place remedial plans where required. Serious control weaknesses (if any) are reported to the Board and action is taken as appropriate
- Routinely reviewing and challenging risks and mitigations, including relevant reports or other performance indicators
- Continuously reviewing risk exposure and ensuring that decisions taken are in line with the organisation's risk appetite and within the defined tolerance levels
- Identifying and reporting emerging risks

Audit and Risk Committee

Has responsibility for:

- Overseeing and advising the Board on risk exposures and future mitigation strategy
- Reviewing the effectiveness of the risk management framework and internal control systems
- Conducting in-depth reviews of high-risk business areas or processes
- Setting the internal audit plan to ensure key risks are covered in respect of providing assurance
- Reviewing implementation of internal audit action
- Overseeing and monitoring the business' compliance with the risk appetite set by the Board

Details of risk reviews undertaken during the year are set out in the Audit and Risk Committee Report.

Divisional Boards and Central functions

Have responsibility for ensuring appropriate risk management within their business area including:

- Routinely reviewing and challenging risks and mitigations, including relevant reports or other performance indicators
- Reviewing local policies and monitoring the local implementation of key group policies and procedures
- Identifying and reporting emerging risks through the risk management framework

Group risk

Has responsibility for:

Maintaining the risk management framework and supporting management in its adoption

Coordinating all risk identification, reporting and governance forum activity

Supporting and advising the business on the development of risk management solutions

Three lines of defence
The three lines of defence model represents a core component of our risk management framework. We operate a three lines of defence model to gain ongoing assurance over the effectiveness of our approach to managing our most critical risks.

Business Operations and Divisions: The Divisions and Central functions are ultimately responsible for identifying, assessing and managing their risks. This includes operation and maintenance of the internal control framework to mitigate key risks.

Group Risk and Central functions: Where relevant, Group Risk and Central functions support the business in their risk management activities. They are responsible for setting policies related to their remit, monitoring application of policies within the business and advising the business on risk mitigations.

Internal Audit: Internal Audit provides independent assurance over the operation of the Group’s internal control systems and risk management processes. The Internal Audit plan is driven from ITV’s risk management framework and is aligned to auditable elements of the Group’s principal risks.

Senior management
Oversight over all business risks

The Board
Oversight over principal risks

Audit and Risk Committee
Oversight over risk management framework

Principal risks
The recent review of our ERM framework included refreshing our principal risks and updating the way they are presented and defined. We took a blank sheet, top down approach with stakeholders across the business to better define existing risks and also identify potential emerging risks. The Divisional Boards and Management Board then took part in a series of externally facilitated workshops to assess and prioritise these risks. The outcome of this exercise is our refreshed principal risks, which have been reviewed and approved by the Board.

Categories
We have also refreshed the manner in which we categorise our risks. These categories support us in determining the approach we take to managing our risks.

- Strategic/External – external environmental risks, including macroeconomic, socio-political or market changes, that may impact ITV’s strategic vision or ability to deliver the strategic initiatives

- Change – internal risks, including culture and capability, that may impede the achievement of strategic and/or operational change goals

- Operational – risks that could impact our operational and business as usual activities

- Emerging – risks from known or previously unconsidered sources, which may significantly impact our business now or in future but which are not clearly understood, visible or possible to fully assess

- All principal risks have been assigned ownership to a Management Board member, with responsibility for ongoing monitoring and mitigating of the risk.

Key changes in our principal risks
Our principal risks currently fall into the strategic, change and operational categories. Key changes to our principal risks as a result of our refresh exercise are:

- We have identified four new principal risks, which are all driven by changes in the external market and continual evolution of our strategy. These risks relate to platform relationships, BritBox growth, cultural change and leadership/ways of working

- We have separated the risk relating to the macroeconomic environment and the pension deficit into two risks, taking into account the broader implications a macroeconomic or political crisis may have on our business model

- The previous risk relating to legacy technology systems has been incorporated into a broader risk relating to strategic delivery and digital transformation

- We have downgraded the risk of a major failure in complex broadcast system chains, as we continue to review and improve our technological infrastructure and resilience systems. This risk continues to be tracked and managed through our internal risk management processes but is no longer considered a principal risk

- The wording and presentation of our remaining principal risks has been refined in order to improve clarity and understanding

Risk appetite
Our risk appetite has been defined at a category level and approved by the Board. Our risk appetite helps inform our decisions with respect to our strategy and supports us in determining the most appropriate way to manage each of our principal risks.

- Strategic/External – we have a neutral appetite for risk with respect to the external environment. We monitor the external environment and continue to identify areas where we can adapt our approach to respond to external threats

- Change – we have a higher appetite for risk with respect to change. The industry environment is evolving rapidly and we have to take a 'test and learn' approach, including some calculated risks, in order to respond sufficiently quickly

- Operational – we have a lower appetite for risk with respect to operational or regulatory failure. We seek to manage these risks to the lowest possible level and mitigate through our controls

As part of our activities to further enhance our ERM framework in 2020, we will be refining and improving the articulation of our risk appetite.

Emerging risks
We define emerging risks as uncertainties which originate from known or previously unconsidered sources, but which are not clearly understood, visible or possible to fully assess. These risks could impact over a longer period and have the potential to significantly impact our business model and/or operations.

Emerging risks are identified by the business on an ongoing basis and are escalated through risk management processes and reporting. ITV's Group Risk team supports the business in identifying and highlighting emerging risks to the Board. They do this through undertaking horizon scanning, maintaining ongoing dialogue with the business and keeping up to date with wider market and environment movements.

As part of our efforts to redefine our principal risks this year, we also considered emerging risk areas. We have undertaken exercises to analyse emerging risk areas in order to determine whether they should be promoted to principal risks and monitored as part of our existing risk management processes. Where the risks have not been assessed as principal risks they have been categorised as emerging risks, have been reviewed by the Board, and will continue to be periodically reported and reviewed internally.

Climate change
Climate change is not currently reported as an ITV principal risk, however, it has been recognised as an emerging risk and remains an area we keep under regular review through our risk management process. ITV's climate change risks fall into two categories. The first relates to threats to our business model, as a result of changes in regulation or consumer attitudes with respect to climate change. The second relates to the potential impact climate change may have on business as usual operations.

We are committed to reducing the impact our business has on the environment and have implemented Group-wide targets for reducing carbon emissions in line with a 1.5 degree warming scenario. The Group CFO has been nominated to be responsible for the organisation's climate change agenda. Please see below for further information on risk management in this area.

Risk mapped to strategy
Many of our principal risks are intrinsically connected, and in certain cases were a risk to change or materialise this may have an impact on risks in another area of our business. For example the changing nature of viewer habits (Risk 1), is a driver for changing demand in the advertising market (Risk 2) and the content market (Risk 3).

Due to the interconnectivity and the criticality of all our principal risks, we do not individually rank our principal risks based on severity and likelihood. Instead we recognise that all of these are the most critical risks facing our business, many of which could have a direct impact on our strategic priorities, and therefore should be regularly scrutinised by our senior leadership. As a result, we focus on ensuring we understand how our principal risks are connected and the potential impact they may have on all areas of our business, in order to develop a joined up strategy to manage these.

Principal risks and mitigations

Strategic/external risks

1. Changing viewer habits

Description	Context	Mitigating activities
A failure to anticipate or respond to fast changing viewer habits and behaviours may impact total viewing and the success of our productions.	• Content is now available across many different devices and platforms, which is impacting how viewers consume video • Viewers are watching less linear television and more digital content, in particular through video-on-demand services • Consumers are also increasingly engaging with alternative content, moving away from long-form video, in particular short-form content and gaming • A faster than anticipated shift towards digital viewing and alternate content would impact the total audience and reach of ITV and therefore the advertising revenue we are able to realise **Changes in direction of travel** • This risk continues to trend upwards, as viewing continues to fragment across platforms and devices. There is also an increasing propensity to watch short-form content, particularly amongst younger viewers	• Our strategy includes strengthening our digital viewing proposition, to better serve evolving audience preferences, both in advertising video-on-demand (AVOD) and subscription video-on-demand (SVOD) • In AVOD, this involves making all our linear content available on digital platforms, whilst continuing to invest in the ITV Hub product. We also take a commercially balanced view with respect to the content we make available in short-form on partner platforms. In SVOD, we have developed and released BritBox, in partnership with the BBC, and will continue to invest in this product and consider suitable international markets for expansion • We also continue to invest in sports, entertainment and other events. This maximises live viewing, including amongst harder to reach audiences • We also have a dedicated Research team, focused on developing a better understanding of our audience. Insight from this team is used to pre-empt viewer

		behaviours and support the continual development of our linear, AVOD and SVOD products

2. Advertising market changes

Description	Context	Mitigating activities
Continued changes in the advertising market may result in a decline in ITV's advertising revenue.	• The current overall economic environment is uncertain which may impact advertising spend and demand for ITV's advertising products • Changing viewer habits have resulted in an increased proportion of advertising budgets being spent on digital and mobile offerings. This could impact the value and volume of deals advertisers make with ITV. In addition, an increasing number of viewers are using advertising-skipping technology on linear products, reducing revenue • There is an increasing number of diverse participants entering the advertising market, which could adversely impact our market share. These participants have advertising products with advanced audience attribution, which makes them very appealing to clients. They often have large sales teams who are increasingly dealing with digitally native Chief Marketing Officers • Certain sectors are either already or may become subject to regulatory advertising restriction Changes in direction of travel • Increased uncertainty in the economic environment in 2019 along with the continued change in viewing habits has meant this risk is trending upwards	We closely monitor the potential impact of an economic downturn on advertising revenues • We also continue to demonstrate the benefits of advertising on ITV to existing and prospective clients across all sectors, whilst seeking to increase awareness within faster growing sectors. This has involved creating a Client Strategy and Planning team, who work closely with our advertising clients to ensure we are better aligned with their objectives • As part of our strategy to grow our digital viewing and reach of ITV content across all platforms, we seek to serve advertising wherever our viewers consume our content. This includes working with partners and platforms to investigate methods to minimise the financial impact of ad skipping • We are also focused on developing our addressable advertising capability. Our Planet V initiative is designed to provide advertisers an easy to use, self-service platform to deliver highly targeted adverts • We continue to monitor the regulatory landscape and understand the potential impact on our advertising revenues

3. Evolving demand in the content market

Description	Context	Mitigating activities
Fundamental changes in the content market may result in reduced opportunities for and/or profitability of ITV Studios content.	• While there continues to be increasing demand for content, driven by new platforms with high-content budgets, there is a risk that they will increasingly use their scale to produce content in-house and/or to seek better terms on pricing and rights • The increasing demand for content and the arrival of influential new buyers in the market is driving the cost of production up, which may impact our profitability • The increasing complexity of the rights market and the increased influence of our SVOD customers may result in us being unable to secure all of the most valuable rights **Changes in direction of travel** • This risk continues to trend upwards, as we are seeing increasing instances of SVOD players producing in-house and using their growing scale to seek better terms on price and rights	• We continue to invest in attracting and retaining world class creative talent to ensure we can provide quality content to local and global buyers • We maintain relationships with a diversified set of customers, with varied business models, including SVOD and over the top (OTT) platforms. We also continue to build relationships with new potential customers, in order to demonstrate the value of the content we produce • We have processes in place to drive continued efficiency in our production. These include robust procurement procedures, maximisation of tax credits and analysis of data relating to production filming, providing opportunities for improvements • We have created a Global Entertainment team, focused on developing a centrally coordinated approach to rights commercialisation. management and protection. This includes developing standard rights packages and content management processes, which are focused on protecting and exploiting existing rights

4. Pension deficit increase

Description	Context	Mitigating activities
A financial crisis or macro-economic change could impact the value of pension scheme investments and increase the deficit.	• Changes in credit spreads could result in material movements in the Group's defined benefit pension scheme • A major change in longevity, investment values or in the discount rate affecting the value of liabilities could have a material impact on the net pension liability • ITV may need to cover an increase in the deficit in such an event and update the schedule of contributions **Changes in direction of travel** • This risk remains static, with increased uncertainty in the macroeconomic environment having been offset through our diversified investment approach	• The pension schemes assets are invested in a diversified portfolio, with a significant amount of the fund held in bonds • We have worked with the pension trustees to limit the potential deficits by a series of asset backed arrangements. In addition, we have removed some of the mortality risk from the scheme with a longevity swap and hedging a portion of inflation and interest rate variability • We have reduced some of our exposure through the purchase of a bulk annuity policy (a 'buy-in' policy) for a section of the scheme. This contract matches the pension liabilities covered by the policy and, therefore, removes the investment, interest rate and inflation risks associated with those liabilities. In order to mitigate the risk of not being able to meet our liabilities as they arise, we have reviewed our cash matching and hedging strategies • We also have regular communication with the pension trustees

5. Platform relationship risk

Description	Context	Mitigating activities
An inability to maintain adequate negotiating positions with major platform providers may result in reduced brand prominence and disproportionate value extraction by platforms.	• Video content is viewed across a wide variety of platforms and devices. Our commercial arrangements with these platforms are increasingly complex and multi-faceted. Platforms are commonly customers, suppliers and partners in co-creation activities • Within the linear EPG grid we are guaranteed prominence in the UK. However, as linear viewing declines, we must form strong relationships with major platform providers, under mutually favourable terms, to ensure we maintain our UK prominence • Our aim is to maintain a strong negotiating position with these platforms in order to fully monetise our content **Changes in direction of travel** • As viewing continues to shift away from linear and onto other platforms and devices, these platforms have increasing negotiating power, resulting in this risk trending upwards	• We have a dedicated team who have developed relationships with all the major TV platforms and device manufacturers in the UK. We are therefore in a position to negotiate the presence and prominence of ITV's content on their platform/ devices • We have also established a strategic partnership framework that dictates how we engage with these industry partners and how this is governed internally. Progress and challenges in dealing with these partners is discussed at the Management Board quarterly • We also continue to have an active dialogue with Ofcom and government, regarding regulation related to PSB prominence on platforms (and the modernisation of that regulation)

6. Macroeconomic or geopolitical risk

Description	Context	Mitigating activities
Macroeconomic or geopolitical conditions could adversely affect our business.	• The current position with regard to the consequences of Brexit is uncertain and could impact the overall economic environment and demand for our services and products • Political uncertainty in a number of our core global markets may lead to significant, legislative or regulatory change, which could adversely impact our global operations **Changes in direction of travel** • This risk is on an upward trend as a result of ongoing uncertainty with regard to Brexit and the wider geopolitical environment	• Macroeconomic and geopolitical risks, including consideration of potential downturns in certain markets and geographies, have been actively factored into our strategic planning processes • Funding and capital requirements are considered during the annual budgeting process, overseen by Group Finance, and are continuously monitored throughout the year • We have a Brexit working group in place which meets regularly to consider the implications of different scenarios for Brexit . Plans have been developed in conjunction with teams across the business and are designed to mitigate the

		impact of Brexit and to identify any opportunities • We undertake ongoing horizon scanning to monitor potential policy, legal and regulatory developments. We have a systematic approach to analysing the impact of potential regulatory changes and are proactive in putting forward our position and views as part of regulatory consultation processes

Change risks

7. Commissioning pipeline risk

Description	Context	Mitigating activities
Failure to sustain a diversified content pipeline, that is both resilient and financially viable, may reduce profitability.	• Our revenues are largely dependent on ITV's continued ability to anticipate and adapt to changes in consumer taste • We must ensure that our content pipeline is both resilient to changes in consumer preferences and habits, as well as being financially viable, in order to prevent declines in total viewing, advertising and secondary distribution markets • Commissioners are becoming increasingly more risk averse in response to tightening regulation and changing public attitudes, making it harder to create profitable IP **Changes in direction of travel** • This risk remains static and ongoing. As viewer habits change, ITV continues to need to deliver compelling content wherever our viewers are choosing to watch it	• We continue to invest £1.1 billion annually into our UK broadcast programming budget in order to develop content that is relevant and appealing to our viewers • Our focus is on developing the creative pipeline and identifying programmes and formats which have national appeal, as well as the potential to travel internationally. In order to increase the resilience of our pipeline and reduce our reliance on historically successful programmes, we also continue to invest in new premium formats • In addition to our own Studios business, we have strong relationships with independent studios, both in the UK and internationally, from whom we commission content • We also have a dedicated Research team, focused on understanding our audience preferences and reporting on the success of programmes. We use this insight to adapt our commissioning strategy

8. Insufficient BritBox growth

Description	Context	Mitigating activities
Subscribers to BritBox do not grow at the pace required to deliver the desired strategic or financial outcomes.	• We have launched BritBox in a SVOD market which is already highly competitive, both in the UK and globally • We will be detrimentally impacted if we are unable to attract new customers, convert them to paying subscribers and subsequently retain them • The success of BritBox is reliant on maintaining strong relationships with other UK broadcasters to ensure we have the option to license all suitable content **Changes in direction of travel** • This is a new risk as we launched BritBox UK in 2019. Additional UK market entrants in late 2019 and 2020 (including Apple, Disney and NBC) create more competition in the market and result in this risk trending upwards	• We continue to invest in an extensive marketing campaign to increase market awareness of the product and scale and increase subscriber growth. In order to maximise reach, we have developed distribution deals with hardware and software providers in order to make the BritBox product available on all major platforms and devices in the UK • In order to increase BritBox's appeal and optimise customer retention we continue to engage with partners around additional content for BritBox. We continue to invest in product capability and development in order to increase customer satisfaction and retention • We also track and evaluate the performance of Britbox through an extensive suite of KPIs. Root cause analysis is performed on subscriber growth and customer churn data, in order to drive continual improvement. Performance of the BritBox platform is also reported to the Management Board and the PLC Board on a ongoing basis

9. Strategic and digital transformation risk

Description	Context	Mitigating activities
Failure to successfully deliver key components of our strategy and digital transformation, due to the speed and extent of change required.	• We must be able to operate at pace to achieve our strategic objectives. This requires significant alignment and effort across the whole Group • Failure to transition to be a digitally-led business may have a negative impact on our financial position and reputation **Changes in direction of travel** • We have introduced additional strategic initiatives in 2019 and this increases our exposure with respect to this risk	• Our strategy is articulated by 20 strategic initiatives. Each initiative is sponsored by a Management Board member and led day-to-day by a member of the ITV Executive Leadership Team • We have formal processes in place, led by the Group Strategy team, to report monthly on the performance of each of these initiatives to the Chief Executive and Group CFO. This includes details on challenges and interdependencies. The Management Board also reviews progress of strategic initiatives on a monthly basis • The strategic initiatives include the digital transformation of ITV, including our front-end (Hub, Planet V, BritBox), as well as our middle and back office. We have initiated the digital transformation of the middle and back office through wider adoption of agile processes on priority projects • As part of our efforts to move to a more digitised business, we have also defined and communicated digital principles for the way we expect our colleagues to work

10. Insufficient cultural change

Description	Context	Mitigating activities
Failure to evolve the underlying culture of the business may result in an inability to deliver the level of change required to continually evolve.	• We could be affected if we fail to recognise the cultural change required in order to deliver the strategy and become a digitally-led business • Our culture needs to support agility and openness to new initiatives, in order to allow us to continually evolve **Changes in direction of travel** • Our evolved strategy in 2019 increasingly requires our staff to be more agile and open to change, causing this risk to trend upwards	• During the year we developed and communicated the 'ITV Way'. The ITV Way defines the culture needed to ensure our future success and outlines the behaviours we expect from our staff to support our desired culture. Regular meetings focused on cultural and strategic topics take place with the executive and senior leadership teams • We completed a series of ITV Roadshows throughout the year, where the Management Board communicated the importance of the ITV Way and agility to the business • We also undertake regular Pulse and employee engagement surveys, which include questions focused around culture. Learnings from these surveys feed into future improvement plans. The Board also undertakes a formal programme of employee engagement (led by our Workforce Engagement Director), in order to obtain insight into culture • We also continue to positively reinforce desired behaviours and attributes through direct links to reward and recognition

Operational risks

11. Duty of care and health & safety incident

Description	Context	Mitigating activities
Failure to extend an adequate duty of care or a major health and safety incident on an ITV production could result in harm, loss of human life and reputational damage.	• We have a responsibility to extend an adequate duty of care (DoC) to our employees, contractors, participants on our shows and the general public • As we continue to increase production hours, our risks in relation to health and safety continues to increase. We need to	• We have enhanced our existing DoC processes, which encompass procedures relating to both physical and mental health and safety • We have established a Duty of Care Operating Board (DoC Board), with responsibility for monitoring implementation and continuous improvement of our DoC

	consider the DoC across all aspects of productions • As we diversify our Direct to Consumer business and launch new propositions, our DoC also becomes broader **Changes in direction of travel** • Whilst increases in our production hours means the inherent nature of this risk is increasing, we continue to review and improve our processes with respect to this area. For this reason the risk remains static	framework and policies. This DoC Board is chaired by the Chief Executive and includes senior representation from our Studios, Broadcast, Legal, HR and Risk areas of the business. The DoC Board meetings are also attended by the Chair of the Audit Committee on behalf of the Board • We also have a central health and safety risk management team with responsibility for developing and implementing our health and safety management system which covers both physical and mental health and safety

12. Legal and regulatory non-compliance

Description	Context	Mitigating activities
Failure to comply with applicable regulation could result in reputational damage, financial penalties or suspension of our licences to operate.	• We are a global business and are therefore subject to multiple local and international regulatory regimes. These cover areas including: broadcasting and media regulations, anti-trust and competition law compliance, anti-bribery and corruption, data privacy and health and safety • We must remain compliant with relevant laws and regulations to avoid reputational damage, financial or operational penalties **Changes in direction of travel** • This risk remains static, as there have been no major changes in regulation within the year and our focus remains on ongoing compliance with existing legal and regulatory requirements	• We have Group Legal and Business Affairs teams in place, which consist of subject matter experts who oversee and are responsible for ensuring business compliance with all elements of regulatory and legal requirements • We have a robust compliance programme in place, which is outlined within our internal policy framework. Internal policies are owned by business leaders, regularly reviewed by the Management Board and the Audit and Risk Committee, and include processes with respect to all compliance areas. Where changes are required or made to reflect improvements in best practice, the compliance and legal team works with the respective business leaders to ensure changes are implemented into business processes • Our Regulatory Affairs team regularly engages with regulators such as Ofcom and the Advertising Standards Agency (ASA) in order to understand and interpret changes in policy and compliance requirements • We also have a suite of mandatory compliance training and learning in place, which helps drive positive attitudes to compliance across the whole business

13. Cyber attack or data breach incident

Description	Context	Mitigating activities
A cyber attack may result in major operational disruption, critical system outage or loss of IP, customer or business data and potentially lead to material financial fines/penalties.	• We operate in a highly public environment and, due to our reputation, we are at greater risk of attack (than the norm) from well organised threat groups • As technology becomes increasingly more complex, we are required to evolve our cyber security procedures in line with the pace of change in order to effectively protect and respond to cyber threats • As we continue to grow our Direct to Consumer business and digital product offering, we work increasingly with third-party partners and suppliers. A failure by these partners to implement suitable security processes may result in potential liability or reputational damage for ITV **Changes in direction of travel** • As cyber hacking tools become more sophisticated and easier to access, the cyber security risk facing all businesses is on an upward trend	• We have implemented a robust cyber security risk management framework across the organisation to address the evolving nature of the cyber security threat landscape. Our framework is designed to be a risk-based approach to cyber security, which is fit for purpose and can operate within the creative nature of our business. Our framework incorporates a variety of technical preventative and detective measures, as well as an extensive training and awareness programme • We have implemented standardised processes and controls across the business. This includes managing cyber security risk in our supply chain and undertaking cyber security due diligence assessments on key suppliers as part of procurement activities • The strength of our control environment is tested on an ongoing basis by independent

		security experts and recommendations are implemented in a prioritised manner. We also work with our security partners to undertake cyber simulation exercises at all levels of the organisation to continuously improve our response to cyber attack

14. Recruitment and retention of talent risk

Description	Context	Mitigating activities
An inability to attract, develop and retain key creative, commercial, technical and managerial talent could adversely affect our business.	• The market for talent is extremely competitive • We must be able to attract, develop and retain the best creative, technological, commercial and managerial talent in order to successfully grow our business • Failure to recognise and respond to skills and experience gaps in a timely manner may result in us failing to deliver our strategic objectives **Changes in direction of travel** • Attrition within the business remains stable and the risks in relation to losing talent are offset by our continued understanding of the talent required. Therefore this risk remains static	• There is a deep understanding across the business of the skills and capability required to deliver our business objectives. Our HR department works closely with the business in order to ensure those needs are met and to support teams in addressing skills gaps • We also continue to strengthen our existing capability, through a combination of learning, development and performance management initiatives • Whilst a certain level of attrition is inevitable, we evaluate root causes through exit interviews and declared reasons for leaving. Furthermore, succession plans have been developed and implemented for business critical and management roles (which includes nominated deputies)

15. Leadership and ways of working risk

Description	Context	Mitigating activities
The fast pace of change in our operating landscape and transition to our new ways of working will require continual assessment of the Group's necessary skills and experience to deliver the strategy.	• We must ensure we possess the appropriate skills, knowledge and experience to successfully deliver our strategy • Delivering digital transformation poses a new set of challenges to the Group's leadership team • We must ensure that we are organised to promote alignment, cooperation and engagement across all our businesses and geographies **Changes in direction of travel** • We continue to have to evolve the knowledge base of our leadership team and ensure there is alignment around our strategic initiatives. This is a continuous and ongoing process and as such this risk remains static	• Our Nominations Committee has responsibility for reviewing the skills and capability of senior leadership, identifying any potential gaps in light of strategic requirements and identifying approaches to address existing gaps and this review was carried out during the year • Our senior leadership team is also subject to performance management and development initiatives in line with the rest of the organisation • We have forums in place to reduce risks of siloed working, including the Management Board, the Broadcast Board and the Studios Board. We also create cross functional working groups to address specific topics

16. Unfavourable legal dispute

Description	Context	Mitigating activities
An unfavourable outcome following a major legal dispute may have material reputational, financial or operational consequences for the business.	• We operate in a public environment and are exposed to a high degree of media interest • We are closely associated with all content we broadcast, including that produced by independent production companies • We could be impacted by an unfavourable outcome in litigation with any of our production, talent or commercial partners • There are financial consequences associated with protracted litigation (even in the event of a favourable outcome) **Changes in direction of travel** • Our exposure and the nature of potential legal disputes are in line with previous years, therefore this risk remains static	• The in-house Group Legal and Business Affairs teams monitor and manage potential legal disputes. Where necessary these teams are supported by a panel of external counsel, selected for relevant jurisdictional and subject matter expertise • Oversight is provided by the Audit and Risk Committee ('ARC'). Material legal disputes are formally reported to the ARC at each meeting, with regular ad hoc reports as required • We have financial provisions and a Group insurance programme in place to mitigate the financial impact of unfavourable outcomes

		• At an operational level the Group Legal and Business Affairs teams ensure that robust and appropriate contractual arrangements are in place with all our third parties, in order to mitigate the risk of a dispute arising

Viability Statement

What is the process ITV follows?	**What is the assessment period for viability?**
The Board continually assesses ITV's prospects and risks at its meetings. Amongst other topics, the Board reviews the five year financial plan, which is based on our strategic priorities. In 2019, we continued to update the strategy to highlight the opportunities for ITV and also the challenges we need to address.	In its assessment of viability, the Board reviewed the planning horizon and is of the view that a three year period to 31 December 2022 continues to be most appropriate. The factors the Board considered in adopting this timeframe were as follows: • Visibility over ITV's broadcast advertising business is relatively short term, as advertising remains cyclical and closely linked to the UK economic growth impacted by Brexit and the uncertain UK macroeconomic climate • The commissioning process and life cycle of programming gives the ITV Studios division more medium term outlook. However, while non-returning brands are replaced with new commissions, over time there is less visibility as programmes can experience changes in viewer demand or come to a natural expiration • Technology in the media industry continues to change the demand for content and also how it is consumed • Pension funding, which is one of ITV's key funding obligations, is also agreed triennially with the Trustees of the pension schemesc • ITV's business model does not necessitate investment in large capital projects that would require a longer-term horizon assessment or returns

Assessment of viability

When considering the longer-term viability of ITV, the Board robustly reviewed each of ITV's Principal risks and, taking into account current operational and financial performance, has in particular analysed the impact of following hypothetical scenarios:

Scenario modelled	Link to Principal risks or Accounting judgements and estimates
Scenario 1: The Broadcast division experiencing a significant downturn as a result of changes in the advertising market, a global macro event or as a result of leaving the EU without an agreed deal. Based on the 2008/09 financial crisis, the scenario assumes total advertising revenues declining sharply for two years (2020: -10%, 2021: -5%) followed by a year of flat revenue.	Advertising Market Changes: Continued changes in the advertising market may result in a decline in ITV's advertising revenue. Macroeconomic or geopolitical risk: Macroeconomic or geopolitical conditions could adversely affect our business.
Scenario 2: A number of key programme brands within the ITV Studios division are not recommissioned. The scheduling decisions of commissioners are made in advance, so we have clear sight on 2020; however, key shows could come to an end at the same time in 2021 impacting approximately a quarter of the division's profits (c. £65 million).	Evolving demand in the content market: Fundamental changes in the content market may result in reduced opportunities for and/or profitability of ITV Studios content.
Scenario 3: A significant change in ITV's pension funding obligations, following the triennial valuation in 2020 resulting in a more than doubling of the current deficit funding payments from £75 million p.a. to £155 million p.a.	Pension deficit increases: A financial crisis or macroeconomic change could impact the value of pension scheme investments and increase the deficit.
Scenario 4: The scenario assumes better performance within our acquisitions portfolio that results in the payouts significantly increasing for our larger acquisitions.	Accounting judgements and estimates: Acquisition-related liabilities or performance-based employment-linked earnouts are estimated amounts payable to previous owners. These

	are highly sensitive to forecast profits as they are based on a multiple.

We have considered the impact of climate change and do not believe it would have a significant impact on the business in the time period outlined.

The viability review involved flexing the underlying strategic forecast for the above impacts, both individually and concurrently. The underlying strategic forecast assumed: business as usual operational and capital spending; the ongoing availability of the financing facilities and the Group maintains the stated dividend policy. The current bank facilities are secured until June 2021 and December 2023. Our model assumed both facilities will be available for the full period under review. In addition, we have an accordion option in our revolving credit facility, under which ITV has the ability to request an increase in the size of the facility of up to £250 million, subject to the banks' consent, on the same terms as the existing £630 million. This potential additional liquidity is not factored into our model.

The scenarios used are hypothetical and severe but plausible and are considered appropriate to model risks that could impact the viability of the Group. In the events that these scenarios occur, there are reasonable options at the disposal of the Board to maintain liquidity and continue operations, such as reducing M&A activity and non-essential operational and capital expenditure as well as reviewing the Group's dividend policy.

Viability statement
Based on the results of this review, the Board has a reasonable expectation that ITV will be able to continue operations and meet its liabilities as they fall due over the three year-period ending 31 December 2022. The assessment has been made with reference to ITV's strategy and the current position and prospects.

The Strategic Report was approved by the Board and signed on its behalf by:

Carolyn McCall
Chief Executive
5 March 2020

Statement of Directors' Responsibilities

The Directors consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Each of the Directors confirm that, to the best of their knowledge:

- The financial information, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In accordance with Section 418 of the Companies Act 2006, the Directors 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 auditor is aware of that information.

The Board has conducted a review of the effectiveness of the Group's systems of internal controls, including financial, operational and compliance controls, for the year ended 31 December 2019. In the opinion of the Board, the Company has complied with the internal control requirements of the UK Corporate Governance Code throughout the year, maintaining an ongoing process for identifying, evaluating and minimising risk.

The Directors are responsible for preparing the Annual Report and Accounts the Group and parent Company financial information in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and parent Company financial information for each financial year. Under that law they are required to prepare the Group financial information in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial information in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the financial information 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 that period. In preparing each of the Group and parent Company financial information, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable, relevant, reliable and prudent
- For the Group financial information, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- For the parent Company financial information, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial information
- Assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial information comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial information that are free from material misstatement, whether due to fraud or error, and 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. Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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 information may differ from legislation in other jurisdictions.

By order of the Board

Chris Kennedy
Group CFO
5 March 2020
ITV plc
Registered Number: 4967001

Financial Information

In this section

The financial statements have been presented in a style that attempts to make them less complex and more relevant to shareholders. We have grouped the note disclosures into five sections: 'Basis of Preparation', 'Results for the Year', 'Operating Assets and Liabilities', 'Capital Structure and Financing Costs' and 'Other Notes'. Each section sets out the accounting policies applied in producing the relevant notes, along with details of any key judgements and estimates used. The purpose of this format is to provide readers with a clearer understanding of what drives financial performance of the Group. The aim of the text in boxes is to provide commentary on each section, or note, in plain English.

Keeping it simple

Notes to the financial information provide information required by statute, accounting standards or Listing Rules to explain a particular feature of the financial information. The notes are a part of the financial information and will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the Annual Report and the financial information.

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ITV plc Company Financial information

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REPORT OF KPMG LLP TO ITV PLC ("THE COMPANY") IN RELATION TO THE COMPANY'S PRELIMINARY ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The UK Listing Rules require that we, as independent auditor, agree to the publication of the Company's preliminary announcement of results for the year ended 31 December 2019 which comprises Highlights, Chief Executive's Report, Investor Proposition, Key Performance Indicators, Operating and Performance Review, Alternative Performance Measures, Finance Review, Risks and Uncertainties, Viability Statement, Statement of Directors' responsibility and the Financial Information.

At your request we have provided this report to set out the procedures performed by us to agree to the publication, the status of the audit report on the statutory financial information, and the key audit matters addressed in that audit report in respect of the consolidated financial statements of the group.

Our audit of the statutory financial statements is complete and we have issued an unmodified audit opinion

The annual report and statutory financial statements of ITV plc for the year ended 31 December 2019 were approved by the board on 5 March 2020.

Our audit of those financial statements is complete and we signed our auditor's report on 5 March 2020. Our opinion in that report is not modified and does not include a material uncertainty related to going concern, or emphasis of matter, paragraph.

This report is in addition to, should not be regarded as a substitute for, our auditor's report on the statutory financial statements, which has been released to the Company and will be available when the Company publishes its annual report.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

Key audit matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters. The overall materiality applied in the audit of the consolidated financial statements as a whole was £23.0m.

In our auditor's report on the statutory financial statements of the Company, we reported on the key audit matters in decreasing order of audit significance below. No additional work in relation to key audit matters has been undertaken for the purpose of this report.

Earnout liability: £165m (2018: £107m) *Risk vs 2018: New*

Refer to accounting policy and financial disclosures in Note 3.1.5

The risk	Our response
Subjective estimate Acquisition-related liabilities include performance based, employment-linked earnouts which are estimated future payments to previous owners of the businesses acquired by the Group (the "earnout liability"). The estimated future payments are often based on a multiple of profits of the acquired entity. The most significant earnout relates to the acquisition of Talpa Media in 2015. The earnout period ends on 31 March 2020, with the liability for the final payout calculated based on a multiple of average EBITDA for the three year period ended 31 December 2019 under the terms of the Sales & Purchase Agreement (the "SPA"). Due to the size of the business and the multiple applied, the earnout liability at 31 December 2019 is material to the Group financial statements. There is judgement involved in relation to the interpretation under the SPA of certain transactions for the purposes of the earnout calculation including the treatment of the insured trade receivable. The effect of these matters is that, as part of our risk assessment, we determined that the Talpa earnout liability has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 3.1.5) disclose the range estimated by the Group.	Our procedures included: • **Enquiry of external advisors:** assessing correspondence and discussions with the Group's external advisors in relation to the merits of the treatments supporting the estimated liability. • **Tests of details:** assessing the calculation of the earnout payment with reference to the terms of the Sale and Purchase Agreement. We challenged management on their treatment of certain transactions including the insured trade receivable for the purpose of the calculation with reference to the contract terms. • **Management representations:** obtaining management representations to confirm that the calculation represents management's best estimate based on the information available. • **Assessing transparency**: assessing the adequacy of the Group's disclosures in relation to the earnout liability. ■ Our results: We found the resulting estimate of the earnout liability and the related disclosures to be acceptable (2018: acceptable).

Total Advertising Revenue: £1,768 million (2018: £1,795 million) *Risk vs 2018: ◄►,*

Refer to accounting policy and financial disclosures in Note 2.1

The risk

Accounting treatment

The majority of the Group's advertising revenue is subject to regulation under Ofcom's Contract Rights Renewal system ('CRR'). CRR works by ensuring that the annual share of TV advertising that will be placed with the Group by each advertising agency can change in relation to the viewing figures for commercial television that it delivers. The CRR system, the pricing of the annual contractual arrangements with advertising agencies and the details of each advertising campaign, together with the related processes and controls, are complex.

Our risk relates to the largest component of total advertising – spot advertising.

In particular, the complexity of the pricing mechanism means it is possible for a difference to arise between the price received by the Group for an advertising campaign and the value it delivered, mainly as a result of the actual viewing figures differing from the expected level for the campaign. Where the Group has over-delivered viewers this is referred to as a 'deal credit', or a 'deal debt' where delivery has fallen short. Rather than the price paid for that campaign being adjusted at the end of the campaign, these differences are noted for each agency and then taken into account when agreeing either future campaigns or the annual contract. A net deal debt position with an agency is recorded in the Group's accounts, as a liability. Net deal credit positions are not recognised.

Spot advertising as the main component of total advertising is therefore considered a significant risk due to:

- The complexity of contractual agreements with advertising agencies;
- The complexity of the systems and processes of control used to record revenue; and
- The judgement involved in determining any deal debt liability at the period end.

Our response

Our procedures included:

- **Control operation**: testing of controls, assisted by our own IT specialists, including those over: segregation of duties; input of annual deal terms with agencies; input of individual campaigns' terms and pricing; comparison of those terms and pricing data against the related contracts with advertising agencies; link to transmission/viewer data; and the system generated calculation of deal debt for each campaign.
- **Tests of details:** challenging the year-end deal debt positions based on comparison with customers' correspondence and agreed terms of business.
- **Tests of details:** testing that the revenue is recognised post transmission by matching the transmissions to the corresponding spots and by agreeing invoices to subsequent cash receipts on a sample basis.
- **Assessing disclosures**: assessing the adequacy of the Group's disclosures in respect of the accounting policy on revenue recognition.

■ Our results:

- From the evidence we obtained we found the resulting amount of recorded spot advertising to be acceptable (2018: acceptable).

Non-advertising revenue – Studios £1,822m million (2018: £1,670 million) *Risk vs 2018:* ◄►

Refer to accounting policy and financial disclosures in Note 2.1

The risk

Accounting treatment

Non-advertising revenue includes revenue from: programme production and the sale of programme rights within the Studios segment; transmission supply arrangements and the pay and interactive revenue within the Broadcast segment.

Our risk relates to the non-advertising revenue within the Studios segment due to the nature of revenue recognition.

Recognition of revenue is driven by the specific terms of the related contracts and is considered to be a significant risk as the terms of the contracts are varied and can be complex, with the result that accounting for the revenue generated in any given period can require judgement. Specifically judgement has been applied in determining the separate performance obligations and the timing of the revenue recognition of each. Due to the contractual nature of these revenue streams, the focus of our work is on the risks associated with significant one-off contracts.

Our response

Our procedures included:

- **Accounting analysis**: considering the Group's revenue recognition policies against the relevant accounting standards.
- **Tests of details**: on a sample basis, including all significant one-off contracts, for revenue contracts entered into during the year, assessing whether revenue had been recognised in accordance with the contractual terms in the correct accounting period, given the requirements of the relevant accounting policy.
- **Assessing disclosures**: assessing the adequacy of the Group's disclosures in respect of the accounting policy on revenue recognition.

■ Our results:

- From the evidence we obtained we found the resulting amount of recorded non-advertising revenue within the Studios segment to be acceptable (2018: acceptable).

Gross defined benefit pension scheme obligations £4,037 million (2018: £3,719 million) *Risk vs 2018:* ◄►

Refer to accounting policy and financial disclosures in Note 3.7

The risk	Our response
Subjective valuation Significant estimates are made in determining the key assumptions used in valuing the Group's gross defined benefit pension scheme obligations. When making these assumptions the directors take independent actuarial advice relating to their appropriateness. The valuation of the gross defined benefit pension scheme obligations is considered a significant risk given the quantum of the gross defined benefit pension scheme obligations and that a small change in assumptions can have a material financial impact on the Group. The effect of these matters is that, as part of our risk assessment, we determined that the gross defined benefit pension scheme obligations have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 3.7) disclose the sensitivity estimated by the Group.	Our procedures included: • **Benchmarking assumptions**: challenging the key assumptions applied in determining the Group's gross defined benefit pension scheme obligations, being the discount rate, inflation rate and mortality/life expectancy against externally derived data, with the support of our own actuarial specialists. • **Assessing disclosures**: assessing the adequacy of the Group's disclosures in respect of the sensitivity of the gross defined benefit pension scheme obligations to these assumptions. Our results: • From the evidence we obtained we found the resulting valuation of the gross defined benefit pension scheme obligations to be acceptable (2018: acceptable).

Recoverability of the parent Company's investment in, and amounts due from, its subsidiaries Investment carrying value £2,733 million (2018: £2,286 million), and amounts due from subsidiaries £4,541 million (2018: £4,167 million) Risk vs 2018: ◄►

Refer to accounting policies in Note i and financial disclosures in Note iii (Investments in subsidiary undertakings) and iv (Amounts owed (to)/ from subsidiary undertakings)

The risk	Our response
Low risk, high value The carrying amount of the parent Company's investments in, and amounts due from, its subsidiaries represents 37% and 61% (2018: 35% and 64%) of the Company's total assets respectively. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	Our procedures included: • **Tests of details**: comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount; assessing 100% of amounts due from subsidiaries to identify, with reference to the relevant debtors' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, and assessing whether those subsidiaries have historically been profit-making. Our results: • We found the Group's assessment of the recoverability of the investment in, and amounts due from, its subsidiaries to be acceptable (2018: acceptable).

Procedures performed to agree to the preliminary announcement of annual results

In order to agree to the publication of the preliminary announcement, we conducted procedures having regard to the Financial Reporting Council's Bulletin: *The auditors' association with preliminary announcements made in accordance with the requirements of the UK Listing Rules*. Our work included considering whether:

- the financial information included in the preliminary announcement has been accurately extracted from the audited statutory financial statements, and that it reflects the presentation adopted in the audited statutory financial statements;
- based on our statutory financial statements audit work, the financial information included in the preliminary announcement is materially misstated;
- the information included in the preliminary announcement (including the management commentary) is materially consistent with the content of the annual report;
- based on our statutory financial statements audit work, the assessment of the Company's position and prospects in the preliminary announcement is fair, balanced and understandable; and
- the preliminary announcement includes the disclosures required under the UK Listing Rules and s435 of the Companies Act 2006.

Directors' responsibilities

The preliminary announcement is the responsibility of, and has been approved by, the directors. The directors are responsible for: preparing, presenting and publishing the preliminary announcement in accordance with the Listing Rules of the UK FCA; ensuring that its content is consistent with the information included in the annual report and audited statutory financial statements; and, as required under the UK Corporate Governance Code, for ensuring that the assessment of the Company's position and prospects in the preliminary announcement is fair, balanced and understandable.

Our responsibility

Our responsibility under the Listing Rules is to agree to the publication of the preliminary announcement based on our work. In addition, under the terms of our engagement our responsibility is to report to the Company setting out the procedures performed by us to agree to the publication, the status of the audit report on the statutory financial statements, and the key audit matters addressed in that audit report.

We do not express an audit opinion on the preliminary announcement.

We are not required to agree to the publication of presentations to analysts.

This report is made solely to the Company in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the Company those matters we have agreed to state to it in this 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 for our work, for this report, or for the conclusions we have reached.

This report is not the auditor's report on the Company's statutory financial statements. It relates only to the matters specified and does not extend to the Company’s statutory financial statements taken as a whole.

Paul Sawdon

for and on behalf of KPMG LLP

Chartered Accountants

15 Canada Square

London

E14 5GL

5 March 2020

Consolidated Income Statement

For the year ended 31 December	Note	2019 £m	2018 £m
Revenue	2.1	**3,308**	3,211
Operating costs		**(2,773)**	(2,611)
Operating profit		**535**	600
Presented as:			
Earnings before interest, tax and amortisation (EBITA) before exceptional items	2.1	**693**	785
Operating exceptional items	2.2	**(84)**	(93)
Amortisation and impairment	3.3, 3.5	**(74)**	(92)
Operating profit		**535**	600
Financing income	4.4	**12**	3
Financing costs	4.4	**(80)**	(46)
Net financing costs	4.4	**(68)**	(43)
Share of profits of joint ventures and associated undertakings	3.5	**1**	–
Gain on sale of non-current assets (exceptional items)	2.2, 3.2	**62**	10
Profit before tax		**530**	567
Taxation	2.3	**(52)**	(97)
Profit for the year		**478**	470
Profit attributable to:			
Owners of the Company		**473**	466
Non-controlling interests	4.7.6	**5**	4
Profit for the year		**478**	470
Earnings per share			
Basic earnings per share	2.4	**11.8p**	11.7p
Diluted earnings per share	2.4	**11.8p**	11.6p

Consolidated Statement of Comprehensive Income

For the year ended 31 December	Note	2019 £m	2018 £m
Profit for the year		**478**	470
Other comprehensive (loss)/income:			
Items that are or may be reclassified to profit or loss			
Revaluation of financial assets	4.7.4	**9**	(1)
Net (loss)/gain on cash flow hedges and costs of hedging	4.7.3	**(17)**	7
Share of losses of joint ventures and associated undertakings		**–**	(15)
Exchange differences on translation of foreign operations (net of hedging)	4.7.3	**(11)**	12
Items that will never be reclassified to profit or loss			
Remeasurement losses on defined benefit pension schemes	3.7	**(134)**	(52)
Income tax credit on items that will never be reclassified	2.3	**20**	8
Other comprehensive loss for the year, net of income tax		**(133)**	(41)
Total comprehensive income for the year		**345**	429
Total comprehensive income attributable to:			
Owners of the Company		**340**	425
Non-controlling interests	4.7.6	**5**	4
Total comprehensive income for the year		**345**	429

Consolidated Statement of Financial Position

	Note	**31 December 2019 £m**	31 December 2018 £m
Non-current assets			
Property, plant and equipment	3.2	**269**	191
Intangible assets	3.3	**1,592**	1,614
Investments in joint ventures, associates and equity investments	3.5	**52**	51
Derivative financial instruments	4.3	**–**	26
Distribution rights	3.1.2	**22**	29
Contract assets	3.1.6	**3**	–
Defined benefit pension surplus	3.7	**17**	19
Other pension asset	3.7	**58**	49
Deferred tax asset	2.3	**47**	38
		2,060	2,017
Current assets			
Programme rights and other inventory	3.1.1	**323**	298
Trade and other receivables due within one year	3.1.3	**413**	355
Trade and other receivables due after more than one year	3.1.3	**63**	71
Trade and other receivables		**476**	426
Contract assets	3.1.6	**442**	470
Current tax receivable	2.3	**15**	15
Derivative financial instruments	4.3	**6**	2
Cash and cash equivalents	4.1	**246**	95
Asset held for sale	3.2	**–**	85
		1,508	1,391
Current liabilities			
Borrowings	4.1, 4.2	**(10)**	(54)
Lease liabilities	4.6	**(25)**	–
Derivative financial instruments	4.3	**(5)**	(4)
Trade and other payables due within one year	3.1.4	**(917)**	(768)
Trade payables due after more than one year	3.1.4	**(61)**	(49)
Trade and other payables		**(978)**	(817)
Contract liabilities	3.1.6	**(219)**	(255)
Current tax liabilities	2.3	**(81)**	(115)
Provisions	3.6	**(2)**	(16)
		(1,320)	(1,261)
Net current assets		**188**	130
Non-current liabilities			
Borrowings	4.1, 4.2	**(1,016)**	(993)
Lease liabilities	4.6	**(64)**	–
Derivative financial instruments	4.3	**(43)**	(1)
Defined benefit pension deficit	3.7	**(162)**	(106)
Deferred tax liabilities	2.3	**(29)**	(64)
Other payables	3.1.5	**(51)**	(130)
Provisions	3.6	**(5)**	(4)
		(1,370)	(1,298)
Net assets		**878**	849
Attributable to equity shareholders of the parent company			
Share capital	4.7.1	**403**	403
Share premium	4.7.1	**174**	174
Merger and other reserves	4.7.2	**224**	206
Translation reserve	4.7.3	**32**	60
Fair value reserve	4.7.4	**14**	5
Retained earnings	4.7.5	**1**	(33)
Total equity attributable to equity shareholders of the parent company		**848**	815
Non-controlling interests	4.7.6	**30**	34
Total equity		**878**	849

The accounts were approved by the Board of Directors on 5 March 2020 and were signed on its behalf by:

Chris Kennedy
Group Chief Financial Officer

Consolidated Statement of Changes in Equity

	Note	Attributable to equity shareholders of the parent company								
		Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Fair value reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2019	4.7	**403**	**174**	**206**	**60**	**5**	**(33)**	**815**	**34**	**849**
Total comprehensive income/(loss) for the year										
Profit for the year		–	–	–	–	–	473	473	5	**478**
Other comprehensive income/(loss)										
Revaluation of financial assets	4.7.4	–	–	–	–	9	–	9	–	**9**
Net loss on cash flow hedges and costs of hedging	4.7.3	–	–	–	(17)	–	–	(17)	–	**(17)**
Exchange differences on translation of foreign operations (net of hedging)	4.7.3	–	–	–	(11)	–	–	(11)	–	**(11)**
Remeasurement loss on defined benefit pension schemes	3.7	–	–	–	–	–	(134)	(134)	–	**(134)**
Income tax credit on other comprehensive income	2.3	–	–	–	–	–	20	20	–	**20**
Total other comprehensive (loss)/income		–	–	–	(28)	9	(114)	(133)	–	**(133)**
Total comprehensive (loss)/income for the year		**–**	**–**	**–**	**(28)**	**9**	**359**	**340**	**5**	**345**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	(320)	(320)	(2)	**(322)**
Movements due to share-based compensation	4.8	–	–	–	–	–	10	10	–	**10**
Tax on items taken directly to equity	2.3	–	–	–	–	–	–	–	–	**–**
Purchase of own shares via employees' benefit trust	4.8	–	–	–	–	–	(4)	(4)	–	**(4)**
Total transactions with owners		**–**	**–**	**–**	**–**	**–**	**(314)**	**(314)**	**(2)**	**(316)**
Changes in non-controlling interests [(a)]	4.7.6	**–**	**–**	**18**	**–**	**–**	**(11)**	**7**	**(7)**	**–**
Balance at 31 December 2019	4.7	**403**	**174**	**224**	**32**	**14**	**1**	**848**	**30**	**878**

(a) Movements reported in merger and other reserves include a put option for the acquisition of non-controlling interests.

	Note	Attributable to equity shareholders of the parent company								
		Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Fair value reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2018 (restated*)		403	174	199	41	6	(136)	687	45	732
Total comprehensive income/(loss) for the year										
Profit for the year		–	–	–	–	–	466	466	4	470
Other comprehensive income/(loss)										
Revaluation of financial assets	4.7.4	–	–	–	–	(1)	–	(1)	–	(1)
Net gain on cash flow hedges and costs of hedging	4.7.3	–	–	–	7	–	–	7	–	7
Exchange differences on translation of foreign operations (net of hedging)	4.7.3	–	–	–	12	–	–	12	–	12
Remeasurement loss on defined benefit pension schemes	3.7	–	–	–	–	–	(52)	(52)	–	(52)
Share of losses of joint ventures and associated undertakings		–	–	–	–	–	(15)	(15)	–	(15)
Income tax credit on other comprehensive income	2.3	–	–	–	–	–	8	8	–	8
Total other comprehensive (loss)/income		–	–	–	19	(1)	(59)	(41)	–	(41)
Total comprehensive (loss)/income for the year		–	–	–	19	(1)	407	425	4	429
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	(315)	(315)	(8)	(323)
Movements due to share-based compensation	4.8	–	–	–	–	–	10	10	–	10
Tax on items taken directly to equity	2.3	–	–	–	–	–	6	6	–	6
Purchase of own shares via employees' benefit trust	4.8	–	–	–	–	–	(5)	(5)	–	(5)
Total transactions with owners		–	–	–	–		(304)	(304)	(8)	(312)
Changes in non-controlling interests [(a)]	4.7.5	–	–	7	–	–	–	7	(7)	–
Balance at 31 December 2018	4.7	403	174	206	60	5	(33)	815	34	849

(a) Movements reported in merger and other reserves include a put option for the acquisition of non-controlling interests.

* The Group has applied IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' at 1 January 2018. Under the transition method chosen, the comparative information has been restated.

Consolidated Statement of Cash Flows

For the year ended 31 December	Note	£m	2019 £m	£m	2018 £m
Cash flows from operating activities					
Cash generated from operations before exceptional items	2.1		**696**		730
Cash flow relating to operating exceptional items:					
Operating exceptional items	2.2	**(84)**		(93)	
Increase in exceptional payables		**98**		1	
(Increase)/ decrease in exceptional prepayments and other receivables		**(2)**		2	
Cash inflow / (outflow) from exceptional items			**12**		(90)
Cash generated from operations			**708**		640
Defined benefit pension deficit funding		**(74)**		(82)	
Interest received		**30**		10	
Interest paid on bank and other loans		**(84)**		(52)	
Net taxation paid		**(108)**		(92)	
			(236)		(216)
Net cash inflow from operating activities			**472**		424
Cash flows from investing activities					
Acquisition of subsidiary undertaking, net of cash acquired	3.4	**(11)**		–	
Acquisition of property, plant and equipment		**(30)**		(56)	
Acquisition of intangible assets		**(38)**		(26)	
Acquisition of investments		**(18)**		(13)	
Proceeds from sale of property, plant and equipment		**–**		17	
Proceeds from sale of assets held for sale		**146**		–	
Purchase of gilts (other pension assets)		**–**		(11)	
Loans granted to associates and joint ventures		**(5)**		(4)	
Loans repaid by associates and joint ventures		**1**		–	
Dividends received from investments		**1**		–	
Net cash inflow / (outflow) from investing activities			**46**		(93)
Cash flows from financing activities					
Bank and other loans – amounts repaid		**(931)**		(422)	
Bank and other loans – amounts raised		**968**		400	
Payment of lease liabilities		**(35)**		–	
Equity dividends paid		**(320)**		(315)	
Acquisition of non-controlling interests		**(41)**		(10)	
Dividends paid to non-controlling interests		**(2)**		(8)	
Purchase of own shares via employees' benefit trust		**(4)**		(5)	
Net cash outflow from financing activities			**(365)**		(360)
Net increase / (decrease) in cash and cash equivalents			**153**		(29)
Cash and cash equivalents at 1 January	4.1		**95**		126
Effects of exchange rate changes and fair value movements			**(2)**		(2)
Cash and cash equivalents at 31 December	4.1		**246**		95

Notes to the Financial Information
Section 1: Basis of Preparation

In this section

This section sets out the Group's accounting policies that relate to the financial information as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. This section also shows new EU endorsed accounting standards, amendments and interpretations, and whether they are effective in 2019 or later years. We explain how these changes are expected to impact the financial position and performance of the Group.

The financial information consolidate those of ITV plc ('the Company') and its subsidiaries (together referred to as the 'Group') and the Group's interests in associates and jointly controlled entities. The Company is domiciled in the United Kingdom.

As required by European Union law (IAS Regulation EC 1606/2002), the Group's financial information have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'), and approved by the Directors.

The financial information are principally prepared on the basis of historical cost. Where other bases are applied, these are identified in the relevant accounting policy.

The parent company financial information have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101').

The notes form part of the financial information.

Going concern

At 31 December 2019, the Group was in a financial net debt position with a positive gross cash balance. The Group is in a net current asset position and continues to generate significant cash from operations which enables it to meet its obligations.

As a part of the going concern test, the Group reviews forecasts of the total advertising market to determine the impact on ITV's liquidity position. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current available funding.

The Group also continues to focus on development of the non-advertising business, and evaluates the impact of further investment against the cash headroom of the business.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for at least 12 months from the date of this report. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial information.

Subsidiaries, joint ventures, associates and investments

Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity in order to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

A joint venture is a joint arrangement in which the Group holds an interest under a contractual arrangement where the Group and one or more other parties undertake an economic activity that is subject to joint control. The Group accounts for its interests in joint ventures using the equity method. Under the equity method, the investment in the entity is stated as one line item at cost plus the investor's share of retained post-acquisition profits and other changes in net assets.

An associate is an entity, other than a subsidiary or joint venture, over which the Group has significant influence. Significant influence is the power to participate in, but not control or jointly control, the financial and operating decisions of an entity. These investments are also accounted for using the equity method.

Investments are entities where the Group concludes it does not have significant influence and are held at fair value unless the investment is a start-up business, in which case it is valued at cost and assessed for impairment.

Current/non-current distinction

Current assets include assets held primarily for trading purposes, cash and cash equivalents, and assets expected to be realised in, or intended for sale or use in, the course of the Group's operating cycle. All other assets are classified as non-current assets.

Current liabilities include liabilities held primarily for trading purposes, liabilities expected to be settled in the course of the Group's operating cycle and those liabilities due within one year from the reporting date. All other liabilities are classified as non-current liabilities.

Classification of financial instruments

The financial assets and liabilities of the Group are classified into the following financial statement captions in the statement of financial position in accordance with IFRS 9 'Financial Instruments':

- Loans and receivables – separately disclosed as cash and cash equivalents and trade and other receivables
- Financial assets at fair value through OCI – measured at fair value through other comprehensive income
- Financial assets/liabilities at fair value through profit or loss – separately disclosed as derivative financial instruments in assets/liabilities and included in other payables (put option liabilities and contingent consideration)
- Financial liabilities measured at amortised cost – separately disclosed as borrowings and trade and other payables

Judgement is required when determining the appropriate classification of the Group's financial instruments. Details on the accounting policies for measurement of the above instruments are set out in the relevant note. Where unconditional rights to set off financial instruments exist, the Group presents the relevant instruments net in the statement of financial position.

Recognition and derecognition of financial assets and liabilities

The Group recognises a financial asset or liability when it becomes a party to the contract. Financial instruments are no longer recognised in the statement of financial position when the contractual cash flows expire or when the Group no longer retains control of substantially all the risks and rewards under the instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with a maturity of less than or equal to three months from the date of acquisition. The carrying value of cash and cash equivalents is considered to approximate fair value.

Foreign currencies

The primary economic environment in which the Group operates is the UK and therefore the consolidated financial information are presented in pounds sterling ('£').

Where Group companies based in the UK transact in foreign currencies, these transactions are translated into pounds sterling at the exchange rate on the transaction date. Foreign currency monetary assets and liabilities are translated into pounds sterling at the year end exchange rate. Non-monetary assets and liabilities measured at historical cost are translated into pounds sterling at the exchange rate on the date of the transaction. Where there is a movement in the exchange rate between the date of the transaction and the year end, a foreign exchange gain or loss is recognised in the income statement.

The assets and liabilities of Group companies outside of the UK are translated into pounds sterling at the year end exchange rate. The revenue and expenses of these companies are translated into pounds sterling at the average monthly exchange rate during the year. Where differences arise between these rates, they are recognised in the translation reserve within other comprehensive income.

The Group's net investments in companies outside the UK may be hedged where the currency exposure is considered to be material. Hedge accounting is implemented on certain foreign currency firm commitments, for which the effective portion of any foreign exchange gains or losses is recognised in other comprehensive income (note 4.3).

Where a forward currency contract is used to manage foreign exchange risk and hedge accounting is not applied, any impact of movements in currency for both the forward currency contracts and the assets and liabilities is taken to the income statement.

Exchange differences arising on the translation of the Group's interests in joint ventures and associates are recognised in the translation reserve within other comprehensive income.

On disposal of a foreign subsidiary, an interest in a joint venture or an associate, the related translation reserve is released to the income statement as part of the gain or loss on disposal.

Accounting judgements and estimates

The preparation of financial information requires management to exercise judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving material judgement or complexity are set out below and in more detail in the related notes:

- Revenue recognition (note 2.1)
- Defined benefit pension (note 3.7)
- Contingent liabilities (note 5.2) and
- Acquisition-related liabilities (note 3.1.4 and note 3.1.5)

Defined benefit pension and acquisition-related liabilities are also most sensitive to estimation, where the assumptions applied could have a material impact on the financial information in the next 12 months. Details of the estimation sensitivity are disclosed in the related notes.

In addition to the above, the areas involving the high degree of estimation that are significant to the financial information, but not expected to have a material impact on them in the next 12 months, are set out below and in more detail in the related notes:

- Taxation (note 2.3) and
- Business combinations (note 3.4)

New or amended EU endorsed accounting standards

Changes in significant accounting policies

The Group has adopted IFRS 16 'Leases' from 1 January 2019 which has changed lease accounting for lessees under operating leases. Such agreements now require recognition of an asset, representing the right to use the leased item, and a liability representing future lease payments. Lease costs (such as property rent) are recognised in the form of depreciation and interest, rather than as an operating cost.

The Group has adopted the modified retrospective approach with the right of use asset equal to the lease liability at transition date, adjusted by any prepayments or lease incentives recognised immediately before the date of initial application. Under the modified retrospective transition approach, the comparative information is not restated.

The Group has elected to apply a single discount rate to assets with similar characteristics.

On transition, the Group adopted the practical expedient to apply IFRS 16 to contracts that were previously identified as leases. The Group has also elected not to recognise right of use assets and lease liabilities for short-term leases (i.e. lease terms less than 12 months) or low-value assets (i.e. under £5,000). The Group will continue to expense the lease payments associated with these leases on a straight-line basis over the lease term.

Leases

The Group leases many assets, including office space, production properties, vehicles and office equipment.

	Note	Property £m	Vehicles, equipment and fittings £m	**Total £m**
Balance on transition at 1 January 2019	3.2	108	4	**112**
Net book value at 31 December 2019	3.2	85	2	**87**

Impact on Financial information

1) Impact on transition

On transition to IFRS 16, the Group recognised right of use assets and lease liabilities. This impact on transition is summarised below.

	1 January 2019 £m
Right-of-use assets presented in property, plant and equipment (net of rent incentives)	**108**
Right-of-use assets presented in vehicles, equipment and fittings (net of rent incentives)	**4**
Lease liabilities	**(121)**

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 3.39%.

	1 January 2019 £m
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial information	**(147)**
Impact of discounting using the incremental borrowing rate at 1 January 2019	**25**
Recognition exemption for leases with less than 12 months of lease term at transition	**1**
Lease liabilities recognised at 1 January 2019	**(121)**

2) Impact for the year

As a result of applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised £87 million of right of use assets in property, plant and equipment (see section 3.2) and £89 million of lease liabilities (see section 4.6) as at 31 December 2019.

Also, in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the year ended 31 December 2019, the Group recognised £25 million of depreciation charges and £4 million of interest costs from those leases. IFRS 16 has no impact at a profit before tax level but increases both our EBITA and financing costs by £4 million.

For leases excluded from IFRS 16 under the exemption for leases with terms of less than 12 months, and low-value assets (i.e. under £5,000), the Group recognised less than £1 million in rent expense in the period.

1) Other new or amended accounting standards

Accounting standard	Requirement
Amendment to IAS 19 'Employee Benefits'	The amendment clarifies that the current service costs and net interest for the period after a plan amendment, curtailment or settlement, are determined using the assumptions used for the remeasurement.
Amendment to IAS 28 'Investments in Associates and Joint Ventures'	The amendment clarifies the application of IFRS 9 'Financial Instruments' to long-term interests in associates or joint ventures.
IFRIC 23 'Uncertainty over Income Tax treatments'	The interpretation clarifies the determination of taxable profits or losses, tax bases, unused tax losses or credits and tax rate, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'.
Amendment to IFRS 9 'Financial Instruments'	The amendment allows for more assets to be measured at amortised cost in particular some prepayable financial assets. The amendment also clarifies how to account for a modification of a financial liability.
Annual Improvements to IFRS Standards 2015 – 2017 cycle	Amendments to a number of IFRSs including IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements' providing clarity on control of a business that is a joint operation, IAS 12 'Income Taxes' clarifying income tax consequences of dividends, IAS 23 'Borrowing costs' clarifying borrowings outstanding after the related asset is ready for use or sale.

EU endorsed accounting standards effective in future periods

The Directors considered the impact on the Group of other new and revised accounting standards, interpretations or amendments that are currently endorsed but not yet effective. The Directors do not expect any other standards to have a significant impact on the Group's results.

Notes to the Financial information
Section 2: Results for the Year

In this section

This section focuses on the results and performance of the Group. On the following pages, you will find disclosures explaining the Group's results for the year, segmental information, exceptional items, taxation and earnings per share.

2.1 Profit before tax

Keeping it simple

This section analyses the Group's profit before tax by reference to the activities performed by the Group and an analysis of key operating costs.

Adjusted earnings before interest, tax and amortisation (EBITA) is the Group's key profit indicator. This reflects the way the business is managed and how the Directors assess the performance of the Group. This section therefore also shows each division's contribution to total revenue and adjusted EBITA.

Accounting policies

Revenue recognition

The Group derives revenue from the transfer of goods and services. Revenue recognition is based on the delivery of performance obligations and an assessment of when control is transferred to the customer. Revenue is recognised either when the performance obligation in the contract has been performed ('point in time' recognition) or 'over time' as control of the performance obligation is transferred to the customer.

Customer contracts can have a wide variety of performance obligations, from production contracts to format licences and distribution activities. For these contracts, each performance obligation is identified and evaluated. Under IFRS 15 the Group needs to evaluate if a format or licence represents a right to access the content (revenue recognised over time) or represents a right to use the content (revenue recognised at a point in time). The Group has determined that most format and licence revenues are satisfied at a point in time due to there being limited ongoing involvement in the use of the licence following its transfer to the customer.

The transaction price, being the amount to which the Group expects to be entitled and has rights to under the contract is allocated to the identified performance obligations. The transaction price will also include an estimate of any variable consideration where the Group's performance may result in additional revenues based on the achievement of agreed targets such as audience targets. Variable consideration is not recognised until the performance obligations are met.

Revenue is stated exclusive of VAT and equivalent sales taxes.

Complexity in advertising revenue recognition is driven by a combination of automated and manual processes involved in measuring the value delivered to the customer. Complex one-off contracts in all classes of revenue are assessed individually and judgement is exercised in identifying performance obligations and allocating price to them. Timing of revenue recognition is another area of judgement in such contracts.

Revenue recognition criteria for the Group's key classes of revenue are as follows:

Segment	Major classes of revenue	Payment terms
Broadcast		
Total advertising revenue	• Net advertising revenue (NAR) is generated from selling spot airtime on linear TV and is recognised at the point of transmission	• Received in the month after transmission
	• Online advertising revenue from video on demand (VOD) is generated from selling advertising on the ITV Hub and is recognised at the point of delivery	• Received in the month after campaign is delivered
	• Revenue from the sponsorship of programmes across ITV linear channels and online is recognised over the period of transmission	• Received prior to transmission
Direct to Consumer	• Revenue from 'pay' is generated from the provision of HD channels, catch up content and licences to ready-made programmes in the form of box sets to third parties and is recognised either over the term of the contract or per subscriber or download	• Payment term is over the term of the contract or subscription period
	• Revenue from 'interactive' is from entries to competitions and is recognised as the event occurs	
	• Revenue from subscription services is recognised over the subscription period	
SDN	• Revenue is generated from the carriage fee or capacity of the digital multiplex and is recognised over the term of the contract	• Payment term is over the term of the contract

Segment	Major classes of revenue	Payment terms
ITV Studios		
Programme production	• Revenue generated from the programmes produced for broadcasters and OTT platforms in the UK, US and internationally is recognised at the point of delivery of an episode and acceptance by the customer. Revenue from producer for hire contracts, where in an event of cancellation cost is recovered plus a margin, is recognised over time	• Payment term is over the term of the contract

Format licences	• A licence is granted for the exploitation of a format in a stated territory, media and period. These are recognised when the licence is granted to the customer (point in time)	• Payment term is over the term of the contract
Programme distribution rights	• A licence is granted for the transmission of a programme in a stated territory, media and period and revenue is recognised at the point when the contract is signed, the content is available for download and the licence period has started	• Payment term is over the term of the contract

The results for the year aggregate these classes of revenue into the following categories:

	2019 £m	**2019 % of total**	2018 £m	2018 % of total
Total advertising revenue	**1,768**	**46%**	1,795	48%
Direct to consumer	**84**		81	
SDN	**69**		73	
Other	**142**		147	
Total Broadcast	**2,063**	**53%**	2,096	56%
ITV Studios UK	**725**		695	
ITV Studios US	**271**		245	
ITV Studios International	**508**		418	
Global Formats and Distribution	**318**		312	
Total ITV Studios*	**1,822**	**47%**	1,670	44%
Total revenue**	**3,885**		3,766	

* Studios UK, ITV Studios US and Studios International revenues are mainly programme production. Global Formats and Distribution revenue is from programme distribution rights and format licences.

** Includes internal supply.

Segmental information

Operating segments, which have not been aggregated, are determined in a manner that is consistent with how the business is managed and reported to the Board of Directors. The Board is regarded as the chief operating decision-maker.

The Board considers the business primarily from an operating activity perspective. The reportable segments for the years ended 31 December 2019 and 31 December 2018 are therefore Broadcast and ITV Studios, the results of which are outlined in the following tables:

	Broadcast 2019 £m	**ITV Studios(i) 2019 £m**	**Consolidated 2019 £m**
Total segment revenue	**2,063**	**1,822**	**3,885**
Intersegment revenue	**(4)**	**(573)**	**(577)**
Revenue from external customers	**2,059**	**1,249**	**3,308**
Adjusted EBITA(ii)	**462**	**267**	**729**

	Broadcast 2018 £m	ITV Studios(i) 2018 £m	Consolidated 2018 £m
Total segment revenue	2,096	1,670	3,766
Intersegment revenue	(4)	(551)	(555)
Revenue from external customers	2,092	1,119	3,211
Adjusted EBITA(ii)	555	255	810

(i) Revenue of £394 million (2018: £354 million) was generated in the US during the year; the US represented £312 million (2018: £329 million) of non-current assets at year end. Intersegment revenue originates mainly in the UK.

(ii) Adjusted EBITA is before exceptional items and includes the benefit of production tax credits. It is shown after the elimination of intersegment revenue and costs.

The Group's principal operations are in the United Kingdom. Revenue from external customers in the United Kingdom is £2,213 million (2018: £2,250 million), and revenue from external customers in other countries is £1,095 million (2018: £961 million). The Operating and Performance Review provides further detail on ITV's international revenues.

Intersegment revenue, which is earned on arm's length terms, is mainly generated from the supply of ITV Studios programmes to Broadcast for transmission primarily on the ITV network. This revenue stream is a measure that forms part of the Group's strategic priority of building a strong international content business, as producing and retaining rights to the shows broadcast on the ITV network benefits the Group further from subsequent international content and format sales.

In preparing the segmental information, centrally managed costs have been allocated between reportable segments on a methodology driven principally by revenue, headcount and building occupancy of each segment. This is consistent with the basis of reporting to the Board of Directors.

There is one media buying agency (2018: one) acting on behalf of a number of advertisers that represent the Group's major customer. This agency is the only customer that individually represents over 10% of the Group's revenue. Revenue of approximately £551 million (2018: £554 million) was derived from this customer. This revenue is attributable to the Broadcast segment.

Timing of revenue recognition

The following table includes classes of revenue from contracts disaggregated by the timing of recognition:

	2019 £m	2018 £m	**2019 £m**	2018 £m
	Products and services transferred at a point in time		Products and services transferred over time	
Total advertising revenue, DTC, SDN	1,771	1,798	288	294
Programme production, programme distribution rights	944	789	200	199
Format licences	92	122	13	9
Total external revenue	**2,807**	2,709	**501**	502

Forward bookings

The following table includes revenue from contracts signed before the reporting date that is to be recognised in periods after the reporting date (i.e. the performance obligations remain unsatisfied or partially unsatisfied at the reporting date):

	2020 £m	2021 £m	2022 £m	Beyond £m
Broadcast	165	131	77	24
ITV Studios *	141	138	48	39
Revenue	**306**	**269**	**125**	**63**

* Includes internal supply.

The Group applies the practical expedients in IFRS 15 and, therefore, does not disclose information about remaining performance obligations that have original expected durations of less than one year or where the price is not yet known (e.g. NAR).

Broadcast

The Group operates the largest commercial family of channels in the UK and delivers content through multiple platforms. In addition to linear television broadcast, the Group delivers its content on the ITV Hub, catch up services on pay platforms, and through direct content deals. Content commissioned and scheduled by this segment is funded primarily by advertising, where revenue is generated from the sale of audiences for advertising spot airtime, online advertising, sponsorship, and licensing.

Other sources of revenue are from: Direct to Consumer revenue (which includes interactive sales from competitions, ITV Hub+, BritBox UK, and Gaming, live events and merchandise); SDN revenue (which generates licence sales for DTT Multiplex A); HD digital channels on pay platforms (e.g. Sky and Virgin) and the ITV Choice subscription service in other countries.

In November 2019, we launched our new SVOD service with the BBC, BritBox UK. The service provides UK audiences with an unrivalled collection of British box sets all in one place. BritBox UK includes both ITV and BBC box sets, and has content partnerships with Channel 4 (including Film4 content) and Channel 5, and distribution partnerships with BT and EE.

ITV Studios

ITV Studios is the Group's international content business, creating and producing programmes and formats that return and travel, namely drama, entertainment and factual entertainment.

ITV Studios UK is the largest commercial producer in the UK and produces programming for the Group's own channels, accounting for 65% of ITV main channel spend on commissioned programming (2018: 67%). Programming is also sold to other UK broadcasters and OTT platforms.

ITV Studios US is the leading unscripted independent producer of content in the US and is growing its scripted presence by increasing investment in high-profile dramas.

ITV Studios also operates in nine other international locations, together called ITV Studios International, being Australia, Germany, France, Italy, the Netherlands, Sweden, Norway, Finland and Denmark where content is produced for local broadcasters and international OTT platforms. This content is either locally created IP or formats that have been created elsewhere by ITV, primarily in the UK, the Netherlands and in Israel.

ITV's distribution and commercial division has been reorganised, with effect from 1 January 2020, into three centres of excellence – The Creative Network, Global Distribution and Global Entertainment. This will enable the Group to create more hits, to better build brands and formats internationally and to monetise them more effectively. Global Formats and Distribution license ITV's finished programmes, formats and third-party content internationally. Within this business, the Group also finances productions both on and off ITV to acquire global distribution rights.

Adjusted EBITA

The Directors assess the performance of the reportable segments based on a measure of adjusted EBITA. The Directors use this measurement basis as it excludes the effect of transactions that could distort the understanding of the Group's performance for the year and comparability between periods. See the Operating and Performance Review on for the detailed explanation of the Group's use of adjusted performance measures. A reconciliation from adjusted EBITA to profit before tax is provided as follows:

	2019 £m	2018 £m
Adjusted EBITA	**729**	810
Production tax credits	**(36)**	(25)
EBITA before exceptional items	**693**	785
Operating exceptional items	**(84)**	(93)
Amortisation and impairment	**(74)**	(92)
Net financing costs	**(68)**	(43)
Share of profits of joint ventures and associated undertakings	**1**	–
Gain on sale of non-current assets (exceptional items)	**62**	10
Profit before tax	**530**	567

Cash generated from operations

A reconciliation from profit before tax to cash generated from operations before exceptional items is as follows:

	2019 £m	2018 £m
Cash flows from operating activities		
Profit before tax	**530**	567
Add back:		
Gain on sale of non-current assets (exceptional items)	**(62)**	(10)
Share of profits of joint ventures and associated undertakings	**(1)**	–
Net financing costs	**68**	43
Operating exceptional items	**84**	93
Depreciation of property, plant and equipment	**56**	28
Amortisation and impairment	**74**	92
Share-based compensation and pension service costs	**10**	10
(Increase) / decrease in programme rights and distribution rights	**(18)**	14
Increase in receivables and contract assets	**(37)**	(103)
Decrease in payables and contract liabilities	**(8)**	(4)
Movement in working capital	**(63)**	(93)
Cash generated from operations before exceptional items	**696**	730

Operating costs

The major components of operating costs are network schedule costs of £1,091 million (2018: £1,055 million), staff costs of £491 million (2018: £473 million), depreciation, amortisation and impairment of £130 million (2018: £120 million) and operating exceptional items of £84 million (2018: £93 million).

Staff costs

Staff costs before exceptional items can be analysed as follows:

	2019 £m	2018 £m
Wages and salaries	**400**	384
Social security and other costs	**53**	52
Share-based compensation (see note 4.8)	**10**	10
Pension costs	**28**	27
Total staff costs	**491**	473
Less: staff costs allocated to productions	**(199)**	(189)
FTEE staff costs (non-production)	**292**	284

Exceptional staff costs are disclosed separately in note 2.2.

Full-time equivalent employees (FTEE) includes those FTEEs that are allocated to the cost of productions during the year, however excludes short-term contractors and freelancers who are allocated to productions. The weighted average FTEE over the year is:

	2019	2018
Broadcast	**2,211**	2,143
ITV Studios	**4,205**	4,138
	6,416	6,281

The increase in full-time equivalent employees is primarily driven by the full year impact of strategic investment and acquisitions completed in 2019. Details of Directors' emoluments, share options, pension entitlements and long-term incentive scheme interests are set out in the Remuneration Report. ITV plc Directors' gains on share options for 2019 are set out in the ITV plc Company financial information.

Depreciation

Depreciation in the year was £56 million (2018: £28 million), of which £21 million (2018: £12 million) relates to Broadcast and £35 million (2018: £16 million) to ITV Studios. The increase in depreciation in the year is as a result of implementation of IFRS 16 'Leases' which now requires the depreciation of right of use assets over the term of the lease. See note 3.2 for further details.

Audit fees

The Group engages KPMG LLP (KPMG) on assignments additional to its statutory audit duties where its expertise and experience with the Group are important and are in line with Group's policy on auditor independence. Fees paid to KPMG and its associates during the year are set out below:

	2019 £m	2018 £m
For the audit of the Group's annual accounts	**0.9**	0.7
For the audit of subsidiaries of the Group	**0.7**	0.7
Audit-related assurance services	**0.1**	0.1
Total audit and audit-related assurance services	**1.7**	1.5
Other assurance services	**0.1**	–
Total non-audit services *	**0.1**	–

Total fees paid to KPMG	1.8	1.5

* See details of non-audit services in the Audit and Risk Committee Report.

There were no fees payable in 2019 or 2018 to KPMG and associates for the auditing of accounts of any associate or pension scheme of the Group, internal audit, and services relating to corporate finance transactions entered into or proposed to be entered into, by or on behalf of the Group or any of its associates. Fees paid to KPMG for audit and other services to the Company are not disclosed in its individual accounts as the Group accounts are required to disclose such fees on a consolidated basis.

2.2 Exceptional items

Keeping it simple

Exceptional items are excluded from management's assessment of profit because by their size or nature they could distort the Group's underlying quality of earnings. They are typically gains or losses arising from events that are not considered part of the core operations of the business. These items are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis.

Accounting policies

Exceptional items as described above are highlighted on the face of the income statement. See the Operating and Performance Review for the detailed explanation of the Group's use of adjusted performance measures. Gains or losses on disposal of non-core assets are also considered exceptional due to their nature and impact on the Group's underlying quality of earnings.

Exceptional items

Operating and non-operating exceptional items are analysed as follows:

(Charge)/credit	Ref.	2019 £m	2018 £m
Operating exceptional items:			
Acquisition-related expenses	A	**(75)**	(60)
Restructuring and property-related costs	B	**(24)**	(26)
Pension related costs	C	**1**	4
Other	D	**14**	(11)
Total operating exceptional items		**(84)**	(93)
Tax on operating exceptional items		**6**	9
Total operating exceptional items net of tax		**(78)**	(84)
Non-operating exceptional items:			
Gain on sale of non-current assets	E	**62**	10
Total non-operating exceptional items		**62**	10
Tax on non-operating exceptional items		**–**	–
Total exceptional items net of tax		**(16)**	(74)

A – Acquisition-related expenses

Acquisition-related expenses of £75 million (2018: £60 million) relate primarily to performance-based, employment-linked expected payments to former owners, and professional fees (mainly financial due diligence and legal costs in respect of potential acquisitions during the year). See note 3.4 for further details on acquisitions.

B – Restructuring and property-related costs

Restructuring and property-related costs of £24 million (2018: £26 million) relate primarily to one-off restructuring projects stemming from the Group-wide commitment to reduce the overhead cost base. In 2019, £6 million (2018: £13 million) of the total relates to property costs, and move related costs for the Group's headquarters at The London Television Centre (which has now been sold). A further £18 million (2018: £13 million) of costs related to restructuring our business as part of our strategy.

C – Pension related costs

In March 2019, the UTV Pension Scheme was closed to future benefit accruals. This resulted in a one-off, non-cash £1 million curtailment credit.

In 2018, a past service cost of £6 million had been included in the measurement of the Pension scheme liabilities for Guaranteed Minimum Pension equalisation. Also in 2018, the Pension Trustee entered into a bulk annuity insurance contract in respect of the benefits of two sections of the ITV Pension Scheme (buy-in) resulting in a credit of £10 million.

D – Other

Included in other are releases of legal cost accruals in relation to litigation outside the normal course of business settled in the year, release of the provision in relation to Box Clever (see note 3.6) and movement in the insured trade receivables provision, offset by the costs in relation to the cancellation of The Jeremy Kyle show.

E – Gain on sale of non-current assets

The gain on sale of non-current assets in 2019 arose primarily as a result of the sale of the London Television Centre on the South Bank. Further details are provided in note 3.2. The tax charge on the gain is £nil, as a result of the significant tax base cost of the asset, and the availability of capital losses to offset the remaining chargeable gain.

2.3 Taxation

Keeping it simple

This section sets out the Group's tax accounting policies, the current and deferred tax charges or credits in the year (which together make up the total tax charge or credit in the income statement), a reconciliation of profit before tax to the tax charge for the period and the movements in deferred tax assets and liabilities.

Accounting policies

The tax charge for the period is recognised in the income statement, the statement of comprehensive income and directly in equity, according to the accounting treatment of the related transactions. The tax charge comprises both current and deferred tax. The calculation of the Group's tax charge involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be fully determined until a resolution has been reached by the relevant tax authority.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment in respect of previous years.

The Group recognises liabilities for anticipated tax issues based on estimates of the additional taxes that are likely to become due, which require judgement. Amounts are accrued based on management's interpretation of specific tax law and the likelihood of settlement. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made.

Deferred tax

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for taxation purposes.

The following temporary differences are not provided for:

The initial recognition of goodwill
The initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination
Differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Deferred tax is calculated using tax rates that are enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that sufficient taxable profit will be available to utilise the temporary difference. Recognition of deferred tax assets, therefore, involves judgement regarding the timing and level of future taxable income.

Deferred tax assets and liabilities are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set-off.

Taxation – Income statement

The total taxation charge in the income statement is analysed as follows:

	2019 £m	2018 £m
Current tax:		
Current tax charge on profit before exceptional items	**(84)**	(123)
Current tax credit on exceptional items	**3**	3
	(81)	(120)
Adjustments to prior periods	**8**	(14)
	(73)	(134)
Deferred tax:		
Origination and reversal of temporary differences	**7**	5
Deferred tax credit on exceptional items	**3**	6
Impact of changes to statutory tax rates	**5**	1
	15	12
Adjustments to prior periods	**6**	25
	21	37
Total taxation charge in the income statement	**(52)**	(97)

In order to understand how, in the income statement, a tax charge of £52 million (2018: £97 million) arises on a profit before tax of £530 million (2018: £567 million), the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2019 £m	2018 £m
Profit before tax	**530**	567
Notional taxation charge at UK corporation tax rate of 19% (2018: 19%) on profit before tax	**(101)**	(108)
Non-taxable income/non-deductible expenses	**(16)**	(30)
Sale of the London Television Centre	**12**	–
Prior year adjustments	**14**	11
Other taxes	**(4)**	(1)
Previously unrecognised deferred tax assets	**3**	3
Current year losses not recognised	**(1)**	–
Impact of overseas tax rates	**–**	2

Impact of changes in tax rates	**5**	1
Production tax credits	**36**	25
Total taxation charge in the income statement	**(52)**	(97)

Non-deductible expenses are expenses that are not expected to be allowable for tax purposes. Similarly, non-taxable income is income that is not expected to be taxable.

Adjustments to prior periods primarily arise where an outcome is obtained on certain tax matters, which differs from expectations held when the related provision was made. Where the outcome is more favourable than the provision made, the difference is released, lowering the current year tax charge. Where the outcome is less favourable than our provision, an additional charge to current year tax will occur. The current tax charge includes an £8 million credit relating to prior years, and the deferred tax credit includes a £6 million credit relating to prior years. These adjustments have arisen following changes in estimates of taxes that have already become due, or will become due in the future.

Previously unrecognised deferred tax assets are in relation to capital losses utilised against gains on sale of property.

The impact of overseas tax rates reflects the fact that some of our profits are earned in territories other than the UK and taxed at rates different from the UK corporation tax rate. This year, the total impact is £nil (2018: £2 million credit due to losses arising in higher taxed jurisdictions, which were recognised through deferred tax, give rise to a reconciling benefit).

The UK corporation tax rate has been enacted to fall to 17% from 1 April 2020. As this change in rate was enacted at the previous balance sheet date, the carrying values of UK temporary differences have previously been adjusted accordingly. To the extent that temporary differences have unwound in the current year, this has given rise to a charge of £2 million of which £1 million is recognised as a credit in the income statement and £3 million as a charge in other comprehensive income. In addition, the corporate income tax rate in the Netherlands has been enacted to fall to 21.7% from 1 January 2021. We have adjusted the carrying value of deferred tax assets and liabilities of our Netherlands businesses accordingly, giving rise to a credit in the income statement of £4 million. In total, the impact of the changes in tax rates is a credit in the income statement of £5 million (2018: £1 million credit) and a charge in other comprehensive income of £3 million (2018: £1 million charge).

The production tax credits included within the reconciliation above are UK High-End Television (HETV) tax credits and Children's Television tax credits, which are part of a group of incentives provided to support the creative industries in the UK. The ability to access these tax credits is fundamental when assessing the viability of investment decisions in the production of high-end drama and children's programmes. Under IFRS, these production tax credits are reported within the total taxation charge in the income statement. However, ITV considers them to be a contribution to production costs, and therefore working capital in nature, and excludes them from its adjusted tax charge, including them instead within Adjusted EBITA.

The effective tax rate is 9.8% (2018: 17.1%), and is the tax charge on the face of the income statement expressed as a percentage of the profit before tax. The tax rate is lower than in 2018 primarily due to the tax treatment of the disposal of the London Television Centre and an increase in HETV production tax credits. As explained in the Finance Review, the Group uses an adjusted tax rate to show how tax impacts total adjusted earnings in a way that is more aligned with the Group's cash tax position. The adjusted tax rate is 18%.

This year, the current year movement on origination and reversal of temporary differences (excluding exceptional items) is a credit of £7 million, compared with a credit of £5 million in 2018.

Taxation – Other comprehensive income (OCI) and equity

As analysed in the table below, a deferred tax credit of £22 million on actuarial movements on pensions has been recognised in other comprehensive income (2018: £8 million credit). A deferred tax charge of £nil has been recognised in equity in respect of share-based payments (2018: credit of £6 million).

A current tax charge of £2 million on foreign exchange movements has been recognised in other comprehensive income (2018: £nil). There is no current tax recognised in equity in relation to share-based payments (2018: £nil).

Taxation – Statement of financial position

The table below outlines the deferred tax assets/ (liabilities) that are recognised in the statement of financial position, together with their movements in the year:

	At 1 January 2019 £m	Other movements £m	Recognised in the income statement £m	Recognised in OCI and equity £m	Business acquisitions £m	Foreign exchange £m	**At 31 December 2019 £m**
Tangible assets	5	–	2	–	–	–	**7**
Intangible assets	(66)	–	15	–	(1)	2	**(50)**
Programme rights	–	–	1	–	–	–	**1**
Pension scheme deficits	(6)	–	(8)	22	–	–	**8**
Tax losses	37	–	1	–	–	(1)	**37**
Share-based compensation	–	–	6	–	–	–	**6**
Other temporary differences	4	1	4	–	–	–	**9**
	(26)	1	21	22	(1)	1	**18**

	At 1 January 2018 £m	Other movements £m	Recognised in the income statement £m	Recognised in OCI and equity £m	Business acquisitions £m	Foreign exchange £m	At 31 December 2018 £m
Tangible assets	–	–	5	–	–	–	5
Intangible assets	(80)	–	14	–	–	–	(66)
Programme rights	1	–	(1)	–	–	–	–
Pension scheme deficits	(18)	–	4	8	–	–	(6)
Tax losses	21	–	15	–	–	1	37
Share-based compensation	(5)	–	(1)	6	–	–	–
Other temporary differences	1	1	1	–	–	1	4
	(80)	1	37	14	–	2	(26)

At 31 December 2019, total deferred tax assets are £74 million (2018: £46 million) and total deferred tax liabilities are £56 million (2018: £72 million). After netting off balances within countries, there is a deferred tax liability of £29 million and a deferred tax asset of £47 million (2018: deferred tax liability of £64 million and a deferred tax asset of £38 million) recognised in the Consolidated Statement of Financial Position.

The deferred tax balances relate to:

- Property, plant and equipment temporary differences arising on assets qualifying for tax depreciation
- Temporary differences on intangible assets, including those arising on business combinations
- Programme rights – temporary differences on intercompany profits on stock
- Pension scheme deficit temporary differences on the IAS 19 pension deficit
- Temporary differences arising from the timing of the use of tax losses
- Share-based compensation temporary differences on share schemes
- Other temporary differences on provisions and other items

The deferred tax balance associated with the pension deficit reflects the current tax benefit obtained in the current year following the employer contributions to the Group's defined benefit pension scheme. The adjustment in other comprehensive income to the deferred tax balance primarily relates to the actuarial loss recognised in the period.

A deferred tax asset of £458 million (2018: £460 million) in respect of capital losses of £2,696 million (2018: £2,707 million) has not been recognised due to uncertainties as to whether capital gains will arise in the appropriate form and relevant territories against which such losses could be utilised. For the same reasons, total deferred tax assets of £16 million (2018: £19 million) in respect of overseas losses have not been recognised (including £5 million in respect of losses that expire between 2020 and 2027).

In line with our accounting policy on current tax, provisions are held on the balance sheet within current tax liabilities in respect of uncertain tax positions where management believes that it is probable that future payments of tax will be required. At the balance sheet date, these tax provisions were not material for the Group.

2.4 Earnings per share

Keeping it simple

Earnings per share ('EPS') is the amount of post-tax profit attributable to each share.

Basic EPS is calculated on the Group profit for the year attributable to equity shareholders of £473 million (2018: £466 million) divided by 4,000 million (2018: 3,999 million), being the weighted average number of shares in issue during the year, which excludes EBT shares held in trust (see note 4.8).

Diluted EPS reflects any commitments made by the Group to issue shares in the future and so it includes the impact of share options.

Adjusted EPS is presented in order to show the business performance of the Group in a consistent manner and reflect how the business is managed and measured on a day-to-day basis. Adjusted EPS reflects the impact of operating and non-operating exceptional items on Basic EPS. Other items excluded from Adjusted EPS are amortisation and impairment of intangible assets acquired through business combinations; net financing cost adjustments; and the tax adjustments relating to these items. Each of these adjustments is explained in detail in the section below.

The calculation of Basic EPS and Adjusted EPS, together with the diluted impact on each, is set out below:

Basic earnings per share

	2019 £m	2018 £m
Profit for the year attributable to equity shareholders of ITV plc	**473**	466
Weighted average number of ordinary shares in issue – million	**4,000**	3,999
Basic earnings per ordinary share	**11.8p**	11.7p

Diluted earnings per share

	2019 £m	2018 £m
Profit for the year attributable to equity shareholders of ITV plc	**473**	466
Weighted average number of ordinary shares in issue – million	**4,000**	3,999
Dilution due to share options	**18**	14
Total weighted average number of ordinary shares in issue – million	**4,018**	4,013
Diluted earnings per ordinary share	**11.8p**	11.6p

Adjusted earnings per share

	Ref.	2019 £m	2018 £m
Profit for the year attributable to equity shareholders of ITV plc		**473**	466
Exceptional items (net of tax)	A	**16**	74
Profit for the year before exceptional items		**489**	540
Amortisation and impairment of acquired intangible assets	B	**44**	71
Adjustments to net financing costs	C	**22**	6
Adjusted profit		**555**	617

Total weighted average number of ordinary shares in issue – million	**4,000**	3,999
Adjusted earnings per ordinary share	**13.9p**	15.4p

Diluted adjusted earnings per share

	2019 £m	2018 £m
Adjusted profit	**555**	617
Weighted average number of ordinary shares in issue – million	**4,000**	3,999
Dilution due to share options	**18**	14
Total weighted average number of ordinary shares in issue – million	**4,018**	4,013
Diluted adjusted earnings per ordinary share	**13.8p**	15.4p

Details of the adjustments to earnings are as follows:

A. Exceptional items (net of tax) £16 million (2018: £74 million)

- Exceptional items of £22 million (2018: £83 million), net of related tax credit of £6 million (2018: £9 million). See note 2.2 for the detailed composition of exceptional items

B. Amortisation and impairment of acquired intangible assets of £44 million (2018: £71 million)

- Amortisation and impairment of assets acquired through business combinations and investments of £74 million (2018: £92 million), excluding amortisation of software licences and development of £11 million (2018: £7 million), net of related tax credit of £19 million (2018: £14 million)

C. Adjustments to net financing costs £22 million (2018: £6 million)

- Adjustments to net financing costs includes the acceleration of amortisation of previously capitalised transaction costs and one-off fees and premiums relating to the buyback of the bonds, mark-to-market movements on derivative financial instruments, foreign exchange and imputed pension interest charges of £28 million (2018: £7 million), net of related tax credit of £6 million (2018: £1 million)

Notes to the Financial information
Section 3: Operating Assets and Liabilities

In this section

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. On the following pages, there are notes covering working capital, non-current assets and liabilities, acquisitions and disposals, provisions and pensions.

Liabilities relating to the Group's financing activities are addressed in section 4. Deferred tax assets and liabilities are shown in note 2.3.

3.1 Working capital

Keeping it simple

Working capital represents the assets and liabilities the Group generates through its trading activity. The Group therefore defines working capital as distribution rights, programme rights, trade and other receivables, trade and other payables and contract assets and liabilities.

Careful management of working capital ensures that the Group can meet its trading and financing obligations within its ordinary operating cycle.

Working capital is a driver of the profit to cash conversion ratio, a key performance indicator for the Group. For those subsidiaries acquired during the year, working capital at the date of acquisition is excluded from the profit to cash calculation so that only subsequent working capital movements in the period controlled by ITV are reflected in this metric.

In the following section, you will find further information regarding working capital management and analysis of the elements of working capital.

3.1.1 Programme rights and commitments

Accounting policies

Rights are recognised when the Group controls the respective rights and the risks and rewards associated with them.

Programme rights not yet utilised are included in the statement of financial position at the lower of cost and net realisable value. In assessing net realisable value for programmes in production, judgement is required when considering the contracted sales price and estimated costs to complete.

Broadcast programme rights

Acquired programme rights (which include films) and sports rights are purchased for the primary purpose of broadcasting on the ITV family of channels, including VOD and SVOD platforms. These are recognised within current assets as payments are made or when the rights are ready for broadcast. The Group generally expenses these rights through operating costs over a number of transmissions reflecting the pattern and value in which the right is consumed.

Commissions, which primarily comprise programmes purchased, based on editorial specification and over which the Group has some control, are recognised in current assets as payments are made and are generally expensed to operating costs in full on first transmission. Where a commission is repeated on any platform, incremental costs associated with the broadcast are included in operating costs.

The net realisable value assessment for acquired and commissioned rights is based on estimated airtime value, with consideration given to whether the number of transmissions purchased can be efficiently played out over the licence period.

The Broadcast programme rights and other inventory at the year end are shown in the table below:

	2019 £m	2018 £m
Acquired programme rights	**173**	154
Commissions	**106**	99
Sports rights	**44**	45
	323	298

£3 million (2018: £2 million) relates to stock that will be transmitted in 2021 and beyond.

Broadcast programme and transmission commitments
Transmission commitments are the contracted future payments under transmission supply agreements that require the use of transponder assets for a period of up to ten years with payments increasing over time, limited by specific RPI caps.

Programming commitments are transactions entered into in the ordinary course of business with programme suppliers, sports organisations and film distributors in respect of rights to broadcast on the ITV network and on BritBox UK.

Commitments in respect of these transactions, which are not reflected in the statement of financial position, are due for payment as follows:

2019	**Transmission £m**	**Programme £m**	**Total £m**
Within one year	**35**	**376**	**411**
Later than one year and not more than five years	**126**	**609**	**735**
	161	**985**	**1,146**

2018	Transmission £m	Programme £m	Total £m
Within one year	34	471	505
Later than one year and not more than five years	135	610	745
More than five years	5	50	55
	174	1,131	1,305

3.1.2 Distribution rights

Accounting policies
Distribution rights are programme rights the Group buys from producers to derive future revenue, principally through licensing to other broadcasters. These are classified as non-current assets as these rights are used to derive long-term economic benefit for the Group.

Distribution rights are recognised initially at cost and charged through operating costs in the income statement over a period not exceeding five years, reflecting the value and pattern in which the right is consumed. Judgement is required when estimating future patterns of consumption. Advances paid for the acquisition of distribution rights are disclosed as distribution rights as soon as they are contracted. These advances are not expensed until the programme is available for distribution. Up to that point, they are assessed annually for impairment through the reassessment of the future sales expected to be earned from that title.

The net book value of distribution rights at the year end is as follows:

	2019 £m	2018 £m
Distribution rights	**22**	29

During the year, £49 million was charged to the income statement (2018: £56 million).

3.1.3 Trade and other receivables

Accounting policies
Trade receivables are recognised initially at the value of the invoice sent to the customer and subsequently at the amounts considered recoverable (amortised cost). Where payments are not due for more than one year, they are shown in the financial information at their net present value to reflect the economic cost of delayed payment. The Group provides goods and services to substantially all of its customers on credit terms.

Estimates are used in determining the level of receivables that will not, in the opinion of the Directors, be collected. These estimates include such factors as historical experience, the current state of the UK and overseas economies and industry specific factors. A provision for impairment of trade receivables is established when there is sufficient evidence that the Group will not be able to collect all amounts due. The expected loss model was applied to trade and other receivables, contract assets and the impact was not material.

The carrying value of trade receivables is considered to approximate fair value. Trade and other receivables can be analysed as follows:

	2019 £m	2018 £m
Due within one year:		
Trade receivables	**309**	261
Other receivables	**55**	48
Prepayments	**49**	46
	413	355
Due after more than one year:		
Trade receivables	**34**	36
Other receivables	**29**	35
	63	71

Total trade and other receivables	476	426

£343 million (2018: £297 million) of total trade receivables, stated net of provisions for impairment, are aged as follows.

	2019 £m	2018 £m
Current	280	265
Up to 30 days overdue	35	24
Between 30 and 90 days overdue	25	6
Over 90 days overdue	3	2
	343	297

Movements in the Group's provision for impairment of trade receivables and contract assets can be shown as follows:

	2019 £m	2018 £m
At 1 January	39	35
Charged during the year	1	9
Unused amounts reversed	(2)	(5)
At 31 December	38	39

Of the provision total, £36 million relates to balances overdue by more than 90 days (2018: £21 million) and less than £2 million relates to current balances (2018: £1 million).

3.1.4 Trade and other payables due within one year

Accounting policies

Trade payables are recognised at the value of the invoice received from a supplier. The carrying value of current and non-current trade payables is considered to approximate fair value. Trade and other payables due within one year can be analysed as follows:

	2019 £m	2018 £m
Trade payables	66	62
VAT and social security	77	56
Other payables	238	226
Acquisition-related liabilities – employment-linked contingent consideration	151	13
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	–	42
Accruals	385	369
	917	768

3.1.5 Trade and other payables due after more than one year

Trade and other payables due after more than one year can be analysed as follows:

	2019 £m	2018 £m
Trade payables	61	49
Other payables	5	9
Acquisition-related liabilities – employment-linked contingent consideration	14	94
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	32	27
	51	130
Total Trade and other payables due after more than one year	112	179

Trade payables due after more than one year, relate primarily to film creditors of £33 million and royalties of £28 million.

Acquisition-related liabilities or performance-based employment-linked earnouts are the estimated amounts payable to previous owners. The estimated future payments, treated as exceptional employment costs (see note 2.2), are accrued over the period the sellers are required to remain with the business. Those amounts not linked to employment are recognised at acquisition at their time discounted value, with the unwind of the discount recorded as part of operating finance costs.

Acquisition related liabilities accrued as at 31 December 2019 were £197 million. The total estimated future payments of £230 million are sensitive to forecast profits as they are based on a multiple of earnings. The range of reasonably possible outcomes for the liability is between £145 million and £414 million. To arrive at ITV's current best estimate of the accrued liability at 31 December 2019, total future payments and the possible range of outcomes for the liability, the Directors have taken into account the views of external advisors. The liabilities are expected to be settled between 2020 and 2025.

The most material payable is to the previous owner of the shares in Talpa Media B.V (now known as ITV Studios Holding B.V.), purchased in 2015 for the initial cash consideration of €500 million (£362 million) with further payments dependent on Talpa's future performance, up to a maximum consideration, including the initial payment, of €1.1 billion across three earnouts. The first earnout was paid in 2017 (€100 million), the second earnout (in respect of the 2017, 2018 and 2019 years) is payable following determination of the earnout calculation for that period and the final payment will not fall due given that John de Mol did not exercise his option to extend the earnout to 2022. The other significant earnouts included within our expected future payments include Tomorrow Studios and Cattleya.

All earnouts are sensitive to forecast profits as they are based on a multiple of earnings and judgement is required where there may be adjustments to forecasted profits or when earnouts are negotiated, hence the reason for the range noted above. In the case of Talpa's earnout, the outcome of the ongoing review in relation to funds received for the insured trade receivable could have a material impact. The treatment of this receipt could increase the earnout by £150 million, within the range noted above (see note 5.2).

3.1.6 Contract assets and liabilities

Contract assets (accrued income) primarily relate to the Group's right to consideration for work completed but not billed at the reporting date. As ITV is an integrated producer broadcaster, many of the programmes the Studios division produces are sold internationally and also used within the ITV network. Production work in progress is treated as a contract asset until the point the programme is completed.

Contract liabilities (deferred income) primarily relate to the consideration received from customers in advance of transferring a good or service. The following table provides movements in contract assets and liabilities in the period:

	2019		2018	
	Contract assets £m	**Contract liabilities £m**	Contract assets £m	Contract liabilities £m
Balance at 1 January	**470**	**(255)**	352	(219)
Decrease due to balance transferred to trade receivables	**(462)**	**–**	(115)	–
Increases as a result of the changes in the measure of progress	**437**	**–**	233	–
Decreases due to revenue recognised in the period	**–**	**255**	–	216
Increase due to cash received	**–**	**(217)**	–	(252)
Business combination	**–**	**(2)**	–	–
Balance at 31 December	**445**	**(219)**	470	(255)

3.1.7 Working capital management

Cash and working capital management continues to be a key focus. During the year, the cash outflow from working capital was £63 million (2018: £93 million) derived as follows:

	2019 £m	2018 £m
(Increase)/decrease in programme rights and distribution rights	**(18)**	14
Increase in receivables and contract assets	**(37)**	(103)
Decrease in payables and contract liabilities	**(8)**	(4)
Working capital outflow	**(63)**	(93)

The working capital outflow for the year excludes the impact of balances acquired on the acquisition of subsidiaries during the year (see note 3.4).

3.2 Property, plant and equipment

Keeping it simple

The following section shows the physical assets used by the Group to operate the business, generating revenues and profits. These assets include office buildings and studios, as well as equipment used in broadcast transmission, programme production and support activities.

The cost of these assets is the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and the reduced value of the asset over time. Depreciation is calculated by estimating the number of years the Group expects the asset to be used (useful economic life). If there has been a technological change or decline in business performance, the Directors review the value of the assets to ensure they have not fallen below their depreciated value. If an asset's value falls below its depreciated value, an additional impairment charge is made against profit.

This section also explains the accounting policies followed by ITV and the specific estimates made in arriving at the net book value of these assets.

Accounting policies

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Certain items of property, plant and equipment that were revalued to fair value prior to 1 January 2004 (the date of transition to IFRS) are measured on the basis of deemed cost, being the revalued amount less depreciation up to the date of transition.

Right of use assets

A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. These assets are called right of use assets and have been included on the Group's balance sheet at a value equal to the discounted future lease payments. For leases recognised on transition to IFRS 16 'Leases' the value is also adjusted by any prepayments or lease incentives recognised immediately before the date of initial application.

Depreciation

Depreciation is provided to write off the cost of property, plant and equipment less estimated residual value, on a straight-line basis over their estimated useful lives. The annual depreciation charge is sensitive to the estimated useful life of each asset and the expected residual value at the end of its life. The major categories of property, plant and equipment are depreciated as follows:

Asset class	Depreciation policy
Freehold land	not depreciated
Freehold buildings	up to 60 years
Leasehold improvements	shorter of residual lease term or estimated useful life
Vehicles, equipment and fittings*	3 to 20 years
Right of use assets	over the term of the lease

* Equipment includes studio production and technology assets.

Assets under construction are not depreciated until the point at which the asset comes into use by the Group.

Impairment of assets
Property, plant and equipment that is subject to depreciation is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indicators of impairment may include changes in technology and business performance.

Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	Freehold land and buildings	Improvements to leasehold land and buildings		Vehicles, equipment and fittings	Right of use assets*	**Total**
		Long	Short	Owned		
	£m	£m	£m	£m	£m	**£m**
Cost						
At 1 January 2018	99	70	20	283	–	472
Additions	2	8	8	35	–	53
Reclassifications	(1)	6	(2)	(3)	–	–
Foreign exchange	–	1	–	1	–	2
Classified as held for sale	(87)	(13)	–	–	–	(100)
Disposals and retirements	(4)	(3)	–	(79)	–	(86)
At 31 December 2018	9	69	26	237	–	341
IFRS 16 transition	–	–	–	–	112	112
Additions	3	1	1	25	–	30
Foreign exchange	–	–	–	(4)	–	(4)
Disposals and retirements	–	–	–	(18)	–	(18)
At 31 December 2019	**12**	**70**	**27**	**240**	**112**	**461**
Depreciation						
At 1 January 2018	15	16	16	169	–	216
Charge for the year	1	4	–	25	–	30
Reclassifications	(1)	3	–	(2)	–	–
Foreign exchange	–	–	–	–	–	–
Classified as held for sale	(15)	–	–	–	–	(15)
Disposals and retirements	–	(2)	–	(79)	–	(81)
At 31 December 2018	–	21	16	113	–	150
Charge for the year	1	2	–	28	25	56
Foreign exchange	–	–	–	3	–	3
Disposals and retirements	–	–	–	(17)	–	(17)
At 31 December 2019	**1**	**23**	**16**	**127**	**25**	**192**
Net book value						
At 31 December 2019	**11**	**47**	**11**	**113**	**87**	**269**
At 31 December 2018	9	48	10	124	–	191

* Under the modified retrospective approach in IFRS 16 'Leases', the 2018 numbers are not restated.

Included within property, plant and equipment are assets in the course of construction of £14 million (2018: £14 million).

Included in net book value of right of use assets is £85 million related to properties and £2 million relating to vehicles, equipment and fittings.

In 2018, management committed to a plan to sell the London Television Centre. Accordingly, the related assets have been presented at its carrying value 'Asset held for sale' in the Consolidated Statement of Financial Position.

In 2019, London Television Centre was sold for £146 million, which generated a profit of £62 million.

Capital commitments
There is £1 million of capital commitments at 31 December 2019 (2018: £4 million).

3.3 Intangible assets

Keeping it simple

The following section shows the non-physical assets used by the Group to generate revenue and profits.

These assets include formats and brands, customer contracts and relationships, contractual arrangements, licences, software development, film libraries and goodwill. The cost of these assets is the amount that the Group has paid or, where there has been a business combination, the fair value of the specific intangible assets that could be sold separately or which arise from legal rights. In the case of goodwill, its cost is the amount the Group has paid in acquiring a business over and above the fair value of the individual assets and liabilities acquired. The value of goodwill is the 'intangible' value that comes from, for example, a uniquely strong market position and the outstanding productivity of its employees.

The value of intangible assets, with the exception of goodwill, reduces over the number of years the Group expects to use the asset, the useful economic life, via an annual amortisation charge to the income statement. Where there has been a technological change or decline in business performance, the Directors review the value of assets, including goodwill, to ensure

they have not fallen below their amortised value. Should an asset's value fall below its amortised value, an additional impairment charge is made against profit.

This section explains the accounting policies applied and the specific judgements and estimates made by the Directors in arriving at the net book value of these assets.

Accounting policies

Goodwill

Goodwill represents the future economic benefits that arise from assets that are not capable of being individually identified and separately recognised. The goodwill recognised by the Group has all arisen as a result of business combinations. Goodwill is stated at its recoverable amount being cost less any accumulated impairment losses and is allocated to the business to which it relates.

Due to changes in accounting standards, goodwill has been calculated using three different methods depending on the date the relevant business was purchased.

Method 1: All business combinations that have occurred since 1 January 2009 were accounted for using the acquisition method. Under this method, goodwill is measured as the fair value of the consideration transferred (including the recognition of any part of the business not yet owned (non-controlling interests)), less the fair value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. Any contingent consideration expected to be transferred in the future will be recognised at fair value at the acquisition date and recognised within other payables. Contingent consideration classified as an asset or liability that is a financial instrument is measured at fair value with changes in fair value recognised in the income statement. The determination of fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount rate.

Where less than 100% of a subsidiary is acquired, and call and put options are granted over the remaining interest, a non-controlling interest is initially recognised in equity at fair value, which is established based on the value of the put option. A call option is recognised as a derivative financial instrument, carried at fair value. The put option is recognised as a liability within other payables, carried at the present value of the put option exercise price, and a corresponding charge is included in merger and other reserves. Any subsequent remeasurement of the put option liability is recognised within finance income or cost.

Subsequent adjustments to the fair value of net assets acquired can only be made within 12 months of the acquisition date, and only if fair values were determined provisionally at an earlier reporting date. These adjustments are accounted for from the date of acquisition.

Acquisitions of non-controlling interests are accounted for as transactions with owners and therefore no goodwill is recognised as a result of such transactions. Transaction costs incurred in connection with those business combinations, such as legal fees, due diligence fees and other professional fees, are expensed as incurred. The Directors consider these costs to reflect the cost of acquisition and to form a part of the capital transaction, and highlight them separately as exceptional items.

Method 2: All business combinations that occurred between 1 January 2004 and 31 December 2008 were accounted for using the purchase method in accordance with IFRS 3 'Business Combinations' (2004). Goodwill on those combinations represents the difference between the cost of the acquisition and the fair value of the identifiable net assets acquired and did not include the value of the non-controlling interest. Transaction costs incurred in connection with those business combinations, such as legal fees, due diligence fees and other professional fees, were included in the cost of acquisition.

Method 3: For business combinations prior to 1 January 2004, goodwill is included at its deemed cost, which represents the amount recorded under UK GAAP at that time less accumulated amortisation up to 31 December 2003. The classification and accounting treatment of business combinations occurring prior to 1 January 2004, the date of transition to IFRS, has not been reconsidered, as permitted under IFRS 1.

Other intangible assets

Intangible assets other than goodwill are those that are distinct and can be sold separately or which arise from legal rights.

The main intangible assets the Group has valued are formats, brands, licences, contractual arrangements, customer contracts and relationships and libraries.

Within ITV, there are two types of other intangible assets: those assets directly purchased by the Group for day-to-day operational purposes (such as software licences and development) and intangible assets identified as part of an acquisition of a business.

Intangible assets acquired directly by the Group are stated at cost less accumulated amortisation. Those separately identified intangible assets acquired as part of an acquisition or business combination are shown at fair value at the date of acquisition less accumulated amortisation.

Each class of intangible assets' valuation method on initial recognition, amortisation method and estimated useful life is set out in the table below:

Class of intangible asset	Amortisation method	Estimated useful life	Valuation method
Brands	Straight-line	8 to 14 years	Applying a royalty rate to the expected future revenue over the life of the brand.
Formats	Straight-line	up to 8 years	Expected future cash flows from those assets existing at the date of acquisition are estimated. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value.
Customer contracts	Straight-line or reducing balance as appropriate	up to 6 years	
Customer relationships	Straight-line	5 to 10 years	
Contractual arrangements	Straight-line	up to 10 years depending on the contract terms	Expected future cash flows from those contracts existing at the date of acquisition are estimated. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value.
Licences	Straight-line	11 to 29 years depending on term of licence	Start-up basis of expected future cash flows existing at the date of acquisition. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value. PSB licences are valued as a start-up business with only the licence in place.
Libraries and other	Sum of digits or straight-line as appropriate	up to 20 years	Initially at cost and subsequently at cost less accumulated amortisation.
Software licences and development	Straight-line	1 to 10 years	Initially at cost and subsequently at cost less accumulated amortisation.

Determining the fair value of intangible assets arising on acquisition requires judgement. The Directors make estimates regarding the timing and amount of future cash flows derived from exploiting the assets being acquired. The Directors then estimate an appropriate discount rate to apply to the forecast cash flows. Such estimates are based on current budgets and forecasts, extrapolated for an appropriate period taking into account growth rates, operating costs and the expected useful lives of assets. Judgements are also made regarding whether, and for how long, licences will be renewed; this drives our amortisation policy for those assets.

The Directors estimate the appropriate discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the assets or businesses being acquired.

Amortisation
Amortisation is charged to the income statement over the estimated useful lives of intangible assets unless such lives are judged to be indefinite. Indefinite life assets, such as goodwill, are not amortised but are tested for impairment at each year end.

Impairment
Goodwill is not subject to amortisation and is tested annually for impairment and when circumstances indicate that the carrying value may be impaired.

Other intangible assets are subject to amortisation and are reviewed for impairment whenever events or changes in circumstances indicate that the amount carried in the statement of financial position is less than its recoverable amount.

Determining whether the carrying amount of intangible assets has any indication of impairment requires judgement. Any impairment is recognised in the income statement.

An impairment test is performed by assessing the recoverable amount of each asset, or for goodwill the cash-generating unit ('CGU'), or group of CGUs, related to the goodwill. Total assets (which include goodwill) are grouped at the lowest levels for which there are separately identifiable cash flows.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value in use is based on the present value of the future cash flows expected to arise from the asset.

In testing for impairment, estimates are used in deriving cash flows and the discount rates. Such estimates reflect current market assessments of the risks specific to the asset and the time value of money. The estimation process is complex due to the inherent risks and uncertainties associated with long-term forecasting. If different estimates of the projected future cash flows or a different selection of an appropriate discount rate or long-term growth rate were made, these changes could materially alter the projected value of the cash flows of the asset, and as a consequence materially different amounts would be reported in the financial information.

Impairment losses in respect of goodwill cannot be reversed. In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Intangible assets

Intangible assets can be analysed as follows:

	Goodwill £m	Formats and brands £m	Customer contracts and relationships £m	Contractual arrangements £m	Licences £m	Libraries and other £m	Software licences and development £m	**Total £m**
Cost								
At 1 January 2018	3,889	544	436	11	176	101	135	5,292
Additions	–	–	–	–	–	–	27	27
Foreign exchange	15	7	2	–	–	2	2	28
Disposals, retirements and impairment	–	–	–	–	–	–	–	–
At 31 December 2018	3,904	551	438	11	176	103	164	5,347
Additions	–	–	–	–	–	1	57	58
Acquisitions	9	–	6	–	–	–	–	15
Foreign exchange	(16)	(21)	(3)	–	–	(1)	–	(41)
Disposals, retirements and impairment	–	–	–	–	–	–	(14)	(14)
At 31 December 2019	**3,897**	**530**	**441**	**11**	**176**	**103**	**207**	**5,365**
Amortisation and impairment								
At 1 January 2018	2,654	303	399	11	106	82	92	3,647
Charge for the year	–	43	16	–	6	4	7	76
Foreign exchange	–	3	3	–	–	3	1	10
Disposals, retirements and impairment	–	–	–	–	–	–	–	–
At 31 December 2018	2,654	349	418	11	112	89	100	3,733
Charge for the year	–	44	7	–	6	4	11	72
Foreign exchange	–	(11)	(3)	–	–	(2)	(2)	(18)
Disposals, retirements and impairment	–	–	–	–	–	–	(14)	(14)
At 31 December 2019	**2,654**	**382**	**422**	**11**	**118**	**91**	**95**	**3,773**
Net book value								
At 31 December 2019	**1,243**	**148**	**19**	**–**	**58**	**12**	**112**	**1,592**
At 31 December 2018	1,250	202	20	–	64	14	64	1,614

Goodwill impairment tests

The carrying amount of goodwill for each CGU is represented as follows:

	2019 £m	2018 £m
Broadcast	**386**	386
SDN	**76**	76
ITV Studios	**781**	788
	1,243	1,250

There has been no impairment charge for any CGU during the year (2018: £nil).

When assessing impairment, the recoverable amount of each CGU is based on value in use calculations. These calculations require the use of estimates, specifically: pre-tax cash flow projections; long-term growth rates; and a pre-tax market discount rate. Cash flow projections are based on the Group's current five year plan. Beyond the five year plan, these projections are extrapolated using an estimated nominal long-term growth rate of 1.5% (2018: 1.5%). The growth rate used is consistent with the long-term average growth rates for both the industry and the countries in which the CGUs are located and is appropriate because these are long-term businesses.

The discount rate has been updated for each CGU to reflect the latest market assumptions for the risk-free rate, the equity risk premium and the net cost of debt. There is currently no reasonably possible change in discount rate that would reduce the headroom in any CGU to zero.

Broadcast

The goodwill in this CGU arose as a result of the acquisition of broadcasting businesses since 1999, the largest of which was the merger of Carlton and Granada in 2004 to form ITV plc, which was treated as an acquisition of Carlton for accounting purposes. Broadcast goodwill also includes the goodwill arising on acquisition of UTV Limited in February 2016.

The main assumptions on which the forecast cash flow projections for this CGU are based include: the performance and share of the television advertising market; share of commercial impacts; programme and other costs; and the pre-tax market discount rate.

The key assumption in assessing the recoverable amount of Broadcast goodwill is the size of the television advertising market. In forming its assumptions about the television advertising market, the Group has used a combination of long-term trends, industry forecasts and in-house estimates, which place greater emphasis on recent experience. No impairment was identified. Also as part of the impairment review, a sensitivity of up to -10% of growth was applied to 2020 and -3% to 2021 with no subsequent recovery, with no impairment identified. The Directors believe that currently no reasonably possible change in these assumptions would reduce the headroom in this CGU to zero.

An impairment charge of £2,309 million was recognised in the Broadcast CGU in 2008, as a result of the downturn in the short-term outlook for the advertising market. The current year impairment review, set out above, results in significant headroom in excess of the 2008 impairment amount. Even though the advertising market has improved since then and the impaired assets are still owned and operated by the Group, due to accounting rules the impairment cannot be reversed.

A pre-tax market discount rate of 8.7% (2018: 8.5%) has been used in discounting the projected cash flows.

SDN
Goodwill was recognised when the Group acquired SDN (the licence operator for DTT Multiplex A) in 2005. It represented the wider strategic benefits of the acquisition specific to the Group, principally the enhanced ability to promote Freeview as a platform, business relationships with the channels which are on Multiplex A and additional capacity available from 2010. The licence is up for renewal in 2022.

The main assumptions on which the forecast cash flows are based are: income to be earned from renewals of medium-term contracts; the market price of available multiplex video streams; and the pre-tax market discount rate. These assumptions have been determined by using a combination of current contract terms, recent market transactions and in-house estimates of video stream availability and pricing. No impairment was identified.

As part of the impairment review, sensitivity was applied to the main assumptions with no impairment identified (2020: -5% growth, 2021: -10% growth, no renewal of the licence to operate in 2022). The Directors believe that currently no reasonably possible change in the cash flow assumptions would reduce the headroom in this CGU to zero.

A pre-tax market discount rate of 13.6% (2018: 10.2%) has been used in discounting the projected cash flows.

ITV Studios
The goodwill for ITV Studios has arisen as a result of the acquisition of production businesses since 1999. Significant balances were created from the acquisition by Granada of United News and Media's production businesses in 2000 and the merger of Granada and Carlton in 2004 to form ITV plc. ITV Studios goodwill also includes the goodwill arising from recent acquisitions since 2012, with the largest acquisitions being Leftfield in 2014, followed by Talpa in 2015.

The key assumptions on which the forecast cash flows for the whole CGU were based include revenue (including international revenue and the ITV Studios share of ITV output, growth in commissions and hours produced), margins and the pre-tax market discount rate. These assumptions have been determined by using a combination of extrapolation of historical trends within the business, industry estimates and in-house estimates of growth rates in all markets. No impairment was identified.

As part of the impairment review, sensitivity was applied to the main assumptions with no impairment identified (2020: -10% growth, 2021: 0% growth). The Directors believe that currently no reasonably possible change in the cash flow assumptions would reduce the headroom in this CGU to zero.

A pre-tax market discount rate of 8.8% (2018: 9.5%) has been used in discounting the projected cash flows.

Following the organisational redesign and acquisitions made by ITV Studios in 2019, the Directors considered how assets and resources are shared across the ITV Studios division and the level of integration within the management structure for the purposes of reporting and strategic decision-making. They concluded that a single ITV Studios CGU continues to remain appropriate.

3.4 Acquisitions

Keeping it simple

The following section outlines what the Group has acquired in the year.

Most of the deals are structured so that a large part of the payment made to the sellers ('consideration') is determined based on future performance. This is done so that the Group can both align incentives for growth, while reducing risk so that total consideration reflects actual performance, not expected.

IFRS accounting standards require some of this consideration to be included in the purchase price used in determining goodwill ('contingent consideration'). Examples of contingent consideration include top-up payments and recoupable performance adjustments. Any remaining consideration is required to be recognised as a liability or expense outside of acquisition accounting (put option liabilities and employment-linked contingent payments known as 'earnout' payments).

The Group considers the income statement impact of all consideration to be capital in nature and so excludes it from adjusted profit. Therefore, for each acquisition below, the distinction between the types of consideration has been explained in detail.

Acquisitions in the current year – 2019
In 2019, the Group made payments totalling £11 million for two acquisitions within the ITV Studios operating segment. The businesses fit with the strategy of strengthening the Group's existing position as a producer and global distributor of world-class content.

Armoza International Media Limited
On 31 July 2019, the Group purchased 100% of the share capital of Armoza International Media Ltd, one of Israel's leading television developers and distributors. Armoza's catalogue numbers over 100 formats, including the prime time singing show The Four, commissioned in over 15 territories and game show Still Standing, Israel's most successful international non-scripted format with over 6,000 episodes globally.

Monumental Television Limited
On 18 July 2019, the Group increased its stake in Monumental Television from 26% to a 51% majority in the UK production company. Monumental Television are producers of Harlots for Hulu, available via Starzplay in the UK, and Ghosts on BBC One.

Acquisition accounting:
Put and call options over the non-controlling interest and performance-related top up payments have been granted, with payments expected in the next five years. The total maximum consideration for the acquisitions is capped at £62 million (undiscounted). All future payments are dependent on future performance of the business and linked to ongoing employment.

Acquisitions in the prior year – 2018

The Group did not make any acquisitions in 2018.

	2019 Total* £m	2018 Total £m
Consideration transferred:		
Initial consideration (net of cash acquired) (Note A)	**11**	–
Total consideration	**11**	–
Fair value of net assets acquired:		
Intangible assets	**6**	–
Deferred tax liabilities	**(1)**	–
Inventory	**9**	–
Trade and other receivables	**6**	–
Trade and other payables	**(14)**	–
Borrowings	**(3)**	–
Net assets held for sale	**–**	–
Fair value of net assets	**3**	–
Non-controlling interest measured at fair value (Note B)	**1**	–
Goodwill	**9**	–
Other information		
Present value of the expected liability on put options	**–**	–
Present value of the expected earnout payment at acquisition	**7**	–
Contributions to the Group's performance:		
From date of acquisition		
Revenue	**9**	–
EBITA before exceptionals	**1**	–
Proforma – January to December		
Revenue	**19**	–
EBITA before exceptionals	**1**	–

* Provisional values as the acquisition accounting is finalised in the 12 month period following acquisition.

Note A: Consideration for all acquisitions is net of cash acquired and estimated debt and working capital settlements. Cash acquired during the period is £4 million (2018: Nil).

Note B: Non-controlling interest arises where the Group acquires less than 100% of the equity interest in a business, but obtains control.

3.5 Investments

Keeping it simple

The Group holds non-controlling interests in a number of different entities. Accounting for these investments, and the Group's share of any profits and losses, depends on the level of control or influence the Group is granted via its interest. The three principal types of non-consolidated investments are: joint arrangements (joint ventures or joint operations), associates, and equity investments.

A joint arrangement is an investment where the Group has joint control, with one or more third parties. An associate is an entity over which the Group has significant influence (i.e. power to participate in the investee's financial and operating decisions). Any other investment is an equity investment.

Accounting policies

For joint ventures and associates, the Group applies equity accounting. Under this method, it recognises the investment in the entity at cost and subsequently adjusts this for its share of profits or losses, which are recognised in the income statement within non-operating items and included in adjusted profit. Where the Group has invested in associates by acquiring preference shares or convertible debt instruments, the share of profit recognised is usually £nil as no equity interest exists. Equity investments are held at fair value unless the investment is a start-up business, in which case it is valued at cost and assessed for impairment.

The carrying amount of each category of our investments is represented as follows:

	2019 £m	2018 £m
Joint ventures	**1**	1
Associates	**43**	41
Equity investments	**8**	9
	52	51

Please refer to the list of principal investments held at 31 December 2019.

3.6 Provisions

Keeping it simple

A provision is recognised by the Group where an obligation exists relating to events in the past and it is probable that cash will be paid to settle it.

A provision is made where the Group is not certain how much cash will be required to settle a liability, so an estimate is required. The main estimates relate to the cost of holding properties that are no longer in use by the Group, the likelihood of settling legal claims and contracts the Group has entered into that are now unprofitable.

Accounting policies

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation arising from past events, it is probable cash will be paid to settle it and the amount can be estimated reliably. Provisions are determined by discounting the expected future cash flows by a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a financing cost in the income statement. The value of the provision is determined based on assumptions and estimates in relation to the amount and timing of actual cash flows, which are dependent on future events.

Provisions

The movements in provisions during the year are as follows:

	Contract provisions £m	Property provisions £m	Legal and Other provisions £m	**Total £m**
At 31 December 2018	2	2	16	20
Released	–	–	(13)	(13)
At 31 December 2019	**2**	**2**	**3**	**7**

Provisions of £2 million are classified as current liabilities (2018: £16 million). Unwind of the discount is £nil in 2019 and 2018.

Contract provisions comprise onerous commitments on playout and related services that are not expected to be utilised over the remaining contract period.

Property provisions primarily relate to expected dilapidation costs at rental properties.

Legal and Other provisions total £3 million (31 December 2018: £16 million).

In 2018, this included a £13m provision for potential liabilities that may arise due to an ongoing legal dispute with the Pensions Regulator in respect of the Box Clever Pension Scheme. Historically this has been held as a provision on the basis that there were a number of potential resolutions available including a potential negotiated settlement. Following the Supreme Court's decision to refuse to hear the Group's appeal, the Pensions Regulator will issue Financial Support Directions (FSDs) in the near future. In the first instance the Group will seek to establish whether the amount and form of any financial support can be agreed with the Pensions Regulator, but given the significant number of undecided issues both as to the quantum and form of financial support that it would be reasonable to provide, the Group is no longer able to reliably estimate the cost of resolving this matter. Accordingly, it is no longer appropriate to carry this provision, and the Directors believe this is now a contingent liability (see note 5.2 for further details).

3.7 Pensions

Keeping it simple

In this note, we explain the accounting policies governing the Group's pension schemes, followed by analysis of the components of the net defined benefit pension deficit, including assumptions made, and where the related movements have been recognised in the financial information. In addition, we have placed text boxes to explain some of the technical terms used in the disclosure.

What are the Group's pension schemes?
There are two types of pension schemes. A 'Defined Contribution' scheme that is open to ITV employees, and a number of 'Defined Benefit' schemes that have been closed to new members since 2006 and closed to future accrual in 2017. In 2016, on acquisition of UTV Limited, the Group took over the UTV Defined Benefit Scheme, which closed to future accrual at the end of March 2019.

What is a Defined Contribution scheme?
The Defined Contribution scheme is where the Group makes fixed payments into a separate fund on behalf of those employees participating in saving for their retirement. ITV has no further obligation to the participating employee and the risks and rewards associated with this type of scheme are assumed by the members rather than the Group. Although the Trustee of the scheme makes available a range of investment options, it is the members' responsibility to make investment decisions relating to their retirement benefits.

What is a Defined Benefit scheme?
In a Defined Benefit scheme, members receive payments during retirement, the value of which is dependent on factors such as salary and length of service. The Group makes contributions to the scheme, a separate trustee-administered fund that is not consolidated in these financial information, but is reflected on the defined benefit pension deficit line on the consolidated statement of financial position.

It is the responsibility of the Trustee to manage and invest the assets of the Scheme and its funding position. The Trustee, appointed according to the terms of the Scheme's documentation, is required to act in the best interest of the members and is responsible for managing and investing the assets of the Scheme and its funding position.

The Group has a Pension Steering Committee, which liaises with the Trustee and has oversight of the management of the pension schemes and underlying risks.

In the event of poor investment returns, the Group may need to address this through a combination of increased levels of contribution or by making adjustments to the scheme. Schemes can be funded, where regular cash contributions are made by the employer into a fund which is invested, or unfunded, where no regular money or assets are required to be put aside to cover future payments but in some cases security is required.

The accounting defined benefit pension deficit (IAS 19) is different from the actuarial valuation deficit as they are calculated on the basis of different assumptions, such as discount rate. The accounting defined benefit pension deficit (IAS 19) figure is calculated as at the balance sheet date, and the actuarial deficit was calculated for the last triennial valuation as of 1 January 2017 for the ITV Pension Scheme and 30 June 2017 for the UTV Pension Scheme.

Accounting policies

Defined contribution scheme

Obligations under the Group's defined contribution schemes are recognised as an operating cost in the income statement as incurred. For 2019, total contributions expensed were £23 million (2018: £21 million).

Defined benefit scheme

The Group's obligation in respect of the Defined Benefit Scheme is calculated by estimating the amount of future retirement benefit that eligible employees ('members') have earned during their services. That benefit payable in the future is discounted to today's value and then the fair value of scheme assets is deducted to measure the defined benefit pension position.

Unless otherwise stated, references to Defined Benefit Schemes ('the Schemes') within this note refer to the ITV Pension Scheme, the unfunded scheme and the UTV Scheme combined. Details on each scheme are provided below.

The liabilities of the Schemes are measured by discounting the best estimate of future cash flows to be paid using the 'projected unit' method. These calculations are complex and are performed by a qualified actuary. There are many judgements and estimates necessary to calculate the Group's estimated liabilities, the main assumptions are set out later in this section. Movements in assumptions during the year are called 'actuarial gains and losses' and these are recognised in the period in which they arise through the statement of comprehensive income.

The latest triennial valuation of the ITV Pension Scheme was undertaken as at 1 January 2017 by an independent actuary appointed by the Trustee of the Scheme and agreed in early 2018. The combined funding deficits of the ITV Pension Scheme as at 1 January 2017 amounted to £470 million. The deficit funding contributions for the ITV Pension Scheme will be £60 million per annum. The next triennial valuation will be as at 1 January 2020. This will drive subsequent contribution rates.

An unfunded scheme in relation to the benefits for former members who accrued benefits in excess of the maximum allowed for tax purposes is accounted for under IAS 19 and the Group is responsible for meeting the pension obligations as they fall due. For the four former Granada executives within the unfunded scheme, there is additional security compared with the ITV main scheme, in the form of a charge over gilts held by the Group. Therefore, the £58 million securitised gilts have been classified as other pension assets to reflect the Group's net pension deficit.

Due to the size of the UTV Pension Scheme, the Directors present the results and position of the UTV Scheme within this note combined with the existing ITV Schemes. The latest triennial valuation was undertaken as at 30 June 2017 and was agreed during the second half of 2018. The next triennial valuation will be as at 30 June 2020.

The sponsoring company of the ITV Pension Scheme is ITV Services Limited, the unfunded scheme is Granada Group Limited and the UTV Scheme is sponsored by UTV Limited.

The defined benefit pension deficit

Net pension deficit of £87 million at 31 December 2019 (2018: £38 million) is stated after including the unfunded scheme security asset of £58 million (2018: £49 million).

The totals recognised in the current and previous years are:

	2019 £m	2018 £m
Total defined benefit scheme obligations	**(4,037)**	(3,719)
Total defined benefit scheme assets	**3,892**	3,632
Defined benefit pension deficit (IAS 19)	**(145)**	(87)
Presented as:		
Defined benefit pension surplus*	**17**	19
Defined benefit pension deficit	**(162)**	(106)
Defined benefit pension deficit (IAS 19)	**(145)**	(87)
Other pension asset	**58**	49
Net pension deficit	**(87)**	(38)

* The defined benefit pension surplus relates solely to the UTV Scheme. The defined benefit scheme assets in the UTV Scheme were £133 million as at 31 December 2019 (2018: £126 million) and the defined benefit scheme obligations were £116 million (2018: £107 million).

The remaining sections provide further detail of the value of the Scheme's assets and liabilities, how these are accounted for and the impact on the financial information.

Defined benefit scheme obligations

Keeping it simple

What causes movements in the defined benefit pension obligations?

The areas that impact the defined benefit obligation (the pension scheme liabilities) position at the year end are as follows:

- **Current service cost** – the cost to the Group of the future benefits earned by members that relates to the members' service in the current year. This is charged to operating costs in the income statement
- **Past service cost** – is a change in present value of the benefits built up by the members in the prior periods; can be positive or negative resulting from changes to the existing plan as a result of an agreement between ITV and employees or legislative change (including legal rulings) or as a result of significant reduction by ITV in the number of employees covered by the plan (curtailment)
- **Interest cost** – the pension obligations payable in the future are discounted to the present value at year end. A discount factor is used to determine the current value today of the future cost. The interest cost is the unwinding of one year's movement in the present value of the obligation. It is broadly determined by multiplying the discount rate at the beginning of the period by the updated present value of the obligation during the period. The discount rate is a key assumption explained later in this section. This interest cost is recognised through net financing costs in the income statement (see note 4.4)
- **Actuarial gains or losses** – there are broadly two causes of actuarial movements: 'experience' adjustments, which arise when comparing assumptions made when estimating the liabilities and what has actually occurred, and adjustments resulting from changes in actuarial assumptions e.g. movements in corporate bond yields or change in mortality. Key assumptions are explained in detail later in this section. Actuarial gains or losses are recognised through other comprehensive income
- **Benefits paid** – any cash benefits paid out by the Scheme will reduce the obligation
- **One-off events** – for example, the acquisition of UTV Limited

The movement in the present value of the Group's defined benefit obligation is analysed below:

	2019 £m	2018 £m
Defined benefit obligation at 1 January	**3,719**	3,987
Past service cost		
– GMP equalisation	**–**	6
– Changes in relation to pension increases	**–**	(15)
– Pension increase exchange option	**–**	5
– Curtailment credit for the UTV scheme closure to future accrual	**(1)**	–
Interest cost	**103**	97
Actuarial loss/ (gain)	**410**	(166)
Benefits paid	**(194)**	(195)
Defined benefit obligation at 31 December	**4,037**	3,719

Of the above total defined benefit obligation at 31 December 2019, £60 million relates to the unfunded schemes (2018: £56 million).

In March 2019, the UTV scheme closed to future accrual which resulted in a past service credit or curtailment credit of £1 million.

Assumptions used to estimate the Scheme obligations

Keeping it simple

What are the main assumptions used to estimate the Scheme obligations?
The main assumptions are:
- An estimate of increases in pension payments
- The life expectancy of members
- The effect of inflation on all these factors and
- The discount rate used to estimate the present day fair value of these obligations

How do we determine the appropriate assumptions?
The Group takes independent actuarial advice relating to the appropriateness of the assumptions used.

IFRS requires that we estimate a discount rate by reference to high-quality fixed income investments in the UK that match the estimated term of the pension obligations.

The inflation assumption has been set by looking at the difference between the yields on fixed and index-linked Government bonds. The inflation assumption is used as a basis for the remaining financial assumptions, except where caps have been implemented.

The discount rate has therefore been obtained using the yields available on AA rated corporate bonds, which match projected cash flows. The Group's estimate of the weighted average term of the liabilities is 16 years (2018: 15 years).

The principal assumptions used in the Scheme's valuations at the year end were:

	2019	2018
Discount rate	**2.05%**	2.85%
Inflation assumption (RPI)	**3.00%**	3.20%
Rate of increase in pension payment (LPI[1] 5% pension increases)	**2.90%**	3.05%
Rate of increase to deferred pensions (CPI)	**2.20%**	2.20%

1. Limited Price Index.

The table below reflects published mortality investigation data in conjunction with the results of investigations into the mortality experience of Scheme members. The assumed life expectations on retirement are:

	2019	2019	2018	2018
Retiring today at age	**60**	**65**	60	65
Males	**27.3**	**22.6**	27.2	22.5
Females	**29.4**	**24.6**	29.3	24.5
Retiring in 20 years at age	**60**	**65**	60	65
Males	**28.9**	**24.1**	28.8	24.0
Females	**31.0**	**26.1**	30.9	26.0

The net pension deficit is sensitive to changes in assumptions. These are disclosed further in this section.

Total defined benefit scheme assets

Keeping it simple

The Scheme holds assets across a number of different classes, which are managed by the Trustee, who consults with the Group on changes to its investment policy.

What are the pension Scheme assets?
At 31 December 2019, the Scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities and insurance policies matching the pensions due to certain members. The tables below set out the major categories of assets.

Financial instruments are in place in order to provide protection against changes in market factors (interest rates and inflation), which could act to increase the net pension deficit.

One such instrument is the longevity swap, which the Scheme transacted in 2011 to obtain protection against the effect of increases in the life expectation of the majority of pensioner members at that date. Under the swap, the Trustee agreed to make pre-determined payments in return for payments to meet the specified pension obligations as they fall due, irrespective of how long the members and their dependants live. The difference in the present values of these two streams of payments is reflected in the Scheme assets. The swap had a nil valuation at inception and, using market-based assumptions, is subsequently adjusted for changes in the market life expectancy and market discount rates, in line with its fair value.

How do we measure the pension Scheme assets?
Defined benefit scheme assets are measured at their fair value and can change due to the following:

- Interest income on scheme assets – this is determined by multiplying the fair value of the Scheme assets by the discount rate, both taken as of the beginning of the year. This is recognised through net financing costs in the income statement
- Return on assets arise from differences between the actual return and interest income on Scheme assets and are recognised through other comprehensive income
- Employer's contributions are paid into the Scheme to be managed and invested and
- Benefits and administrative expenses paid out by the Schemes will lower the fair value of the Scheme's assets

The movement in the fair value of the defined benefit scheme's assets is analysed below:

	2019 £m	2018 £m
Fair value of Scheme assets at 1 January	**3,632**	3,866
Interest income on Scheme assets	**102**	95
Return on assets, excluding interest income	**276**	(218)
Employer contributions	**82**	90
Benefits paid	**(194)**	(195)
Administrative expenses paid	**(6)**	(6)
Fair value of Scheme assets at 31 December	**3,892**	3,632

How are the Scheme's assets invested?
At 31 December 2019, the Scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities and insurance policies matching pensions due to certain members. The Trustee is responsible for deciding the investment strategy for the Scheme's assets, although changes in investment policies require consultation with the Group. The assets are invested in different classes to hedge against unfavourable movements in the funding obligation. When selecting the mix of assets to hold, and considering their related risks and returns, the Trustee will weigh up the variability of returns against the target long-term rate of return on the overall portfolio.

The fair value of the Scheme's assets is shown in the following table by major category:

	Market value 2019 £m		Market value 2018 £m	
Liability hedging assets				
Fixed interest gilts	**689**		475	
Index-linked interest gilts	**886**		1,067	
Interest rate and inflation hedging derivatives (swaps and repos)	**127**		230	
	1,702	**43%**	1,772	49%
Other bonds	**1,425**	**37%**	834	23%
Return seeking investments				
Quoted equities	**76**		169	
Infrastructure	**161**		171	
Property	**134**		106	
Hedge funds/alternatives	**49**		172	
	420	**11%**	618	17%
Other investments				
Cash and cash equivalents	**140**		183	
Insurance policies	**544**		530	
Longevity swap fair value	**(339)**		(305)	
	345	**9%**	408	11%
Total Scheme assets	**3,892**		3,632	100%

Included in the above are overseas assets of £410 million (2018: £725 million), comprised of quoted equities of £72 million (2018: £68 million) and other assets of £338 million (2018: £657 million).

In November 2018, the Pension Trustee entered into a bulk annuity insurance contract in respect of the benefits of two sections of the ITV Pension Scheme. This type of deal is also known as a 'Buy-in'. A buy-in is where the Trustee purchases an insurance policy which is effectively a Scheme asset which pays the members benefits. The ultimate obligation to pay the members benefits still remains with the scheme. The assets in respect of the buy-in are included in the insurance policies listed above.

The Trustee entered a longevity swap in 2011, which provides cash flow certainty by hedging the risk of increasing life expectancy over the next 70 years for 11,700 of current pensioners at inception covering £1.7 billion of the pension obligation. The fair value of the longevity swap equals the discounted value of the projected net cash flows resulting from the contract and has reduced in value in 2019.

Defined pension deficit sensitivities

Keeping it simple

Which assumptions have the biggest impact on the Scheme?

It is important to note that comparatively small changes in the assumptions used may have a significant effect on the consolidated income statement and statement of financial position. This 'sensitivity' to change is analysed below to demonstrate how small changes in assumptions can have a large impact on the estimation of the defined benefit pension deficit. The Trustee manages the investment, mortality and inflation risks to ensure the pension obligations are met as they fall due.

The investment strategy is aimed at the valuation obligation rather than IAS 19 defined pension deficit value. As such, the effectiveness of the risk hedging strategies on a valuation basis will not be the same as on an accounting basis. Those hedging strategies have significant impact on the movement in the net pension deficit as assumptions change, offsetting the impacts on the obligation disclosed below.

In practice, changes in one assumption may be accompanied by offsetting changes in another assumption (although this is not always the case). Changes in the assumptions may occur at the same time as changes in the market value of Scheme assets, which may or may not offset the changes in assumptions.

Changes in assumptions have a different level of impact as the value of the net pension deficit fluctuates, because the relationship between them is not linear.

The analysis below considers the impact of a single change in principal assumptions on the defined benefit obligation while keeping the other assumptions unchanged and does not take into account any risk hedging strategies:

Assumption	Change in assumption	Impact on defined benefit obligation
Discount rate	Increase by 0.1%	Decrease by £60 million
	Decrease by 0.1%	Increase by £60 million
Rate of inflation (Retail Price Index)	Increase by 0.1%	Increase by £30 million
	Decrease by 0.1%	Decrease by £20 million
Rate of inflation (Consumer Price Index)	Increase by 0.1%	Increase by £10 million
	Decrease by 0.1%	Decrease by £10 million
Life expectancies	Increase by one year	Increase by £135 million

The sensitivity analysis has been determined by extrapolating the impact on the defined benefit obligation at the year end with changes in key assumptions that might reasonably occur.

While the Scheme's risk hedging strategy is aimed at a valuation basis, the Directors estimate that on an accounting basis it would significantly reduce the above impact on the defined benefit obligation.

In particular, an increase in assumption of life expectancies by one year would benefit from an estimated increase of the value of the longevity swap by £100 million and the value of the bulk annuity insurance contracts by £15 million, resulting in a net increase in the defined pension deficit of £20 million.

The insured assets in respect of the buy-in will move in line with the change to the defined benefit obligation, partially offsetting the change to the impacts in the table above.

Further, the ITV Pension Scheme invests in UK Government bonds and interest rate and inflation swap contracts and therefore movements in the defined benefit obligation are typically offset, to an extent, by asset movements.

Keeping it simple

What was the impact of movements on the Scheme's assets and liabilities?
The sections above describe how the Scheme obligations and assets are comprised and measured. The following section sets out the impact of various movements and expenses on the Scheme on the Group's financial information.

Amounts recognised through the income statement
Amounts recognised through the income statement are as follows:

	2019 £m	2018 £m
Amount charged to operating costs:		
Scheme administration expenses	**(6)**	(6)
	(6)	(6)
Amount charged to exceptional costs:		
Past service credit	**1**	4
Amount charged to net financing costs:		
Net interest on defined benefit obligation	**(1)**	(2)
Total charged in the consolidated income statement	**(6)**	(4)

Amounts recognised through the consolidated statement of comprehensive income
The amounts recognised through the consolidated statement of comprehensive income/ (cost) are:

	2019 £m	2018 £m
Remeasurement gains/(losses):		
Return on scheme assets excluding interest income	**276**	(218)
Actuarial gains/(losses) on liabilities arising from change in:		
– experience adjustments	**(7)**	(6)
– financial assumptions	**(403)**	172
– demographic assumptions	**–**	–
	(410)	166
Total recognised in the consolidated statement of comprehensive income	**(134)**	(52)

The £404 million actuarial loss on the Scheme's liabilities was principally due to changes in bond yields, offset by a reduction in the market implied inflation. The £276 million gain on the Scheme's assets follows a strong performance in the equity markets.

Addressing the defined benefit pension deficit

Keeping it simple

The Group works closely with the Trustee to agree appropriate levels of funding for the Scheme. This involves agreeing a Schedule of Contributions at each triennial valuation, which specifies the contribution rates for the employer and, where relevant, scheme members and the date these contributions are due. A recovery plan setting out the steps that will be taken to address a funding shortfall is also agreed.

In the event that the Group's defined benefit scheme is in a net liability position, the Directors must take steps to manage the size of the deficit. Apart from the funding agreements mentioned above, this could involve pledging additional assets to the Scheme, as was the case in the SDN and London Television Centre pension funding partnerships.

The levels of ongoing contributions to the Scheme are based on the expected future cash flows of the Scheme. Contributions in 2020 for administration expenses are expected to be in the region of £6 million (2019: £6 million) and deficit funding contributions for the main ITV scheme in 2020 are expected to be £60 million (2019: £60 million), assuming current contribution rates continue as agreed with the Trustee.

The Group has two asset-backed pension funding agreements with the Trustee and makes annual payments of £11 million for 12 years from 2011, and also £3 million, increasing by 5% per annum until 2038. In 2020, a payment of £14 million is expected as a result of those agreements.

In November 2019 the London Television Centre was sold. £50 million of the proceeds has been held in a restricted bank account as a replacement asset in the pension funding arrangement.

For the SDN structure, as the value of the security provided by SDN diminishes within the arrangement, the Group is contracted to provide additional collateral to support the original value of the structure at the rate of £50.7 million each year from March 2019 to March 2022. This cash collateral would not leave the Group, but would be maintained in a restricted bank account. The Trustee agreed to accept a bank guarantee as an alternative to the 2019 collateral instalment with the result that £101 million becomes due in March 2020, however we are looking to agree with the Trustee a similar approach in respect of that payment. The pension funding agreement is currently being reviewed as the Group looks to replace it with an alternative asset. If the asset in the SDN structure is not replaced, the Group will pay to the pension scheme the lower of any deficit calculated on the funding basis in 2022 or £200 million.

These structures are being reviewed in 2020.

IFRIC 14 clarifies how the asset ceiling rules should be applied if the Schemes are expected to be in surplus, for example as a result of deficit funding agreements. The Group has determined that it has an unconditional right to a refund of any surplus assets if the Schemes are run off until the last member dies. On this basis, IFRIC 14 rules do not cause any change in the pension deficit accounting or disclosures.

Notes to the Financial information
Section 4: Capital Structure and Financing Costs

In this section

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

The Directors determine the appropriate capital structure of ITV; specifically how much is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's activities both now and in the future. Maintaining capital discipline and balance sheet efficiency remains important to the Group. Any potential courses of action in relation to this will take into account the Group's liquidity needs, flexibility to invest in the business, pension deficit initiatives and impact on credit ratings.

The Directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results. The Directors also take into account the available realised distributable reserves from which a dividend would be paid in addition to liquidity and solvency of the Group. The Directors also review the above in the context of the Group's ability to continue as a going concern, to execute the strategy and to invest in opportunities to grow the business and enhance shareholder value. The ITV plc Board oversees governance and approves tax and treasury related policies and procedures with the business.

4.1 Net debt

Keeping it simple

Net debt is the Group's key measure used to evaluate total cash resources net of the current outstanding debt. Adjusted net debt is also monitored by the Group and more closely reflects how credit agencies see the Group's gearing. To arrive at the adjusted net debt amount, we add our total undiscounted expected contingent payments on acquisitions, our net pension deficit and our discounted lease liabilities. A full analysis and discussion of adjusted net debt is included in the Operating and Performance Review.

The tables below analyse movements in the components of reported net debt during the year:

	1 January 2019 £m	Net cash flow £m	Acquisitions* £m	Currency and non-cash movements £m	**31 December 2019 £m**
Cash	85	7	4	(3)	**93**
Cash equivalents	10	143	–	–	**153**
Total cash and cash equivalents	95	150	4	(3)	**246**
Loans and facilities due within one year	(54)	47	(3)	–	**(10)**
Loans and facilities due after one year	(993)	(84)	–	61	**(1,016)**
Total debt	(1,047)	(37)	(3)	61	**(1,026)**
Currency component of swaps held against euro denominated bonds	25	(25)	–	(24)	**(24)**
Net debt **	(927)	88	1	34	**(804)**

* Balances as at acquisition date

** IFRS 16 lease liabilities are detailed in section 4.6.

	1 January 2018 £m	Net cash flow £m	Currency and non-cash movements £m	31 December 2018 £m
Cash	121	(37)	1	85
Cash equivalents	5	5	–	10
Total cash and cash equivalents	126	(32)	1	95
Loans and facilities due within one year	(76)	22	–	(54)
Loans and facilities due after one year	(982)	1	(12)	(993)
Total debt	(1,058)	23	(12)	(1,047)
Currency component of swaps held against euro denominated bonds	20	–	5	25
Net debt	(912)	(9)	(6)	(927)

Cash and cash equivalents

Included within cash equivalents is £50 million (2018: £nil), the use of which is restricted to meeting the commitments under the asset-backed pension agreements, and £25 million (2018: £nil) restricted money market funds. See note 3.7 for further details on the asset-backed pension arrangements.

Loans and facilities due within one year

At various periods during the year, the Group drew down on the £630 million Revolving Credit Facility ('RCF') to meet short-term funding requirements. At 31 December 2019, the Group had drawings of £nil under the RCF (2018: £50 million), leaving £630 million available to draw down at year end. The maximum draw down of the RCF during the year was £400 million (2018: £400 million).

Loans and loan notes due after one year

During the year the Group issued a new seven year €600 million Eurobond and used the proceeds to buyback of €506 million of old bonds.

The Group has in issue the following Eurobonds:

- €335 million at a fixed coupon of 2.125%, which matures in September 2022
- €259 million at a fixed coupon of 2.0%, which will mature in December 2023
- €600 million at a fixed coupon of 1.375%, which matures in September 2026

The bond issued in September 2019 has been swapped back to sterling using a number of cross-currency interest rate swaps. The resulting fixed rate payable in sterling is c. 2.9%.

4.2 Borrowings

Keeping it simple

The Group borrows money from financial institutions in the form of bonds, bank facilities and other financial instruments. The interest payable on these instruments is shown in the net financing costs note (note 4.4).

There are Board-approved policies in place to manage the Group's financial risks. Macroeconomic market risks, which impact currency transactions and interest rates, are discussed in note 4.3. Credit and liquidity risks are set out below.

- Credit risk: the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations and
- Liquidity risk: the risk that the Group will not be able to meet its financial obligations as they fall due

The Group is required to disclose the fair value of its debt instruments. The fair value is the amount the Group would pay a third party to transfer the liability. This estimation of fair value is consistent with instruments valued under level 1 in note 4.5.

Accounting policies

Borrowings

Borrowings are recognised initially at fair value less directly attributable transaction costs, with subsequent measurement at amortised cost using the effective interest rate method. Under the amortised cost method, the difference between the amount initially recognised and the redemption value is recorded in the income statement over the period of the borrowing on an effective interest rate basis.

Managing credit and liquidity risk

Credit risk

The Group's maximum exposure to credit risk is represented by the carrying amount of derivative financial assets (see note 4.3), trade receivables (see note 3.1.3), and cash and cash equivalents (see note 4.1).

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The majority of trade receivables relate to airtime sales contracts with advertising agencies and advertisers. Credit insurance has been taken out against these companies to minimise the impact on the Group in the event of a possible default. The Group also reviews other significant receivables and will seek to take out credit insurance on an individual basis where appropriate.

In 2016, the Group signed a £100 million non-recourse receivables purchase agreement. As at 31 December 2019, this was fully utilised with £nil remaining available under the agreement (2018: £nil).

The receivables in relation to the invoices sold were derecognised and the Group collects cash on behalf of the counterparty as payments fall due.

Cash

The Group operates investment guidelines with respect to surplus cash that emphasise preservation of capital. The guidelines set out procedures and limits on counterparty risk and maturity profile of cash placed. Counterparty limits for cash deposits are largely based upon long-term ratings published by the major credit rating agencies.

Borrowings

ITV is rated as investment grade by Moody's and S&P. ITV's credit ratings, the cost of credit default swap hedging and the absolute level of interest rates are key determinants in the cost of new borrowings for ITV.

Liquidity risk

The Group's financing policy is to fund itself for the medium to long-term by using debt instruments with a range of maturities and to ensure access to appropriate short-term borrowing facilities with a minimum of £250 million of undrawn facilities available at all times.

Long-term funding comes from the UK and European capital markets, while any short to medium-term debt requirements are provided through bank credit facilities totalling £930 million (see below). Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn bank facilities and cash and cash equivalents) on the basis of expected cash flows. This monitoring includes financial ratios to assess any possible future impact on credit ratings and headroom and takes into account the accessibility of cash and cash equivalents.

The Group has a £630 million Revolving Credit Facility with a group of relationship banks. This facility matures in 2023 and is committed with leverage and interest cover financial covenants. In addition, the Group has £300 million of financial covenant free financing, which runs to June 2021.

Fair value versus book value
The tables below provide fair value information for the Group's borrowings:

	Maturity	Book value 2019 £m	Book value 2018 £m	Fair value 2019 £m	Fair value 2018 £m
Loans due within one year					
£630 million Revolving Credit Facility	Various	**–**	50	**–**	50
Other short-term loans	Various	**10**	4	**10**	4
		10	54	**10**	54
Loans due in more than one year					
€335 (previously €600) million Eurobond	Sept 2022	**283**	536	**297**	555
€259 (previously €500) million Eurobond	Dec 2023	**219**	449	**231**	456
€600 million Eurobond	Sept 2026	**508**	–	**511**	–
Other long-term loans	Various	**6**	8	**6**	8
		1,016	993	**1,045**	1,019
		1,026	1,047	**1,055**	1,073

4.3 Managing market risks: derivative financial instruments

Keeping it simple

What is a derivative?
A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables such as exchange rates or interest rates and is entered into for a fixed period. A hedge is where a derivative is used to manage exposure in an underlying variable.

The Group is exposed to certain market risks. In accordance with Board-approved policies, which are set out in this note, the Group manages these risks by using derivative financial instruments to hedge the underlying exposures.

Why do we need them?
The key market risks facing the Group are:

- Currency risk arising from:
  i. Translation risk, that is the risk in the period of adverse currency fluctuations in the translation of foreign currency profits, assets and liabilities ('balance sheet risk') and non-functional currency monetary assets and liabilities ('income statement risk') and
  ii. Transaction risk, that is the risk that currency fluctuations will have a negative effect on the value of the Group's non-functional currency trading cash flows. A non-functional currency transaction is a transaction in any currency other than the reporting currency of the subsidiary
- Interest rate risk to the Group arises from significant changes in interest rates on borrowings issued at or swapped to floating rates

How do we use them?
The Group mainly employs three types of derivative financial instruments when managing its currency and interest rate risk:

- Foreign exchange swap contracts are derivative instruments used to hedge income statement translation risk arising from short-term intercompany loans denominated in a foreign currency
- Forward foreign exchange contracts are derivative instruments used to hedge transaction risk so they enable the sale or purchase of foreign currency at a known fixed rate on an agreed future date and
- Cross-currency interest rate swaps are derivative instruments used to exchange the principal and interest coupons in a debt instrument from one currency to another

Analysis of the derivatives used by the Group to hedge its exposure and the various methods used to calculate their respective fair values are detailed in this section.

Accounting policies
Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the income statement, except where derivatives qualify for cash flow hedge accounting. In this case, the effective portion of a cash flow hedge is recognised in other comprehensive income and presented in the hedging reserve within equity. The cumulative gain or loss is later reclassified to the income statement in the same period as the relevant hedged transaction is realised. Derivatives with positive fair values are recorded as assets and negative fair values as liabilities.

Determining fair value
The fair value of forward foreign exchange contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date from third parties. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and our current creditworthiness, as well as that of our swap counterparties.

Third-party valuations are used to fair value the Group's interest rate derivatives. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs.

How do we manage our currency and interest rate risk?

Currency risk

As the Group expands its international operations, the performance of the business becomes increasingly sensitive to movements in foreign exchange rates, primarily with respect to the US dollar and the euro.

The Group's foreign exchange policy is to use forward foreign exchange contracts to hedge material non-functional currency denominated costs or revenue for up to five years forward.

The Group ensures that its net exposure to foreign currency denominated cash balances is kept to a minimal level by using foreign currency swaps to exchange balances back into sterling or by buying or selling foreign currencies at spot rates when necessary.

The Group also utilises foreign exchange swaps and cross-currency interest rate swaps both to manage foreign currency cash flow timing differences and to hedge foreign currency denominated monetary items.

The Group's net investments in overseas subsidiaries may be hedged where the currency exposure is considered to be material. The Group designated a portion of its euro borrowings into a net investment hedge against its euro denominated assets following the acquisition of Talpa Media.

The following table highlights the Group's sensitivity to translation risk resulting from a 10% strengthening/weakening in sterling against the US dollar and euro, assuming all other variables are held constant:

	2019				2018			
	Revenue £m	**Adjusted EBITA £m**	**Profit after tax £m**	**Equity £m**	Revenue £m	Adjusted EBITA £m	Profit after tax £m	Equity £m
US dollar	**±50-60**	**±7-9**	**±1**	**±38**	±40-50	±7-9	–	±25
Euro	**±35-45**	**±4-6**	**±2**	**±17**	±45-55	±5-7	±2	±16

The key difference between the foreign currency sensitivity for adjusted EBITA and profit after tax is the impact on the US dollar and euro denominated exceptional costs, including acquisition-related costs, acquired intangible amortisation and net financing cost.

Interest rate risk

The Group's interest rate policy is to allow fixed rate gross debt to vary between 20% and 100% of total gross debt to accommodate floating rate borrowings under the Revolving Credit Facility.

At 31 December 2019, the Group's fixed rate debt represented 99% of total gross debt (2018: 99%). Consequently, a 1% movement in interest rates on floating rate debt would impact the 2019 post-tax profit for the year by less than £1 million (2018: £1 million).

For financial assets and liabilities classified at fair value through profit or loss, the movements in the year relating to changes in fair value and interest are not separated.

What is the value of our derivative financial instruments?

The following table shows the fair value of derivative financial instruments analysed by type of contract. Interest rate swap fair values exclude accrued interest.

At 31 December 2019	**Assets £m**	**Liabilities £m**
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	**3**	**(3)**
Foreign exchange forward contracts and swaps – fair value through profit or loss	**3**	**(2)**
Non-current		
Cross-currency interest swaps – cash flow hedges	**–**	**(39)**
Foreign exchange forward contracts and swaps – cash flow hedges	**–**	**(4)**
Foreign exchange forward contracts and swaps – fair value through profit or loss	**–**	**–**
	6	**(48)**

At 31 December 2018	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	1	(2)
Foreign exchange forward contracts and swaps – fair value through profit or loss	1	(2)
Non-current		
Cross-currency interest swaps – cash flow hedges	26	–
Foreign exchange forward contracts and swaps – cash flow hedges	–	(1)
Foreign exchange forward contracts and swaps – fair value through profit or loss	–	–
	28	(5)

Cash flow hedges

The Group applies hedge accounting for certain foreign currency firm commitments and highly probable cash flows where the underlying cash flows are payable within the next seven years. In order to fix the sterling cash outflows associated with the commitments and interest payments – which are mainly denominated in AUD or euros – the Group has taken out forward foreign exchange contracts and cross-currency interest rate swaps for the same foreign currency amount and maturity date as the expected foreign currency outflow.

The amount recognised in other comprehensive income during the period all relates to the effective portion of the revaluation loss associated with these contracts. There was less than £1 million (2018: £1 million) of ineffectiveness taken to the income statement and £21 million of cumulative loss (2018: £6 million gain) was recycled to the income statement in the year.

In 2019, on completion of the buyback of €506 million of the Eurobonds, the Group also closed out the portfolio of cross-currency interest rate swaps taken out in 2016. On issuing the 2026 Eurobond, the Group subsequently entered into a new portfolio of cross-currency interest rate swaps, which swapped the euro principal and fixed euro interest rate coupons into fixed sterling interest rate. As a result, the Group makes sterling interest payments at a fixed rate.

Under IFRS 9, the Group has adopted the 'cost of hedging' approach which allows the recognition of the value of the currency basis at inception of the hedge to be recorded on the Consolidated Statement of Financial Position and amortised through net financing costs in the Consolidated Income Statement over the life of the bond. Any mark-to-market change in fair value of the currency basis is recognised in 'cost of hedging' in the Consolidated Statement of Comprehensive Income.

Net investment hedges

The Group uses euro denominated debt to hedge against the change in the sterling value of its euro denominated net assets due to movements in foreign exchange rates. The fair value of debt in a net investment hedge was £209 million (2018: £176 million). A foreign exchange gain of £12 million (2018: loss of £2 million) relating to the net investment hedges has been netted off within exchange differences on translation of foreign operations as presented on the consolidated statement of comprehensive income.

Undiscounted financial liabilities

Keeping it simple

The Group is required to disclose the expected timings of cash outflows for each of its financial liabilities (including derivatives). The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the amounts disclosed on the Statement of Financial Position.

At 31 December 2019	Carrying value £m	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-derivative financial liabilities						
Borrowings	**(1,026)**	**(1,095)**	**(18)**	**(17)**	**(539)**	**(521)**
Lease liabilities	**(89)**	**(103)**	**(26)**	**(27)**	**(30)**	**(20)**
Trade and other payables	**(828)**	**(828)**	**(767)**	**(36)**	**(25)**	**–**
Contract liabilities	**(219)**	**(219)**	**(219)**	**–**	**–**	**–**
Other payables – non-current	**(5)**	**(5)**	**–**	**(4)**	**(1)**	**–**
Other payables – commitments on acquisitions	**(197)**	**(230)***	**(162)**	**(2)**	**(59)**	**(7)**
Derivative financial instruments						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	**3**	**199**	**128**	**45**	**26**	**–**
Outflow	**(7)**	**(203)**	**(129)**	**(46)**	**(28)**	**–**
Cross-currency swaps – cash flow hedges						
Inflow	**–**	**557**	**7**	**7**	**21**	**522**
Outflow	**(39)**	**(642)**	**(16)**	**(16)**	**(47)**	**(563)**
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	**3**	**339**	**335**	**4**	**–**	**–**
Outflow	**(2)**	**(338)**	**(334)**	**(4)**	**–**	**–**
	(2,406)	**(2,568)**	**(1,201)**	**(96)**	**(682)**	**(589)**

At 31 December 2018	Carrying value £m	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-derivative financial liabilities						
Borrowings	(1,047)	(1,170)	(76)	(20)	(1,069)	(5)
Trade and other payables	(762)	(762)	(713)	(43)	(6)	–
Contract liabilities	(255)	(255)	(255)	–	–	–
Other payables – non-current	(9)	(9)	–	(7)	(2)	–
Other payables – commitments on acquisitions	(176)	(252)*	(55)	(148)	(46)	(3)
Derivative financial instruments						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	1	220	121	54	45	–
Outflow	(3)	(222)	(122)	(55)	(45)	–
Cross-currency swaps – cash flow hedges						
Inflow	26	524	10	8	506	–
Outflow	–	(502)	(15)	(16)	(471)	–
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	1	238	225	11	2	–

Outflow	(2)	(239)	(225)	(11)	(3)	–
	(2,226)	(2,429)	(1,105)	(227)	(1,089)	(8)

* Undiscounted expected future payments depending on performance of acquisitions; the total maximum consideration is discussed in the Finance Review.

4.4 Net financing costs

Keeping it simple

This section details the interest income generated on the Group's cash and other financial assets and the interest expense incurred on borrowings and other financial liabilities.

In reporting 'adjusted profit', the Group adjusts net financing costs to exclude unrealised mark-to-market movements on interest rate and foreign exchange derivatives, gains/losses on bond buybacks, net pension interest, interest and fair value movements in acquisition-related liabilities and other financing costs.

Our rationale for adjustments made to financing costs is set out in the Finance Review.

Accounting policies

Net financing costs comprise interest income on funds invested, gains / losses on the disposal of financial instruments, changes in the fair value of financial instruments, interest expense on borrowings, unwinding of the discount on provisions, unwinding of the discount on liabilities to non-controlling interest, foreign exchange gain/losses, and imputed interest on pension assets and liabilities. Interest income and expense is recognised as it accrues in profit or loss, using the effective interest method.

Net financing costs

Net financing costs can be analysed as follows:

	2019 £m	2018 £m
Financing income		
Interest income	**4**	3
Foreign exchange gain	**8**	–
	12	3
Financing costs		
Interest expense on financial liabilities measured at amortised cost	**(31)**	(30)
Net pension interest (see note 3.7)	**(1)**	(2)
Change in fair value of instruments classified at fair value through profit or loss	**–**	–
Foreign exchange loss	**–**	(2)
Other finance expense	**(48)**	(12)
	(80)	(46)
Net financing costs	**(68)**	(43)

Interest on financial liabilities relates to the interest incurred on the Group's borrowings in the year.

During the year, the Group completed the buyback of €506 million of the Eurobonds and closed out the portfolio of cross-currency interest rate swaps taken out in 2016. This transaction resulted in the acceleration of amortisation of previously capitalised transaction costs on the bonds as well as one-off fees and premiums paid to the bond holders.

These costs have been included in other finance expense together with movements in the estimated value of acquisition-related contingent liabilities. This is where estimates of the future performance against stretch targets is reassessed, resulting in adjustments to the related put option liabilities.

4.5 Fair value hierarchy

Keeping it simple

The financial instruments included on the ITV Statement of Financial Position are measured at either fair value or amortised cost. The measurement of this fair value can in some cases be subjective, and can depend on the inputs used in the calculations. ITV generally uses external valuations using market inputs or market values (e.g. external share prices). The different valuation methods are called 'hierarchies' and are described below.

Level 1
Fair values are measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2
Fair values are measured using inputs, other than quoted prices included within Level 1, which are observable for the asset or liability either directly or indirectly.

Interest rate swaps and options are accounted for at their fair value based upon termination prices. Forward foreign exchange contracts are accounted for at the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date.

Level 3
Fair values are measured using inputs for the asset or liability that are not based on observable market data.

The tables below set out the financial instruments included on the ITV statement of financial position at 'fair value'.

	Fair value 31 December 2019 £m	Level 1 31 December 2019 £m	Level 2 31 December 2019 £m	Level 3 31 December 2019 £m

Assets measured at fair value				
Financial instruments				
Other pension assets – gilts (see note 3.7)	**58**	**58**	**–**	**–**
Equity investments (see note 3.5)	**8**	**–**	**–**	**8**
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	**3**	**–**	**3**	**–**
Financial assets at fair value through reserves				
Cash flow hedges	**3**	**–**	**3**	**–**

	Fair value 31 December 2019 £m	**Level 1 31 December 2019 £m**	**Level 2 31 December 2019 £m**	**Level 3 31 December 2019 £m**
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts and swaps	**(2)**	**–**	**(2)**	**–**
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	**(32)**	**–**	**–**	**(32)**
Financial liabilities at fair value through reserves				
Cash flow hedges	**(46)**	**–**	**(46)**	**–**

	Fair value 31 December 2018 £m	Level 1 31 December 2018 £m	Level 2 31 December 2018 £m	Level 3 31 December 2018 £m
Assets measured at fair value				
Financial instruments				
Other pension assets – gilts (see note 3.7)	49	49	–	–
Equity investments (see note 3.5)	9	–	–	9
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	1	–	1	–
Financial assets at fair value through reserves				
Cash flow hedges	27	–	27	–

	Fair value 31 December 2018 £m	Level 1 31 December 2018 £m	Level 2 31 December 2018 £m	Level 3 31 December 2018 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts and swaps	(2)	–	(2)	–
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	(69)	–	–	(69)
Financial liabilities at fair value through reserves				
Cash flow hedges	(3)	–	(3)	–

Refer to note 4.3 for how we value interest rate swaps and forward foreign currency contracts. The equity investments are valued at cost and assessed for impairment.

4.6 Lease liabilities

Keeping it simple

From 1 January 2019, the Group accounts for operating leases under IFRS 16 'Leases'. Lease liabilities representing the discounted future lease payments and right of use assets are recognised in the Statement of Financial Position. Lease costs such as property rent are now recognised in the form of depreciation and interest rather than as an operating cost.

Accounting policies

Lease liabilities represent the discounted future lease payments. Discount rates are calculated for similar assets, in similar economic environments, taking into account the length of the lease. The unwinding of the discounting is recognised in net financing costs in the Income Statement. The following table outlines the maturity analysis of the lease liabilities:

	2019 £m
Contractual discounted cash flows	
Less than one year	**25**
Two to five years	**50**
More than five years	**14**

Lease liabilities at 31 December	**89**

	1 January 2019 £m	Net cash flow £m	Currency and non-cash movements £m	**31 December 2019 £m**
Lease liabilities	(121)	35	(3)	**(89)**
Total lease liabilities	(121)	35	(3)	**(89)**

The following amounts have been included in the Income Statement:

	2019 £m
Interest expense on lease liabilities	**(4)**
Operating costs relating to short-term leases and low value assets	**–**
Amounts recognised in the Income Statement	**(4)**

The Group has elected not to recognise right of use assets and lease liabilities for short-term leases (i.e. lease term less than 12 months) or low-value assets (i.e. under £5,000). The Group will continue to expense the lease payments associated with these leases on a straight-line basis over the lease term. At 31 December 2019, this was less than £1 million.

Variable lease payments that depend on an index or a rate are also less than £1 million.

The total undiscounted future minimum lease payments under non-cancellable operating leases as at 31 December 2018 was as follows:

2018	Property £m	Other £m	Total £m
Within one year	27	3	30
Later than one year and not later than five years	83	3	86
Later than five years	31	–	31
	141	6	147

4.7 Equity

Keeping it simple

This section explains material movements recorded in shareholders' equity, presented in the Consolidated Statement in Changes in Equity, which are not explained elsewhere in the financial information.

Accounting policies

Fair value reserve

Financial assets are stated at fair value, with any gain or loss recognised directly in the fair value reserve in equity, unless the loss is a permanent impairment, when it is then recorded in the income statement.

Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment. Dividends are distributed based on the realised distributable reserves (within retained earnings) of ITV plc (the Company) and not based on the Group's retained earnings.

4.7.1 Share capital and share premium

The Group's share capital at 31 December 2019 of £403 million (2018: £403 million) and share premium of £174 million (2018: £174 million) is the same as that of ITV plc. Details of this are given in the ITV plc Company financial information section of this Annual Report.

4.7.2 Merger and other reserves

Merger and other reserves at 31 December include the following reserves:

	2019 £m	2018 £m
Merger reserves	**98**	98
Capital reserves	**112**	112
Capital redemption reserves	**36**	36
Revaluation reserves	**2**	2
Put option liabilities arising on acquisition of subsidiaries	**(24)**	(42)
Total	**224**	206

4.7.3 Translation reserve

The translation reserve comprises:

- All foreign exchange differences arising on the translation of the accounts of, and investments in, foreign operations
- The gains or losses on the portion of cash flow hedges that have been deemed effective and costs of hedging under IFRS 9 (see note 4.3)
- The net loss on cash flow hedges was £17 million (2018: net gain of £7 million) included cost of hedging £8 million (2018: £4 million)

4.7.4 Fair value reserve

The fair value reserve comprises all movements arising on the revaluation of gilts accounted for fair value through OCI financial instruments. The movement in the current year is a £9 million gain (2018: £1 million gain). See note 3.7.

4.7.5 Retained earnings
The retained earnings reserve comprises profit for the year attributable to owners of the Company of £473 million (2018: £466 million) and other items recognised directly through equity as presented in the consolidated statement of changes in equity. Other items include the credit for the Group's share-based compensation schemes and the charge for the purchase of ITV shares via the ITV Employees' Benefit Trust, which are described in note 4.8.

The distributable reserves of ITV plc are disclosed in note viii to the ITV plc Company financial information.

The Directors of ITV plc propose a final dividend of 5.4 pence per share, which equates to a full year dividend of 8.0 pence per share. In 2019, £320 million of dividend payments were made (2018: £315 million).

4.7.6 Non-controlling interests
Non-controlling interest (NCI) represents the share of non-wholly owned subsidiaries' net assets that are not directly attributable to the shareholders of the ITV Group. The movement for the year comprises:

- The share of profits attributable to NCI of £5 million (2018: £4 million)
- The distributions made to NCI of £2 million (2018: £8 million)
- The share of net assets attributable to NCI relating to subsidiaries acquired or disposed of in the year of £nil (2018: £nil)

4.8 Share-based compensation

Keeping it simple

The Group utilises share award schemes as part of its employee remuneration packages, and therefore operates a number of share-based compensation schemes, namely the Deferred Share Award (DSA), Performance Share Plan (PSP), Long Term Incentive Plan (LTIP) and Save As You Earn (SAYE) schemes. The share-based compensation is not pensionable.

A transaction will be classed as share-based compensation where the Group receives services from employees and pays for these in shares or similar equity instruments. If the Group incurs a liability linked to the price or value of the Group's shares, this will also fall under a share-based transaction.

Accounting policies
For each of the Group's share-based compensation schemes, the fair value of the equity instrument granted is measured at grant date and spread over the vesting period via a charge to the income statement with a corresponding increase in equity.

The fair value of the share options and awards is measured using either market price at grant date or, for the SAYE scheme, a Black–Scholes model, taking into account the terms and conditions of the individual scheme.

Vesting conditions are limited to service conditions and performance conditions. For performance-based schemes, the relevant Group performance measures are projected to the end of the performance period in order to determine the number of options expected to vest. This estimate of the performance measures is used to determine the option fair value, discounted to present value. The Group revises the number of options that are expected to vest, including an estimate of forfeitures at each reporting date based on forecast performance measures. The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity.

Exercises of share options granted to employees can be satisfied by market purchase or issue of new shares. No new shares may be issued to satisfy exercises under the terms of the DSA. During the year, all exercises were satisfied by using shares purchased in the market and held in the ITV Employees' Benefit Trust.

Share-based compensation charges totalled £10 million in 2019 (2018: £10 million).

Share options outstanding
The table below summarises the movements in the number of share options outstanding for the Group and their weighted average exercise price:

	2019 Number of options ('000)	**2019** Weighted average exercise price (pence)	2018 Number of options ('000)	2018 Weighted average exercise price (pence)
Outstanding at 1 January	**44,022**	**49.33**	36,155	69.17
Granted during the year – nil priced	**19,754**	**–**	14,450	–
Granted during the year – other	**22,525**	**94.83**	8,561	126.23
Forfeited during the year	**(1,241)**	**128.35**	(8,452)	156.99
Exercised during the year – nil priced	**(2,805)**	**–**	(3,884)	–
Exercised during the year – other	**(24)**	**129.82**	(626)	132.62
Expired during the year	**(22,158)**	**87.09**	(2,182)	–
Outstanding at 31 December	**60,073**	**36.88**	44,022	49.33
Exercisable at 31 December	**3,090**	**55.78**	1,736	54.32

The average share price during 2019 was 126.10 pence (2018: 158.29 pence).

Of the options still outstanding, the range of exercise prices and weighted average remaining contractual life of these options can be analysed as follows:

Range of exercise prices (pence)	**2019** Weighted average exercise price (pence)	**2019** Number of options ('000)	**2019** Weighted average remaining contractual life (years)	2018 Weighted average exercise price (pence)	2018 Number of options ('000)	2018 Weighted average remaining contractual life (years)
Nil	**–**	**38,685**	**2.25**	–	28,619	1.62
20.00 – 49.99	**–**	**–**	**–**	–	–	–
50.00 – 69.99	**–**	**–**	**–**	–	–	–

70.00 – 99.99	**87.47**	**13,335**	**3.73**	–	–	–
100.00 – 109.99	**105.98**	**2,685**	**3.21**	–	–	–
110.00 – 119.99	**–**	**–**	**–**	–	–	–
120.00 – 149.99	**131.18**	**3,481**	**2.11**	129.51	10,966	3.15
150.00 – 199.99	**162.25**	**1,851**	**0.84**	165.20	3,993	1.65
200.00 – 249.99	**206.83**	**36**	**1.33**	206.83	444	0.58

Assumptions

DSA, LTIP and PSP options are valued directly by reference to the share price at date of grant.

The options granted in the year for the HMRC approved SAYE scheme, are valued using the Black–Scholes model, using the assumptions below:

Scheme name	Date of grant	Share price at grant (pence)	Exercise price (pence)	Expected volatility %	Expected life (years)	Gross dividend yield %	Risk-free rate %	Fair value (pence)
3 Year	29 March 2018	144.15	123.82	29.54	3.25	5.55	1.16	25.81
5 Year	29 March 2018	144.15	123.82	27.87	5.25	5.55	1.50	24.70
3 Year	6 Sept 2018	158.75	135.20	29.65	3.25	5.55	1.13	28.98
5 Year	6 Sept 2018	158.75	135.20	27.89	5.25	5.55	1.50	27.28
3 Year	04 April 2019	132.48	105.98	30.68	3.25	6.04	0.82	26.14
5 Year	04 April 2019	132.48	105.98	28.57	5.25	6.04	1.09	23.58
3 Year	05 September 2019	109.33	87.47	26.73	3.25	6.04	0.36	18.61
5 Year	05 September 2019	109.33	87.47	28.79	5.25	6.04	0.45	18.66

Employees' Benefit Trust

The Group has investments in its own shares as a result of shares purchased by the ITV Employees' Benefit Trust ('EBT'). Transactions with the Group-sponsored EBT are included in these financial information and primarily consist of the EBT's purchases of shares in ITV plc, which is accounted for as a reduction to retained earnings.

The table below shows the number of ITV plc shares held in the EBT at 31 December 2019 and the purchases/ (releases) from the EBT made in the year to satisfy awards under the Group's share schemes:

Scheme	Shares held at	Number of shares (released)/purchased	Nominal value £
	1 January 2019	26,931,533	2,693,153
LTIP releases		(613,716)	
DSA releases		(680,838)	
PSP releases		(193,130)	
SAYE releases		(18,316)	
Shares purchased		–	
	31 December 2019	**25,425,533**	**2,542,553**

The total number of shares held by the EBT at 31 December 2019 represents 0.63% (2018: 0.67%) of ITV's issued share capital. The market value of own shares held at 31 December 2019 is £38 million (2018: £34 million).

The shares will be held in the EBT until such time as they may be transferred to participants of the various Group share schemes. Rights to dividends have been waived by the EBT in respect of shares held that do not relate to restricted shares under the DSA. In accordance with the Trust Deed, the Trustees of the EBT have the power to exercise all voting rights in relation to any investment (including shares) held within that trust. The Trust is accounted for as a separate entity and therefore is only accounted for in the consolidated financial information and not included in the ITV plc Company financial information.

Notes to the Financial information
Section 5: Other Notes

5.1 Related party transactions

Keeping it simple

The related parties identified by the Directors include joint ventures, associated undertakings, fixed asset investments and key management personnel.

To enable users of our financial information to form a view about the effects of related party relationships on the Group, we disclose the Group's transactions with those related parties during the year and any associated year end trading balances.

Transactions with joint ventures and associated undertakings

Transactions with joint ventures and associated undertakings during the year were:

	2019 £m	2018 £m
Sales to joint ventures	**19**	12
Sales to associated undertakings	**8**	13
Purchases from joint ventures	**28**	29
Purchases from associated undertakings	**64**	67

The transactions with joint ventures primarily relate to sales and purchases of digital multiplex services with Digital 3&4 Limited and distribution revenue from BritBox LLC. Sales to associated undertakings include airtime sales to DTV Services Limited. Purchases from associated undertakings primarily relate to the purchase of news services from ITN Limited.

All transactions with associated undertakings and joint ventures arise in the normal course of business on an arm's length basis. None of the balances are secured.

The amounts owed by and to these related parties at the year end were:

	2019 £m	2018 £m
Amounts owed by joint ventures	**14**	6
Amounts owed by associated undertakings	**7**	7
Amounts owed to joint ventures	**1**	3
Amounts owed to associated undertakings	**5**	5

Amounts owed by joint ventures primarily relate to trading with BritBox LLC. Balances owed by associated undertakings largely relate to loan notes with Route 24 Limited. Balances owed to associated undertakings primarily relate to trading with ITN Limited.

Amounts paid to the Group's retirement benefit plans are set out in note 3.7.

Transactions with key management personnel

Key management consists of ITV plc Executive and Non-executive Directors and the ITV Management Board. Key management personnel compensation is as follows:

	2019 £m	2018 £m
Short-term employee benefits	**11**	12
Share-based compensation	**4**	3
	15	15

5.2 Contingent assets and liabilities

Keeping it simple

A contingent asset or liability is a liability that is not sufficiently certain to qualify for recognition as an asset or provision where uncertainty may exist regarding the outcome of future events.

Contingent assets

In 2017 Talpa Media took back the licence for The Voice of China due to a breach of the agreement by the customer, Talent, for not fulfilling their payment obligations. During 2018 and 2019 £27 million has been received in relation to the amounts due. However, those receipts are currently the subject of an ongoing review. As a result the provision for bad debt, originally recognised as an exceptional cost in 2017, has been reinstated.

Whilst the Directors remain confident of recovering the amounts due, accounting standards set very specific requirements for the recognition of an asset. As the review of the receipts remains in progress, as well as discussions with the credit insurers, the Group is not able to demonstrate sufficient certainty to be able to recognise a receivable at 31 December 2019.

Contingent liabilities

In 2011, the Determinations Panel of the Pensions Regulator determined that Financial Support Directions (FSDs) should be issued against certain Group companies, which would require those companies to put in place financial support for the Box Clever Pension Scheme. The Group

challenged the Regulator's decision in the Upper Tribunal. However, in May 2018, the Upper Tribunal handed down judgment allowing the Pensions Regulator to issue FSDs. Subsequently, ITV appealed the Upper Tribunal's decision to the Court of Appeal. The Court of Appeal dismissed the appeal in June 2019. ITV applied for permission to appeal the Court of Appeal's decision to the Supreme Court, but this was refused on 13 February 2020. The Group expects FSDs to be issued in the near future.

An FSD does not set out what form any financial support should take, nor its amount, and no issues as to the quantum and form of any liability have yet been addressed or resolved as part of the legal process. The case may continue to take significant time to resolve.

The Box Clever Pension Scheme ('the Scheme') was managed from its establishment by an independent trustee and the Group has not had any commercial connection with the Box Clever business since it went into administrative receivership in 2003. At that time, the Scheme is estimated to have had a deficit on a buyout basis of £25m. The most recent estimate of the deficit in the Box Clever Pension Scheme available to the Group, as at 31 August 2017, calculated for the purposes of the litigation, was £115m. This estimate was calculated on a buyout basis, used membership data dating from 2014 (the most recent that were available), and an estimate of the Scheme's assets rather than a precise value. Both these valuations were of the whole Scheme, encompassing liabilities in respect of former employees of Granada's joint venture partner, Thorn, as well as former employees of the Group. Given the significant number of undecided issues as to the quantum and form of financial support, the Group will strongly contest any attempt to impose liability in an amount the Directors consider unreasonable. The Directors continue to believe there are many important factors which need to be taken into account in any decision and therefore there remains a great deal of uncertainty around the quantum and form of financial support to be provided.

Aside from above, there are contingent liabilities in respect of certain litigation and guarantees, broadcasting issues, and in respect of warranties given in connection with certain disposals of businesses. None of these items are expected to have a material effect on the Group's results or financial position.

5.3 Subsidiaries exempt from audit

Keeping it simple

Certain subsidiaries of the Group can take an exemption from having an audit. Strict criteria must be met for this exemption to be taken, and it must be agreed by the Directors of that subsidiary entity.

Listed below are subsidiaries controlled and consolidated by the Group, where the Directors have taken the exemption from having an audit of its financial statements. This exemption is taken in accordance with the Companies Act 2006 s479A.

Company number	Company name	Company number	Company name
04145307	12 Yard Productions Limited	01565625	ITV Properties (Developments) Limited
10058419	Back Productions Limited	08554937	ITV Shetland Limited
10404493	Big Talk Bliss Limited	11723826	ITV Spy Limited
10496857	Big Talk Cold Feet Limited	11723851	ITV Studios NEWCO 16 Limited
10528766	Big Talk Diana Limited	11723881	ITV Studios NEWCO 17 Limited
12092620	Big Talk Friday Limited	12368504	ITV Studios NEWCO 18 Limited
11109596	Big Talk Goes Wrong Limited	12368748	ITV Studios NEWCO 19 Limited
11081338	Big Talk Guilty Limited	12368661	ITV Studios NEWCO 20 Limited
10528952	Big Talk Living the Dream Limited	12368766	ITV Studios NEWCO 21 Limited
11109753	Big Talk Mum Limited	08516153	ITV Text Santa Limited
11723899	Big Talk Offenders Limited	11107934	ITV The Bay Limited
11109572	Big Talk Peacock Limited	10602705	ITV The Man Limited
11109865	Big Talk Time Limited	08586211	ITV Thunderbirds Limited
01891539	Broad Street Films Limited	09498177	ITV Top Class Limited
02285229	Campania Limited	11107431	ITV Vera Limited
05078683	Carbon Media Limited	11108813	ITV Wild Bill Limited
04159249	Carlton Content Holdings Limited	05518785	Juice Music UK Limited
00301188	Carlton Film Distributors Limited	00920028	Link Electronics Limited
01692483	Carlton Finance Limited	11108285	Mammoth Screen (ABC) Limited
03984490	Carlton Food Network Limited	10528827	Mammoth Screen (End5) Limited
03053908	Carlton Programmes Development Limited	11109917	Mammoth Screen (End6) Limited
03210452	Carlton Screen Advertising (Holdings) Limited	11908267	Mammoth Screen (END7) Limited
03307790	Carltonco 103	11995990	Mammoth Screen (Invisible) Limited
02625225	Carltonco Forty Investments	11062257	Mammoth Screen (NC) Limited
03210363	Carltonco Ninety-Six	11908285	Mammoth Screen (PH) Limited
02280048	Castlefield Properties Limited	09660486	Mammoth Screen (Pol2) Limited
04257248	Channel Television Holdings Limited	10031005	Mammoth Screen (Pol3) Limited
02852812	Cosgrove Hall Films Limited	10528763	Mammoth Screen (Pol4) Limited
11723731	COTR (NEWCO 1) Limited	11108289	Mammoth Screen (Pol5) Limited
10500295	Denipurna Limited	09646520	Mammoth Screen (QV) Limited
03209058	DTV Limited	11108327	Mammoth Screen (Serpent) Limited
00290076	Granada Group Limited	11204836	Mammoth Screen (SG) Limited
03962410	Granada Limited	10528702	Mammoth Screen (VF) Limited
03106798	Granada Media Limited	11108322	Mammoth Screen (Vic3) Limited
05344772	Granada Screen (2005) Limited	11108320	Mammoth Screen (WOF) Limited
00733063	Granada Television Overseas Limited	10973979	Mammoth Screen (WOTW) Limited
06914987	ITV (HC) Limited	04201477	Morning TV Limited
11723842	ITV AL Limited	10789616	The Garden Productions (Film) Limited
11423730	ITV Bancroft 2 Limited	06469484	VOD Member (ITVA) Limited
11667230	ITV Barking Limited	06469482	VOD Member (ITVB) Limited
11107990	ITV Confession Limited	12368643	WP (NEWCO 5) Limited
10058008	ITV Dark Heart Limited	12368475	WP (NEWCO 6) Limited
10494684	ITV Enterprises Limited	12368477	WP (NEWCO 7) Limited
11723800	ITV F&B Limited	11109744	WP Anne Limited
10671435	ITV HG Limited	10796122	WP Bodyguard Limited
04159210	ITV Holdings Limited	11109437	WP Faslane Limited
04207680	ITV Home Fires Limited	11109287	WP LOD5 Limited
04206925	ITV Investments Limited	12116457	WP LOD6 Limited
11107681	ITV Leila Limited	12116461	WP Pembrokeshire Limited

04033106	ITV Mr Selfridge Limited	11109929	WP Save Me 2 Limited
00603471	ITV Pension Scheme Limited	12116627	WP Secret Limited
03799828	ITV Play Limited		

ITV plc Company Financial information

Company Balance Sheet

As at 31 December	Note	2019 £m	2019 £m	2018 £m	2018 £m
Non-current assets					
Investments in subsidiary undertakings	iii		**2,733**		2,286
Deferred tax asset			**1**		1
Derivative financial instruments	vi		**4**		26
			2,738		2,313
Current assets					
Amounts owed by subsidiary undertakings due within one year	iv	**4,236**		3,844	
Amounts owed by subsidiary undertakings due after more than one year	iv	**305**		323	
Amounts owed by subsidiary undertakings	iv	**4,541**		4,167	
Derivative financial instruments	vi	**9**		4	
Other receivables		**5**		5	
Cash and cash equivalents		**108**		4	
		4,663		4,180	
Current liabilities					
Bank overdrafts		**–**		(5)	
Borrowings	v	**–**		(50)	
Amounts owed to subsidiary undertakings	iv	**(4,070)**		(3,209)	
Accruals and deferred income		**(16)**		(13)	
Current tax liabilities		**–**		(1)	
Derivative financial instruments	vi	**(9)**		(4)	
		(4,095)		(3,282)	
Net current assets			**568**		898
Total assets less current liabilities			**3,306**		3,211
Non-current liabilities					
Borrowings	v	**(1,010)**		(985)	
Derivative financial instruments	vi	**(42)**		–	
			(1,052)		(985)
Net assets			**2,254**		2,226
Capital and reserves					
Share capital	vii		**403**		403
Share premium	viii		**174**		174
Other reserves	viii		**22**		37
Retained earnings	viii		**1,655**		1,612
Total equity			**2,254**		2,226

The accounts were approved by the Board of Directors on 5 March 2020 and were signed on its behalf by:

Chris Kennedy
Director

Company Statement of Changes in Equity

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	**Total £m**
Balance at 1 January 2019		403	174	37	1,612	2,226
Total comprehensive income for the year						
Profit		–	–	–	353	353
Net loss on cash flow hedges and cost of hedging		–	–	(15)	–	(15)
Total comprehensive income for the year		**–**	**–**	**(15)**	**353**	**338**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Equity dividends		–	–	–	(320)	(320)
Movements due to share-based compensation		–	–	–	10	10
Tax on items taken directly to equity		–	–	–	–	–
Total transactions with owners		–	–	–	(310)	(310)
Balance at 31 December 2019	vii/viii	**403**	**174**	**22**	**1,655**	**2,254**

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	**Total £m**
Balance at 1 January 2018	vii/viii	403	174	26	1,571	2,174
Total comprehensive income for the year						
Profit		–	–	–	344	344
Net loss on cash flow hedges and cost of hedging		–	–	11	–	11
Total comprehensive income for the year		–	–	11	344	355
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Equity dividends		–	–	–	(315)	(315)
Movements due to share-based compensation		–	–	–	10	10
Tax on items taken directly to equity		–	–	–	2	2
Total transactions with owners		–	–	–	(303)	(303)
Balance at 31 December 2018	vii/viii	403	174	37	1,612	2,226

Notes to the ITV plc Company Financial information

Note i Accounting policies

In this section

This section sets out the notes to the ITV plc Company only financial information. Those statements form the basis of the dividend decisions made by the Directors, as explained in detail in note viii below. The notes form part of the financial information.

Basis of preparation

The Company is a qualifying entity as it is a member of the ITV plc Group where ITV plc, the ultimate parent prepares publicly available consolidated financial information. These financial information were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101') as adopted by the EU. The amendments to FRS 101 (2015/16 cycle) issued in July 2016, amendments to FRS 101 (2016/17 cycle) issued in July 2017 and other amendments have been applied.

Exemptions applied

The Company is taking advantage of the following disclosure exemptions under FRS 101:

- Presentation of a Statement of Cash Flows and related notes
- Disclosure in respect of capital management
- Disclosure of related party transactions between wholly-owned subsidiaries and parents within a group
- Disclosures required under IFRS 2 'Share Based Payments' in respect of group settled share based payments
- Disclosures required by IFRS 7 'Financial Instrument: Disclosure'
- Certain disclosures required under IFRS 13 'Fair Value Measurement'
- Disclosure of information in relation to new standards not yet applied

As permitted by section 408 (3) of the Companies Act 2006, a separate income statement dealing with the results of the parent company has not been presented.

The Company proposes to continue to apply the reduced disclosure framework of FRS 101 in its next financial information.

Change in accounting policy

New standards, interpretations and amendments effective

The following have been applied for the first time from 1 January 2019.

IFRS 16 Leases

The Company has adopted IFRS 16 'Leases' from 1 January 2019 which has changed lease accounting for lessees under operating leases. Such agreements now require recognition of an asset, representing the right to use the leased item, and a liability, representing future lease payments. Lease costs (such as property rent) are recognised in the form of depreciation and interest, rather than as an operating cost.

The Company has adopted the modified retrospective approach with the right of use asset equal to the lease liability at transition date, adjusted by any prepayments or lease incentives recognised immediately before the date of initial application. Under the modified retrospective transition approach, the comparative information is not restated.

The Company does not have any leases and therefore the standard has not resulted in any changes to the financial information.

None of the other standards, interpretations and amendments effective for the first time from 1 January 2019 have had a material effect on the financial information.

Subsidiaries

Subsidiaries are entities that are directly or indirectly controlled by the Company. Control exists where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The investment in the Company's subsidiaries is recorded at cost.

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Foreign currency monetary assets and liabilities at the balance sheet date are translated into sterling at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account. Non-monetary assets and liabilities measured at historical cost are translated into sterling at the rate of exchange on the date of the transaction.

Borrowings

Borrowings are recognised initially at fair value including directly attributable transaction costs, with subsequent measurement at amortised cost using the effective interest rate method. The difference between initial fair value and the redemption value is recorded in the profit and loss account over the period of the liability on an effective interest basis.

Derivatives and other financial instruments

The Company uses a limited number of derivative financial instruments to hedge its exposure to fluctuations in interest and other foreign exchange rates. The Company does not hold or issue derivative instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the profit and loss account within net financing costs, except where derivatives qualify for cash flow hedge accounting. In this case, the effective portion of cash flow hedge is recognised in retained profits within equity. The cumulative gain or loss is later reclassified to the profit and loss account in the same period as the relevant hedged transaction is realised. Derivatives with positive fair values are recorded as assets and negative fair values as liabilities.

The fair value of foreign currency forward contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the balance sheet date.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of swap counterparties.

Third-party valuations are used to fair value the Company's derivatives. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs. For financial assets and liabilities classified at fair value through profit or loss, the fair value change and interest income/expense are not separated.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment in respect of previous years.

The Company recognises liabilities for anticipated tax issues based on estimates of the additional taxes that are likely to become due, which require judgement. Amounts are accrued based on management's interpretation of specific tax law and the likelihood of settlement. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made.

Deferred tax

The tax charge for the period is recognised in the income statement or directly in equity according to the accounting treatment of the related transaction.

Deferred tax arises due to certain temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and those for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. A deferred tax asset is recognised only to the extent that it is probable that sufficient taxable profit will be available to utilise the temporary difference. Recognition of deferred tax assets therefore involves judgement regarding timing and level of future taxable income.

Share-based compensation

The Company utilises share award schemes as part of its employee remuneration packages, and therefore operates a number of share-based compensation schemes, namely the Deferred Share Award (DSA), Performance Share Plan (PSP), Long Term Incentive Plan (LTIP) and Save As You Earn (SAYE) schemes.

A transaction will be classed as share-based compensation where the Company receives services from employees and pays for these in shares or similar equity instruments. If the Company incurs a liability based on the price or value of the shares, this will also fall under a share-based transaction. The Company recognises the retained earnings impact of the share-based compensation for the Group as awards are settled in ITV plc shares. The cost of providing those awards is recognised as a cost of investment to the subsidiaries that receive the service from employees.

The fair value of the equity instrument granted is measured at grant date and spread over the vesting period via a charge to the income statement with a corresponding increase in equity. The fair value of the share options and awards is measured using either market price at grant date or, for the SAYE scheme, a Black–Scholes model, taking into account the terms and conditions of the individual scheme.

Vesting conditions are limited to service conditions and performance conditions. For performance-based schemes, the relevant performance measures are projected to the end of the performance period in order to determine the number of options expected to vest. The estimate is then used to determine the option fair value, discounted to present value. The Company revises its estimates of the number of options that are expected to vest, including an estimate of forfeitures at each reporting date. The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity.

Exercises of share options granted to employees can be satisfied by market purchase or issue of new shares. No new shares may be issued to satisfy exercises under the terms of the DSA. During the year, all exercises were satisfied by using shares purchased in the market and held in the ITV Employees' Benefit Trust. The Trust is accounted for as a separate entity and therefore is only accounted for in the consolidated financial information.

Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment. Dividends are distributed based on the realised distributable reserves (within retained earnings) of ITV plc (Company) and not based on the Group's retained earnings.

Note ii Employees and share-based payments

Two (2018: two) Directors of ITV plc (i.e. the Executive Directors) were employees of the Company during the year, both of whom remain employed at the year end. The costs relating to these Directors are disclosed in the Remuneration Report.

Share-based payments

The weighted average share price of share options exercised during the year was 129.82 pence (2018: 132.62 pence) (excluding nil priced share options). The options outstanding at the year end have an exercise price in the range of nil to 206.83 pence (2018: nil to 206.83 pence) and a weighted average contractual life of one year (2018: one year) for all the schemes in place for the Group.

Note iii Investments in subsidiary undertakings

The principal subsidiary undertakings are listed in the Annual Report. The carrying value at 31 December 2019 was £2,733 million (2018: £2,286 million). This is assessed for impairment on an annual basis and no impairment was recognised in 2019 (2018: £nil).

In 2019, the Company increased its investment in subsidiaries by £786 million mainly due to three subscriptions of one ordinary share in Carlton Communications Limited. During the year the Company restructured its investment in North America Studios Investment DAC with a reduction of £339 million.

Note iv Amounts

The Company operates an intra-group cash pool policy with certain 100% owned UK subsidiaries. The pool applies to bank accounts where there is an unconditional right of set off and involves the daily closing cash position for participating subsidiaries whether positive or negative, being cleared to £nil via daily bank transfers to/from ITV plc. These daily

owed (to)/from subsidiary undertakings

transactions create a corresponding intercompany creditor or debtor, which can result in significant movements in amounts owed to and from subsidiary undertakings in the Company balance sheet. The expected loss model was applied to amounts owed from subsidiary undertakings and the impact was not material.

Note v Net debt

Keeping it simple

The Directors manage the Group's capital structure as disclosed in section 4 to the consolidated financial information. Borrowings, cash and derivative financial instruments are mainly held by ITV plc and disclosed in these Company financial information.

Cash and cash equivalents

Included within cash equivalents is £50 million (2018: £nil), the use of which is restricted to meeting the commitments under the asset-backed pension agreements, and £22 million (2018: £nil) restricted money market funds. See note 3.7 for further details on the asset-backed pension arrangements.

Loans and facilities due within one year

At various periods during the year, the Group drew down on the £630 million Revolving Credit Facility ('RCF') to meet short-term funding requirements. At 31 December 2019, the Group had drawings of £nil million under the RCF (2018: £50 million), leaving £630 million available to draw down at year end. The maximum draw down of the RCF during the year was £400 million (2018: £400 million).

Loans and loan notes due after one year

During the year the Group issued a new seven year €600 million Eurobond and used the proceeds to buyback of €506 million of old bonds.

The Group has issued the following Eurobonds:

- €335 million at a fixed coupon of 2.125%, which matures in September 2022
- €259 million at a fixed coupon of 2.0%, which will mature in December 2023
- €600 million at a fixed coupon of 1.375%, which matures in September 2026

The bond issued in September 2019 has been swapped back to sterling using a number of cross-currency interest rate swaps. The resulting fixed rate payable in sterling is c. 2.9%.

Note vi Managing market risks: derivative financial instruments

1. What is the value of our derivative financial instruments?

	Assets 2019 £m	Liabilities 2019 £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	**6**	**(6)**
Foreign exchange forward contracts and swaps – fair value through profit or loss	**3**	**(3)**
Non-current		
Cross-currency interest swaps – cash flow hedges	**–**	**(38)**
Foreign exchange forward contracts and swaps – fair value through profit or loss	**–**	**–**
Foreign exchange forward contracts and swaps – cash flow hedges	**4**	**(4)**
	13	**(51)**

	Assets 2018 £m	Liabilities 2018 £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	3	(3)
Foreign exchange forward contracts and swaps – fair value through profit or loss	1	(1)
Non-current		
Cross-currency interest swaps – cash flow hedges	26	–
Foreign exchange forward contracts and swaps – fair value through profit or loss	–	–
Foreign exchange forward contracts and swaps – cash flow hedges	–	–
	30	(4)

The Company mainly employs three types of derivative financial instruments when managing its currency and interest rate risk:

- Foreign exchange swap contracts are derivative instruments used to hedge income statement translation risk arising from short-term intercompany loans denominated in a foreign currency
- Forward foreign exchange contracts are derivative instruments used to hedge transaction risk so they enable the sale or purchase of foreign currency at a known fixed rate on an agreed future date and
- Cross-currency interest rate swaps are derivative instruments used to exchange the principal and interest coupons in a debt instrument from one currency to another

Currency risk
The Company's foreign exchange policy is to use forward foreign exchange contracts to hedge material non-functional currency denominated costs or revenue for up to five years forward. The Company also utilises foreign exchange swaps and cross-currency interest rate swaps both to manage foreign currency cash flow timing differences and to hedge foreign currency denominated monetary items.

Cash flow hedges
The Company applies hedge accounting for certain foreign currency firm commitments and highly probably cash flows where the underlying cash flows are payable within the next seven years. In order to fix the sterling cash outflows associated with the commitments and interest payments – which are mainly denominated in AUD or euros – the Company has taken out forward foreign exchange contracts and cross-currency interest rate swaps for the same foreign currency amount and maturity date as the expected foreign currency outflow.

The amount recognised in other comprehensive income during the period all relates to the effective portion of the revaluation loss associated with these contracts. There was less than £1 million (2018: £1 million) ineffectiveness taken to the income statement and £19 million cumulative loss (2018: £5 million gain) recycled to the income statement in the year.

In 2019, on completion of the buyback of €506 million of the Eurobonds, the Group also closed out the portfolio of cross-currency interest rate swaps taken out in 2016. On issuing the 2026 Eurobond, the Group subsequently entered into a new portfolio of cross-currency interest rate swaps, which swapped the euro principal and fixed euro interest rate coupons into fixed sterling interest rate. As a result, the Group makes sterling interest payments at a fixed rate.

Under IFRS 9, the Group has adopted the 'cost of hedging' approach which allows the recognition of the value of the currency basis at inception of the hedge to be recorded on the Consolidated Statement of Financial Position and amortised through net financing costs in the Consolidated Income Statement over the life of the bond. Any mark-to-market change in fair value of the currency basis is recognised in 'cost of hedging' in the Consolidated Statement of Comprehensive Income.

Undiscounted financial liabilities

The Company is required to disclose the expected timings of cash outflows for each of its derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the amounts disclosed on the statement of financial position.

At 31 December 2019	Carrying value £m	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-current and current						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	**10**	**375**	**229**	**91**	**55**	**–**
Outflow	**(10)**	**(375)**	**(229)**	**(91)**	**(55)**	**–**
Cross-currency swaps – cash flow hedges						
Inflow	**–**	**557**	**7**	**7**	**21**	**522**
Outflow	**(38)**	**(642)**	**(16)**	**(16)**	**(47)**	**(563)**
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	**3**	**451**	**338**	**113**	**–**	**–**
Outflow	**(3)**	**(451)**	**(338)**	**(113)**	**–**	**–**
	(38)	**(85)**	**(9)**	**(9)**	**(26)**	**(41)**

At 31 December 2018	Carrying value £m	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-current and current						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	3	441	243	109	89	–
Outflow	(3)	(441)	(243)	(109)	(89)	–
Cross-currency swaps – cash flow hedges						
Inflow	26	524	10	8	506	–
Outflow	–	(502)	(15)	(16)	(471)	–
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	1	386	362	19	5	–
Outflow	(1)	(386)	(362)	(19)	(5)	–
	26	22	(5)	(8)	35	–

Note vii Share capital

		Allotted, issued and fully paid 2019 & 2018 £m
Allotted, issued and fully paid ordinary shares of 10 pence each	4,025,409,194	403

	Total

The Company's ordinary shares give shareholders equal rights to vote, receive dividends and to the repayment of capital.

Note viii Equity and dividends

Keeping it simple

ITV plc is a non-trading investment holding company and derives its profits from dividends paid by subsidiary companies.

The Directors consider the Company's capital structure and dividend policy at least twice a year ahead of announcing results and do so in the context of its ability to continue as a going concern, to execute the strategy and to invest in opportunities to grow the business and enhance shareholder value.

The dividend policy is influenced by a number of the principal risks as identified that could have a negative impact on the performance of the Company.

In determining the level of dividend in any year, the Directors follow the dividend policy and also consider a number of other factors that influence the proposed dividend and dividend policy, including:

- The level of retained distributable reserves in ITV plc the Company
- Availability of cash resources (as disclosed in note 4.1 to the consolidated financial information) and
- Future cash commitments and investment plans, to deliver the Company's long term strategic plan
- Consideration of the factors underlying the Directors' viability assessment and
- The future availability of funds required to meet longer-term obligations including pension commitments.

Equity

The retained earnings reserve includes profit after tax for the year of £353 million (2018: £344 million), which includes dividends of £400 million from subsidiaries in 2019 (2018: £400 million). Other reserves of £22 million (2018: £37 million) relate to share buybacks in prior periods and foreign currency translation net of cash flow hedging.

Dividends

The Directors of the Company propose a final dividend of 5.4 pence per share, which equates to a full year dividend of 8.0 pence per share.

Distributable reserves

The distributable reserves of ITV plc approximate to the balance of the retained earnings reserve of £1,655 million (2018: £1,612 million) as at 31 December 2019.

Note ix Contingent liabilities

Keeping it simple

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty may exist regarding the outcome of future events.

Under a Group registration, the Company is jointly and severally liable for VAT at 31 December 2019 of £40 million (31 December 2018: £39 million). The Company has guaranteed certain finance and operating lease obligations of subsidiary undertakings.

Note x Capital and other commitments

There are contingent liabilities in respect of certain litigation and guarantees, broadcasting issues, and in respect of warranties given in connection with certain disposals of businesses. None of these items are expected to have a material effect on the Company's results or financial position.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

In 2019, the Company entered into a stand-by letter of credit for £50 million in respect of one of the ITV Group asset-backed pension agreements.

There are no capital commitments at 31 December 2019 (2018: none).

Note xi Related party transactions

Keeping it simple

The related parties identified by the Directors include solely key management, as ITV plc is a holding company with no commercial activity.

To enable the users of the financial information to form a view about the effects of related party relationships on the Company, we disclose the Company's transactions with those during the year.

Transactions with key management personnel

Key management consists of ITV plc Executive Directors.

Key management personnel compensation, on an accounting basis, is as follows:

	2019 £m	2018 £m
Short-term employee benefits	**3**	5
Share-based compensation	**2**	1
	5	6

Total emoluments and gains on share options received by key management personnel in the year were:

	2019 £m	2018 £m
Emoluments	**4**	4
Gains on exercise of share options	**1**	–
Gains on release of restricted share awards	**1**	1
	6	5