ITV delivers strong operational performance in an uncertain economic environment

Full year results for the year ended 31st December 2017

Full year performance delivers as expected

- Total external revenue up 2% to £3,132 million (2016: £3,064 million), driven by double digit growth in non-NAR
- Total ITV Studios revenue up 13% to £1,582 million (2016: £1,395 million), with 7% organic revenue growth, excluding currency
- Online, Pay & Interactive up 7% to £248 million (2016: £231 million), with double digit growth in Online
- ITV Family NAR down 5% as anticipated at £1,591 million (2016: £1,672 million) impacted by the uncertain economic environment
- ITV Studios adjusted EBITA flat at £243 million (2016: £243 million) with strong underlying growth, but the comparative includes £37 million benefit from The Voice of China
- Broadcast & Online adjusted EBITA down 7% to £599 million (2016: £642 million) with £81 million decline in advertising partly offset by growth in high margin Online, Pay & Interactive and the delivery of our planned cost savings
- Adjusted EBITA down 5% to £842 million (2016: £885 million)
- Adjusted EPS down 6% at 16.0p (2016: 17.0p)
- Exceptional costs of £154 million principally relate to acquisition related costs, as well as London property project costs and a one-off provision relating to The Voice of China
- Statutory EPS down 9% at 10.2p (2016: 11.2p)

Solid foundation for the future

- Total non-NAR revenue up 11% to £2,066 million (2016: £1,855 million), now 56% of total revenues (2016: 53%)
- Broadcast business remains robust
  - ITV Family SOV up 2% – two years of consecutive SOV growth is a first for ITV
  - ITV main channel SOCI flat as we continue to deliver all the key demographics
  - ITV2 SOCI for 16-34's up 17%, ITV4 male SOCI up 12%
  - Online viewing continues to grow strongly, up 39%
- ITV Studios has a strong pipeline of new and returning programmes

Strong balance sheet and healthy liquidity

- Continued strong cash generation, with profit to cash conversion of 91%
- In line with our policy and reflecting the Board's confidence in the business and the outlook for 2018, it is proposing a final dividend of 5.28p, giving a full year dividend of 7.8p, up 8%
- Given that there is now a more normal ordinary dividend, five consecutive special dividends, leverage of 1.0x net debt to adjusted EBITDA and the strategy refresh underway, the Board has decided not to pay a special dividend for 2017

Outlook

- Strategic refresh underway
- Viewing on-screen and online started the year strongly growing ITV's share and volume, with a strong schedule to come, including the FIFA World Cup. Total schedule costs for 2018 are expected to be £1,055 million to £1,060 million.
- 2019 schedule costs likely to be around £1.1 billion with higher sports costs and drama spend, as we deliver more value as an integrated producer broadcaster creating, owning and distributing our own content
- ITV Family NAR forecast to be positive in the first half with Q1 up 1% and growth in Q2 around the FIFA World Cup

Carolyn McCall, ITV Chief Executive, said:

“There is no doubt that ITV’s operational performance in 2017 in a challenging environment was strong. ITV delivered a great viewing performance on-screen and online and double-digit revenue growth in video on demand advertising and ITV Studios. This gives us a solid foundation to build on for the next phase of ITV’s development.

“We are very focused on our strategic refresh. This will enable us to define a clear strategy and priorities that will highlight the opportunities and address the challenges that we face in an increasingly competitive media landscape. This project is well underway.

“We have had a great start to 2018. On-screen we have grown our viewing share and volume and online we have continued to deliver double digit growth in viewing. We expect ITV Family NAR to be positive in the first half, with Q1 up 1% and growth in Q2 around the football. ITV Studios is seeing increasing demand for its formats and dramas, particularly in the UK and US, and we have over 60% of this year’s expected revenue already booked.

“Reflecting our confidence in the business, and the outlook for 2018, the Board is proposing a full year dividend of 7.8p, up 8%.”

Operating and Financial Performance

Twelve months to 31 December – on an adjusted basis	**2017 £m**	2016 £m	Change £m	Change %
Broadcast & Online revenue	**2,075**	2,132	(57)	(3)
ITV Studios revenue	**1,582**	1,395	187	13
Total revenue	**3,657**	3,527	130	4
Internal supply	**(525)**	(463)	(62)	13
Group external revenue	**3,132**	3,064	68	2
Broadcast & Online EBITA	**599**	642	(43)	(7)
ITV Studios EBITA	**243**	243	–	–
EBITA	**842**	885	(43)	(5)
Group EBITA margin	**27%**	29%		
Profit before tax	**800**	847	(47)	(6)
Adjusted EPS	**16.0p**	17.0p	(1.0)p	(6)
Statutory EPS	**10.2p**	11.2p	(1.0)p	(9)
Ordinary dividend per share	**7.8p**	7.2p	0.6p	8
Special dividend per share	**–**	5.0p		

ITV has delivered a strong operational performance in a challenging year with ongoing economic and political uncertainty in the UK. ITV took action early to reduce overhead costs but the uncertainty has undoubtedly had an impact on the demand for television advertising and therefore as expected ITV’s financial performance.

We set ourselves challenging objectives to grow our on-screen and online viewing and deliver good growth in Non-NAR. And ITV has delivered on these as we have continued to rebalance and strengthen the business creatively and commercially. On-screen, our share of viewing was up for the second year, up 2%, the ITV Hub continues to deliver strong viewing, up 39%, Online, Pay & Interactive revenue grew 7% and total ITV Studios revenue grew 13% including currency benefit. We have a strong creative pipeline of high-quality programmes, particularly drama and entertainment, and we continue to perform well across the key genres that return and travel.

We measure performance through a range of metrics, particularly through our alternative performance measures and KPIs as well as our statutory results.

External revenue was up 2% to £3,132 million (2016: £3,064 million), with 11% growth in non-NAR more than offsetting the decline in NAR, a clear indication that our strategy of rebalancing the business is working. 56% of total revenues came from sources other than spot television advertising (Non-NAR).

Adjusted EBITA declined 5% to £842 million (2016: £885 million) and adjusted EPS declined 6% to 16.0p (2016: 17.0p) impacted by a 5% decline in NAR and the ongoing investment across the business and the fact that the prior year includes the full £37 million revenue and profit benefit of the four year licence deal for The Voice of China. We did however benefit from the delivery of £29 million of overhead cost savings and £25 million lower schedule costs. Broadcast & Online adjusted EBITA declined 7% and ITV Studios adjusted EBITA was flat.

Exceptional costs were £154 million in the year (2016: £164 million) principally relating to acquisition related costs, as well as £30 million of restructuring and London property project costs, and a £27 million one-off provision relating to The Voice of China.

Statutory profit before tax declined by 10% to £500 million (2016: £553 million) and statutory EPS declined by 9% to 10.2p primarily due to the decline in earnings and higher amortisation and impairment of acquired assets.

We have a strong balance sheet and the business continues to be highly cash generative. Our profit to cash conversion remains high at 91% and we ended the year with net debt of £912 million (2016: £637 million) after the effect of acquisitions and investments of £95 million, dividend payments of £494 million and pension contributions of £80 million.

The Board has proposed an ordinary dividend of 7.8p, an increase of 8%, reflecting our confidence in the underlying strength of the business and the outlook for 2018. This is in line with the Board's commitment to a long-term sustainable dividend policy and for ordinary dividends to grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term.

We remain focused on being a creator, owner, distributor and broadcaster of content and in 2017 we continued to deliver on our strategy to diversify the business and grow new revenue streams, further reducing our reliance on UK spot advertising and making ITV a stronger and more resilient business. We continue to build our free-to-air, online and pay businesses through Broadcast & Online and are further growing our international content and distribution business, ITV Studios. We are currently undertaking a strategic refresh to ensure we have a clear strategy and well-defined priorities which reflect what ITV needs to be in three and five years' time.

Broadcast & Online

The media environment in which we operate is constantly changing. Our Broadcast & Online business is robust and evolving to take advantage of the significant opportunities for growth.

ITV through its free-to-air channels offers unique audience scale and reach as well as the key demographics demanded by advertisers. The ITV Hub, the digital home for all our channels and content, is growing rapidly, driven by viewers' appetite for catch up and video on demand (VOD) and the quality of our content. We continue to explore and trial new ways, both free and pay, to distribute content to broadcasters and platform owners as well as directly to consumers.

Financial performance

Broadcast & Online total revenue was down 3% in the year at £2,075 million (2016: £2,132 million). We delivered 7% growth in Online, Pay & Interactive, driven by double-digit growth in online advertising, but this was offset by the 5% decline in NAR. Including sponsorship, VOD and self-promotion, ITV total advertising was down 3%.

Advertising categories such as Retail, Finance and Food continued to see declines due to the uncertain economic outlook, along with the weaker pound causing inflationary pressures, leading advertisers to reduce spend in order to maintain margins. Within Retail, spending has been mixed: the high street was weak while supermarkets increased their spend and some of the *FMCGs* returned to spend in the second half of 2017. Entertainment & Leisure was down, impacted by tough comparatives from the European Football Championship in 2016. Cars and Telecommunications increased their spend around product launches and digital brands continue to spend heavily on television to build brand awareness.

Total costs were down as the cost savings and lower schedule costs offset the increased investment on the ITV Hub, ITV Hub+ and ITV Box Office (our pay-per-view channel used to show boxing matches).

Overall Broadcast & Online adjusted EBITA declined 7% to £599 million (2016: £642 million) which has led to a one percentage point reduction in the adjusted EBITA margin to 29% (2016: 30%).

Viewing

On-screen we performed strongly with share of viewing (SOV) up for the second consecutive year. We increased our spend on entertainment but sports costs were lower as a result of there being no major sports tournament in 2017.

ITV Family SOV grew 2% with a strong performance across the schedule. This level of growth is the second biggest in ITV's recent history and never before has ITV delivered two years of consecutive growth. Daytime shows including Good Morning Britain, This Morning and The Chase grew their audiences and Coronation Street and Emmerdale continue to perform well and are now the UK's two largest soaps. We launched the sixth weekly episode of Coronation Street in September, which has further strengthened its performance.

We successfully aired a range of new dramas including Liar, Good Karma Hospital, Fearless, Bancroft and Little Boy Blue and new entertainment shows, The Voice, The Voice Kids, The Keith and Paddy Picture Show and Five Gold Rings, as well as new sitcom Bad Move.

We continued to drive significant audiences with our returning brands such as Broadchurch – which was the most watched drama in the year – Vera, Unforgotten, Victoria, Cold Feet, Ant & Dec's Saturday Night Takeaway, I'm A Celebrity...Get Me Out Of Here! and Britain's Got Talent. Our news programming continues to perform well with highlights including our General Election coverage, as does our sporting schedule with the Six Nations Rugby Championships and the launch of horse racing on ITV. Some of our schedule did not perform as well as we had hoped, for example The Nightly Show, Fearless and Bigheads, so will not return in 2018.

We continue to target the hard to reach demographics demanded by advertisers – particularly young and male audiences – through our digital channels and online, and have seen a significant increase in our target demographics on ITV2 and ITV4. Our 16-34s share of commercial impacts (SOCI) on ITV2 was up 17% helped by the phenomenal success of Love Island as well as Celebrity Juice, Family Guy and American Dad. Male SOCI on ITV4 was up 12% helped by ITV's horse racing coverage, The French Open and the Isle of Man TT Races. ITV3's viewing performance improved in the year due to the strong performance of dramas such as Midsomer Murders, Lewis and Endeavour. ABC1 adults SOCI on ITV3 was up 1% making it the most popular digital channel for this demographic.

ITV Hub
The ITV Hub, which is now available on 29 platforms, continues to grow rapidly, driven by viewing on mobile and connected televisions. The ITV Hub is now pre-installed on around 90% of all connected televisions sold in the UK and launched on Apple TV, Apple's new TV app and Microsoft XBox in 2018.

Long-form video requests were up 34% and online viewing consumption, which measures how long viewers are spending online, was up 39%. The ITV Hub has now been the fastest-growing public service broadcaster online service for the last three years driven by the good user experience and great content and now has 21 million registered users.

The ITV Hub helps ITV reach valuable younger audiences – 75% of the UK's 16–24 year olds are registered together with 65% of the UK's 16–34 year olds. Younger viewers increasingly use the ITV Hub for simulcast viewing, as well as catch up, with programmes such as Love Island delivering record viewing with 1.3 million simulcast requests for the final.

We are using the insight we gain from our registered users to develop more targeted advertising solutions and to increasingly drive viewing through personalisation. In the year, we launched personalised ITV Hub home pages for our audiences and have introduced data-driven recommendations and mobile notifications to registered users.

Strong advertising proposition
While political and economic uncertainty has led advertisers to reduce their current spend, 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 of advertising that television, and particularly ITV, delivers becomes increasingly valuable.

ITV's unique ability to deliver mass audiences, as well as more targeted demographics across the family of channels, has enabled us to again increase our share of the television advertising market (SOB) to 47.6% from 47.4%. ITV delivered 99% of all commercial audiences over five million and 96% of all commercial audiences over three million. SOV provides an overall measure of viewing performance, but because advertisers are buying scale and breadth of audience, SOV is not necessarily a direct indicator of advertising performance.

ITV aims to maximise further the value of its airtime and drive new revenue streams through sponsorship, interactivity and branded extensions. ITV utilises the core assets of its strong brand and reputation, unique commercial relationships and quality production capability to deliver a wide variety of marketing solutions.

As a result, ITV's 'Other commercial income' increased by 2%, with new sponsorship around ITV horse racing and The Voice, offset by a reduction in third-party airtime sales commission and revenue primarily from UTV following ITV's acquisition in February 2016 and successful integration of the business.

Digital advertising is growing rapidly and we have seen double-digit growth in our VOD advertising revenues on the ITV Hub, which delivers more targeted demographics and a high-quality, trusted and measured environment for online advertisers.

In 2017, ITV announced a trial for addressable advertising with Sorenson on connected Smart televisions. We have also launched a trial of a self-service portal so that any business, however small, can easily access advertising on ITV.

Remain responsive to a changing media environment
Linear television viewing remains resilient despite significant changes in the availability and delivery of content. On average viewers watched 203 minutes of television a day in 2017. This is lower than 212 minutes in 2016 and partly is due to there being no major sports tournament in 2017.

The majority of viewing remains live at over 75% 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 The Voice, Britain's Got Talent, Saturday Night Takeaway and Love Island, television reaches 90% of young people each week and remains their dominant choice of media.

Developing ITV's digital broadcast assets
We are further developing our social media assets across our international portfolio of programmes as live television continues to demonstrate a growing relevance as viewers increasingly connect and engage through social media. We now have over 160 YouTube branded channels and had around 20 owned and operated programme apps across the year which, together with our quality content, is driving significant growth in viewer engagement. Our programmes generated over 100 million interactions in 2017.

Building our pay offering in the UK and internationally
As a creator, owner and distributor of sought after content, ITV is well positioned to take advantage of the opportunities that arise from the changes we are seeing in digital media and consumer behaviour. We must ensure that however our content is viewed and on whatever platform it is viewed on, we are paid the appropriate value for it.

As we look to build our pay offerings, we are developing subscription video on demand (SVOD) services to target direct to consumer pay revenues. In March 2017, we launched our US joint venture with the BBC, BritBox, (with AMC Networks taking a minority share), an ad-free SVOD service offering the most comprehensive collection of British content in the US. A version of the service also launched in Canada in February 2018 and we now have over 250,000 subscribers in total. In 2018, we will explore opportunities for BritBox on other platforms, include original commissions, and look to roll it out further internationally.

We are continuing to develop the ITV Hub+, our ad-free subscription version of the ITV Hub, which while relatively small, tripled its subscribers in the year. We have extended the service across all platforms so subscribers can now watch on mobile, PC and connected televisions and launched it on Amazon.

Over the last few years we have also established a number of smaller pay propositions. We own a majority stake in Cirkus, a best of British SVOD service in the Nordics and Germany. We also have a general entertainment channel, ITV Choice, for emerging markets available in over 100 countries.

We are trialling ITV Box Office, a direct to consumer pay per view offering which currently focuses on boxing and we have a number of live events based around our key brands, which build relationships directly with our viewers. For example, we have the Emmerdale Studios Experience, which showcases the process of creating an episode of the soap, and This Morning Live, a shopping and lifestyle festival.

ITV also continues to license its channels and content across multiple platforms, including our HD digital channels and catch-up VOD on Sky and Virgin Media set top boxes and all our live channels and catch up VOD across their connected platforms. We announced that ITV Encore will close as an exclusive Sky channel in 2018 which allows ITV to distribute box sets more widely across multiple platforms. The closure of Encore will impact ITV's pay revenues in 2018.

SDN
SDN generates revenue by licensing capacity to broadcast channels, radio stations and data providers on digital terrestrial television or Freeview. It holds a licence with capacity for 16 broadcast channels, including ITV services and third-party channels. SDN external revenue grew 4% driven by the full year impact of the 16th stream, which was launched in 2016.

ITV Studios
Growing an international content business has been central to ITV's strategy as an integrated producer broadcaster. 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.

Financial performance
ITV Studios is now a global producer of scale and total revenues grew 13% to £1,582 million (2016: £1,395 million) including currency benefit, with growth across the business as we continue to build our capability in key creative markets.

Total organic revenue, which excludes our current year acquisitions and foreign exchange, was up 7% and acquisitions continue to deliver with a 13% return on investment in 2017.

Reflecting our growth in key production markets in Europe and the US, 54% of ITV total revenue was generated outside the UK (2016: 50%). ITV is the number one commercial producer in the UK and a leading producer in Europe and the US. As our Studios business grows internationally, foreign currency movements have an increasing impact on our results.

In 2017, the foreign currency benefit was £43 million on revenue and £7 million on adjusted EBITA. Adjusted EBITA was flat year-on year at £243 million. There was good underlying profit growth but adjusted EBITA was impacted by our ongoing investment in US drama and the fact that the prior year includes the full £37 million benefit of the four year licence deal for The Voice of China.

Adjusted EBITA margin declined by two percentage points to 15%, impacted by revenue mix on new and returning shows.

Building scale in key creative markets
ITV Studios has three production divisions – Studios UK, ITV America and Studios Rest of World (RoW). Across these divisions, ITV produced over 8,400 hours of programming, compared to 7,800 in 2016 and secured 240 recommissions and 239 new commissions in the year.

The US and the UK are the dominant creative markets, with the US the largest exporter of scripted content 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 that travel.

The UK performed well with total revenue up 11% at £692 million (2016: £626 million). We continue to grow our sales to ITV, which were up 13% with deliveries including The Voice, The Voice Kids, Love Island, Next of Kin, Bancroft, Fearless, Unforgotten, Little Boy Blue and an extra episode of Coronation Street. We have again grown ITV Studios UK share of original content on ITV main channel from 63% to 66%. Our off-ITV revenues grew 10% with deliveries including The City And The City, Shetland, Moorside and Motherland for BBC, Back for Channel 4, Blind Date for Channel 5 and Living the Dream for Sky. We strengthened our UK drama business with the acquisition in April of a majority stake in World Productions, the producer of Line of Duty, and our entertainment business with an investment in start-up Koska in October.

ITV America total revenue grew 33% to £313 million (2016: £235 million) including foreign exchange. We delivered five drama commissions – the third series of the Good Witch for Hallmark which has been commissioned for a fourth series, Sun Records for CMT, Somewhere Between for ABC and two pilots for TNT, Highland and Snowpiercer, which has been commissioned for a ten-part series. We have also delivered a high volume of programmes from our entertainment portfolio including two series of Hell's Kitchen, Pawn Stars, Alone, Forged in Fire and First 48 and new commissions including Sideserf, World Hip Hop Star and Big Star's Little Star.

Studios RoW has production bases in Australia, Germany, France, the Netherlands, the Nordics and Italy where we produce original content as well as local versions of ITV Studios UK and Talpa formats. Revenue grew 10% to £390 million (2016: £355 million) including foreign exchange, driven particularly by good growth in Australia, France and the Nordics. Across the territories, our entertainment and format deliveries included The Voice in Australia and Germany, The Chase in Australia and Germany, and Love Island in Germany.

Talpa continues to develop its formats including The Voice Senior, A Year To Remember, I Love My Country, A Whole New Beginning and Around The World With 80 Year Olds. Our international scale now enables ITV to make The Voice and these other formats in all our international production territories and therefore earn the production revenue as well as the format fee. Some of our content will not be recommissioned in 2018 as they have not performed as expected, for example The Loch and Sun Records.

We are making real progress in building a European scripted business. In February 2017, ITV acquired a majority stake in Tetra Media Studio, a French scripted production company, and in October ITV acquired a majority stake in Cattleya, the Italian scripted production company behind Gomorrah and Suburra. We also took a stake in a Danish scripted producer Apple Tree Productions in December. These, along with our existing European drama businesses, will enable us to benefit from the increasing demand for locally produced content with global appeal.

We have further strengthened our international business with a number of other small investments. In April, we acquired a 45% stake in Blumhouse Television, established by Jason Blum, the renowned film and television producer, which finances and produces original scripted and unscripted 'dark' genre programming for global audiences including The Jinx and Cold Case Files. In May we entered into a joint venture with the US talent agent and production company, Circle of Confusion, and in June we acquired Elk Production, a Swedish entertainment production company.

Investing in content with international appeal
We have continued to expand our portfolio of successful formats and series that return and can be distributed internationally.

With the acquisition of Talpa Media in 2015, we have significantly strengthened our global capability in entertainment formats. Across the business, we have grown a solid portfolio of high volume and high margin formats that travel internationally and that we produce locally. For example, during 2017 we produced The Voice in five countries and The Voice Kids and Four Weddings in four countries.

Demand for drama is growing strongly as standout original content becomes brand defining for both broadcasters and over-the-top (OTT) players. To capitalise on this, we are investing in our global scripted business, particularly in the US, to build on the success of our UK drama business. We are strengthening our development and creative capabilities internally and have invested in a number of development relationships. In 2017, we increased our investment in drama across the business, investing £243 million (2016: £160 million).

We finance our large-scale scripted projects through our strong 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 (the difference between the cost and what the broadcaster pays), is recovered through distribution revenue from selling the finished product globally to other broadcasters and platforms.

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.

We are seeing increasing demand from OTT platforms for original long-form content and secondary rights. As well as distributing library content to OTT platforms through Global Entertainment, we are also producing and jointly commissioning a number of scripted and unscripted programmes with OTT platforms including Vanity Fair with Amazon, Robozuna, Queer Eye for the Straight Guy and Dark Web for Netflix, Harlots for Hulu and we are in development with a number of shows for Facebook.

Expanding our global distribution business
Global Entertainment, the distribution arm within ITV Studios, delivered revenue growth of 4% to £187 million (2016: £179 million) as we continue to drive value from our investment in creating and owning the rights to quality content with international appeal. As well as funding and creating new content from ITV Studios, we also invest in third-party producers and their content from all over the world. Global Entertainment's pipeline of new projects is strengthening with projects such as Vanity Fair, The City And The City and World On Fire expected for 2018.

Our content continues to sell well internationally to broadcasters and OTT platforms and in particular, our scripted programmes with titles including Victoria, Poldark, Vera, Good Witch, The Murdoch Mysteries, Schitts Creek, The Loch, Fearless and Harlots. Over 15 of our scripted programmes have been sold to more than 100 countries

Our entertainment and factual entertainment formats are highly demanded and include programmes such as The Voice, Love Island, The Chase, Big Star's Little Star, This Time Next Year, Five Gold Rings, Come Dine With Me and Four Weddings. In 2017, we sold 62 different formats internationally, 17 of which are being produced by ourselves or other producers in three or more countries including Love Island, Keeping the Nation Alive and Hell's Kitchen. We currently have over 250 programme supply agreements in place with online platforms including Netflix, Amazon and Hulu.

Full year results – adjusted and statutory

Twelve months to 31 December 2017 – on a continuing basis	Statutory £m	Adjustments £m	Adjusted £m
EBITA	**810**	**32**	**842**
Exceptional items (operating)	(153)	153	–
Amortisation and impairment	(102)	97	(5)
Operating profit	**555**	**282**	**837**
Net financing costs	(50)	17	(33)
Share of losses on JVs and associated	(4)	–	(4)
Gain on sale of non-current assets and subsidiaries (non-operating exceptional items)	(1)	1	–
Profit before tax	**500**	**300**	**800**
Tax	(87)	(67)	(154)
Profit after tax	**413**	**233**	**646**
Non-controlling interests	(4)	–	(4)
Earnings	**409**	**233**	**642**
Shares (million), weighted average	4,006	–	4,006
EPS	10.2p		16.0p

Exceptional items

Total exceptional items in the year were £154 million (2016: £164 million). Operating exceptional items were £153 million (2016: £164 million) and principally relate to acquisition-related expenses of £96 million (2016: £131 million), which are mainly performance based employment-linked consideration. Restructuring and property-related costs were £30 million (2016: £14 million) and include £24 million of incremental one-off property project costs associated with our planned London property move in 2018, primarily related to temporary rent and accelerated depreciation on fixtures and fittings. We will continue to incur exceptional rental costs over the next four or five years until we return to our headquarters at The London Television Centre. Restructuring and property-related costs also include £6 million of redundancy costs in relation to the closure of The London Studios business.

Exceptional items also include an insured trade receivable provision of £27 million, which relates to the unpaid portion of revenue from the four year licence deal for The Voice of China with Talent Television and Film Co. Ltd (Talent), the revenue for which was fully recognised in 2016 in accordance with accounting standards as ITV had no further obligations under the terms of the agreement.

Following a breach of the agreement by Talent as they had not fulfilled their payment obligations, we have taken back the licence for The Voice of China. ITV is pursuing Talent vigorously for the £30 million still due under the agreement. Further, ITV has credit insurance in place and a claim has been submitted. ITV will continue to pursue the amounts due and believes there will ultimately be no material impact.

Whilst ITV is confident that it will recover the amount due, accounting standards set very specific requirements for the recognition of contingent assets, which is how the recovery of the amount due will be accounted for. As discussions with the insurers and the claim against Talent are in progress, at this early stage of pursuing recovery, ITV is not able to demonstrate sufficient certainty for accounting purposes to be able to recognise a cash receivable at the year end. Accordingly, ITV has made a provision amounting to £27 million (£30 million net of £3 million insurance excess) against the Talent receivable recorded in our accounts in the year ended 31 December 2017. The cash received in future will also be treated as an exceptional item.

The cash cost of exceptionals in 2017 was £126 million.

EPS – adjusted and statutory

Adjusted profit after tax was down 6% at £646 million (2016: £687 million). After non-controlling interests of £4 million (2016: £4 million), adjusted basic earnings per share was 16.0p (2016: 17.0p), down 6%, which is marginally higher than the decrease in adjusted EBITA of 5% due to an increase in adjusted financing costs to £33 million (2016: £26 million) and our investment in associates in the year.

The weighted average number of shares declined marginally to 4,006 million (2016: 4,010 million) because ITV bought shares during the year on behalf of the Employee Benefit Trust and, in line with accounting standards, shares held by the Trust are not included in the total share count. Diluted adjusted EPS in 2017 was 16.0p (2016: 17.0p) reflecting a weighted average diluted number of shares of 4,017 million (2016: 4,029 million). The weighted average diluted number of shares was down year-on-year because of a decrease in the number of shares expected to vest in ITV's long term incentive plans in the future.

Statutory EPS declined by 9% to 10.2p (2016: 11.2p) due to the decline in statutory EBITA as explained earlier, along with higher costs associated with amortisation and impairment of acquired assets in the year.

Dividend per share

The Board has declared a final dividend of 5.28p, an increase of 10% (2016: 4.8p). This equates to a full year dividend of 7.8p (an increase of 8% year-on-year), which gives a cover of 2.1x and reflects our confidence in the underlying strength of the business and the outlook for 2018.

This is in line with the Board's commitment to a long-term sustainable dividend policy and for ordinary dividends to grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term. ITV plc had £1.6 billion of distributable reserves at 31 December 2017 available immediately to support the dividend policy.

Given that there is now a more normal ordinary dividend, five consecutive special dividends, leverage of 1x net debt to adjusted EBITDA and the strategic refresh under way, the Board has decided not to pay a special dividend in respect of 2017.

Balance sheet and cash flow

One of ITV's key strengths is its healthy cash flows reflecting our ongoing tight management of working capital balances and our disciplined approach to cash and costs. This is particularly important when there is wider political and economic uncertainty. Remaining focused on cash and costs means we are in a good position to continue to invest across the business and deliver sustainable returns to our shareholders.

In the year, we generated £763 million (2016: £862 million) of operational cash from £842 million (2016: £885 million) of adjusted EBITA, which equates to a strong profit to cash ratio of 91% after capex (2016: 97%). In the year, we saw an increase in working capital. This was due to the payment schedule for sports rights for future years, and the timing difference between the production and the final delivery and payment of scripted and entertainment titles such as Snowpiercer, Good Witch, Vanity Fair, Poldark, Dancing on Ice and Survival of the Fittest.

To facilitate our working capital management, 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 the 31 December, £90 million of receivables were sold under the purchase agreement (2016: £35 million).

While our free cash flow after payments for interest, cash tax and pension funding remained healthy in the period, it was down 17% to £527 million (2016: £636 million). This was primarily due to the year-on-year decline in adjusted EBITA along with the increase in working capital, as explained earlier.

Overall, after dividends (ordinary and special), acquisitions and acquisition-related costs, pension and tax payments, we ended the year with net debt of £912 million, compared with net debt of £1,074 million at 30 June 2017 and net debt of £637 million at 31 December 2016. Our net cash generation was weighted towards the second half of 2017 due to the payment in the first half of the special dividend, the Talpa earnout and content acquisitions.

We have a number of facilities in place to preserve our financial flexibility. We have a £630 million Revolving Credit Facility (RCF) in place until 2022 (with the option to extend to 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. Of the total £930 million of facilities in place, £60 million was drawn down at 31 December 2017. Our policy is to maintain at least £250 million of available liquidity at any point.

Our objective is to run an efficient balance sheet. We have always believed that maintaining leverage below 1.5x net debt to adjusted EBITDA (2017 Adjusted EBITDA was £872 million) will optimise our cost of capital and maintain our investment grade credit. At 31 December 2017, reported net debt to adjusted EBITDA was 1.0x (2016: 0.7x).

Pensions

The net pension deficit for the defined benefit schemes at 31 December 2017 was £83 million (31 December 2016: £328 million). The year-on-year reduction in the deficit reflects gains from asset values in the year, more accurate data on scheme members based on the preliminary results of 1 January 2017 actuarial valuation and our deficit funding contributions of £80 million. The net pension deficit includes £38 million of gilts, which are held by the Group as security for future unfunded pension payments of four former Granada executives, the liabilities of which are included in our pension obligations.

The last actuarial valuation was undertaken in 2014. On the basis agreed with the Trustee, the combined deficits as at 1 January 2014 amounted to £540 million and are estimated to be at a broadly similar level today. The Trustee is in the process of undertaking a full actuarial valuation of all sections of the Scheme as at 1 January 2017, which we expect to agree during H1 2018.

The total deficit funding contribution for 2017 was £80 million, which is consistent with the contributions payable in 2016. We do not expect a material change in the deficit funding contribution for 2018.

London property

In 2017, the Board made the decision to redevelop our headquarters at The London Television Centre for which we own the freehold. This requires relocating staff and studios for four to five years to alternative accommodation before moving back into a new freehold building. Therefore, ITV has taken rented office and studios space in the interim while the new headquarters are constructed.

During the course of the project, ITV will ring-fence all incremental costs in relation to the redevelopment. Move costs, dual rates and rent will be treated as exceptional costs in the P&L as they relate to the one-off property project that runs over several years but we will no longer incur them once we return to The London Television Centre. Capital items will be capitalised as investment capex. Investment capex is excluded from capex for our adjusted cash measurements.

In 2017, ITV incurred £24 million of costs in relation to accelerated depreciation for assets made redundant as a result of the move, move costs, dual rates and rent. These were exceptionalised as explained above. ITV also incurred £16 million of costs for the fit out of the interim offices and studios and in relation to planning for the redevelopment of The London Television Centre which were capitalised.

In 2018, ITV will incur move costs, dual running costs, dual rates and rent which will be exceptionalised as explained above. ITV will incur around £40 million of cash costs for further fit-out of the interim offices and studios space and further costs associated with the redevelopment of The London Television Centre, which will be capitalised. Depreciation associated with the fit-out of the interim offices and studios space will not be exceptionalised.

In February 2018, Lambeth Council planning committee passed a resolution to grant planning permission for the new headquarters. The application now goes forward to the Greater London Authority for endorsement. Once all approvals have been granted, we expect to commence demolition of the current building in 2018. All build costs will be capitalised until we move back, which is expected in 2023, with the most significant investment capex to be incurred in 2021 and 2022.

Following the step up in London property operating costs in 2018, we do not expect future costs to be materially different from 2018 when we move back in 2023.

2018 full year planning assumptions

Profit and Loss impact:

- Total schedule costs are expected to be £1,055 million to £1,060 million, an increase of around £30 million and weighted to H1 due to the Football World Cup
- Total investments of around £15-£20 million in on-going new property, online and initial data investments
- Adjusted interest is expected to be around £35 million, which is broadly unchanged from 2017
- The adjusted effective tax rate is 19%, which is unchanged and expected to be sustainable over the medium term
- The translation impact of foreign exchange, assuming rates remain at current levels, could have a £35 million negative impact on revenue and £5 million negative impact on profit
- Exceptional items are expected to be around £85 million, mainly due to acquisition accounting and the London Property redevelopment project

Cash impact

- Total capex is expected to be around £100 million, comprising of £60 million of regular capex to support the business and £40 million relating to the redevelopment of our London site
- The cash cost of exceptionals will be around £85 million, largely relating to accrued earnouts
- Profit to cash is expected to be around 85%, reflecting our continued strong cash generation and investment in Studios working capital
- Total pension deficit funding is expected to be £80 million, unchanged subject to agreeing the triennial valuation

2018

We have had a great start to 2018. Viewing has been very strong with a schedule including the return of Dancing On Ice, The Voice, Vera, Endeavour, Trauma, Six Nations rugby, record viewing for our key daytime shows and the sixth episode of Coronation Street. Our family share of viewing, so far, is up 7% and total viewing volumes are actually up too by 3% with online viewing up 22%. And we have a great schedule to come for the rest of the year including the FIFA World Cup in June, Vanity Fair, Clean Break, White Dragon, Britain's Got Talent and Little Big Shots.

ITV Studios has a great pipeline of new and returning shows including Unforgotten, Vanity Fair, Survival of the Fittest and I'm A Celebrity… Get Me Out Of Here! for ITV, Poldark, Bodyguard and Shetland for BBC, Living the Dream for Sky and internationally Love Island, The Voice, The Chase, Big Star's Little Star, Snowpiercer and Good Witch. We have already secured over 60% of our budgeted revenue for 2018, about £100 million more than this time last year and expect to deliver good organic revenue growth in ITV Studios over the full year.

While the economic outlook remains uncertain, we expect ITV Family NAR to be positive in the first half with Q1 up 1% – a continuation of the improvement we saw towards the end of 2017. In 2018 we expect online to show double digit revenue growth.

We have kicked off our strategic refresh and when we report to you at the interims we will be able to give you an update and some of the key headlines. In the meantime, we remain very focused on the business. There is a lot to do and the energy and commitment of ITV people both creatively and commercially will help us deliver all of this.

A strong balance sheet and healthy cash flows gives ITV the flexibility to make the right strategic decisions for the long term future of ITV in an increasingly competitive environment whilst still delivering sustainable returns to shareholders.

Notes to editors

1. Unless otherwise stated, all financial figures refer to the 12 months ended 31 December 2017, with growth compared to the same period in 2016.

2. Group external revenue

Revenue for 12 months to 31 December (£m)	2017	2016	%
ITV Family NAR	1,591	1,672	(5)
Non-NAR revenue	2,066	1,855	11
Internal supply	(525)	(463)	13
Total external revenue	**3,132**	**3,064**	**2**

3. ITV Family NAR is expected to be positive in H1 with Q1 up 1%. January was down 3%, February down 2%, March is expected to be up 7% and April is expected to be down impacted by the timing of Easter.

   These revenues are pure NAR, excluding the benefit of sponsorship, online revenue and self-promotion. From March 2016, ITV Family NAR includes advertising revenue from the UTV Channel 3 licence (excluding UTV Ireland). Figures for ITV plc and TV market NAR are based on ITV estimates and current forecasts.

4. Broadcast & Online performance indicators

Twelve months to 31 December	2017	2016	%
ITV SOV (%)	15.5	15.4	1
ITV Family SOV (%)	21.7	21.3	2
ITV Family adult impacts	301bn	304bn	(1)
ITV SOCI (%)	24.1	24.2	–
ITV Family SOCI (%)	34.5	34.4	–
Long form online viewing (hrs)	335m	240m	39
Total long form video requests	1,426m	1,066m	34

SOV data based on BARB/AdvantEdge data and Share of Commercial Impacts (SOCI) data based on BARB/DDS data. SOV data is for individuals and SOCI data is for adults. ITV Family includes: ITV, ITV2, ITV3, ITV4, ITV Encore, ITVBe, CITV, ITV Breakfast, CITV Breakfast and associated "HD" and "+1" channels. Total long form video requests are measured across all platforms, based on data from comScore Digital Analytix, Crocus, Virgin, BT, iTunes, Netflix, Amazon Video and Sky and include simulcast. Long form online viewing is the total number of hours ITV VOD content is viewed on ad funded platforms, based on data from ComScore Digital Analytix and Crocus. % change for performance indicators is calculated on unrounded figures.

5. The 2017 final dividend will be paid on 24 May 2018. The ex-dividend date is 12 April 2018 and the record date is 13 April 2018.

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.

7. 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.

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Chief Executive's Report

I was very pleased to join ITV in January as Chief Executive. It is still early days, but I have already visited many parts of the business and met many very talented ITV people. I have visited our offices in London, Manchester and Leeds, a number of our newsrooms, production companies as well as two cornerstones of our schedule, Coronation Street and Emmerdale. I have been struck by the pride and passion ITV people have for what they do and the critical role ITV plays in society and the media ecology.

ITV's operational performance was strong in 2017 in what clearly was a challenging year with continued economic and political uncertainty impacting the demand for television advertising. Share of viewing was up for the second year running – a first ever for ITV; there was a significant increase in online viewing, up over 30% and with good revenue growth; and the Studios business also delivered good revenue growth both in total, and excluding acquisitions.

The Board is proposing a full year dividend of 7.8p, up 8% which reflects confidence in the business and the outlook for 2018. This is in line with ITV's ordinary dividend policy. The business remains highly cash generative but given that there is now a more normal ordinary dividend, five consecutive special dividends, leverage around 1x and a strategic refresh underway, the Board has decided not to pay a special dividend for 2017.

ITV is in good shape but we recognise that the media landscape continues to change rapidly, with more content to watch and more ways to watch it. The economics are also changing. We are operating in an increasingly competitive market – traditional broadcasters are no longer our only competitors for viewers, for advertising and for quality content. These relatively 'new' competitors are also customers. We have kicked off a strategy refresh to address all of these areas and we have identified three major areas in this refresh – content, advertising and direct to consumer. We will have a clear strategy, together with well-defined priorities, to establish what ITV needs to be in three and five years' time and what we need to do to face the challenges and exploit the opportunities ahead.

ITV has a strong consumer proposition and fantastic content which drives mass audiences and key demographics which are so valuable to advertisers. It also has the potential to do more targeted advertising. Live television remains the preferred way of watching content, even for younger audiences. And it gives immediate scale, reach and fame for advertisers that just cannot be achieved anywhere else. It also provides a safe, trusted and transparent environment in which to advertise and generates the highest return on investment of any media. Recent research by Ebiquity, found that for every pound spent, TV generates over £4 of profit compared to just over £2 for online video and less than £1 for online display.

While online advertising continues to grow, advertisers are challenging its effectiveness and what it actually delivers – we are now starting to see many more questions being asked about unacceptable content, measurability and trust in online media.

The ITV Hub delivers a high quality, trusted and measured environment for advertisers. It also allows us to build direct to consumer relationships around our great content and programme brands – something we are just at the start of – but already we have 75% of all 16 to 34 year olds registered. And through voting and competitions within our programmes, we had over 100 million interactions last year.

Creating and owning quality content is a real advantage. The integrated producer broadcaster model is also a benefit – we have a great opportunity to make content famous on our channels in the UK before selling it round the world. Not only does our success on-screen and online depend on having fantastic content, but the global demand for high quality programming remains strong as broadcasters and platform owners look for brand defining content.

Netflix and Amazon are important buyers of our content – this year, Netflix will become the biggest customer of Global Entertainment, our distribution business. And the focus isn't just on drama, they also want unscripted content in the US.

And ITV Studios is an international production business of scale, with total revenues of over £1.5bn – 54% of which was generated outside the UK – and is active in 11 countries with a library of over 45,000 hours. We have strong relationships through our global production and distribution network and sell content to over 200 channels globally.

We have had a great start to 2018. Viewing has been very strong with a schedule including the return of Dancing On Ice, The Voice, Vera, Endeavour, Trauma, Six Nations rugby, record viewing for our key daytime shows and the sixth episode of Coronation Street. Our family share of viewing, so far, is up 7% and total viewing volumes are actually up too by 3% with online viewing up 22%. And we have a great schedule to come for the rest of the year including the FIFA World Cup in June, Vanity Fair, Clean Break, White Dragon, Britain's Got Talent and Little Big Shots.

ITV Studios' has a great pipeline of new and returning shows including Unforgotten, Vanity Fair, Survival of the Fittest and I'm A Celebrity... Get Me Out Of Here! for ITV, Poldark, Bodyguard and Shetland for BBC, Living the Dream for Sky and internationally Love Island, The Voice, The Chase, Big Star's Little Star, Snowpiercer and Good Witch. We have already secured over 60% of our expected revenue for 2018, about £100 million more than this time last year and expect to deliver good organic revenue growth in ITV Studios over the full year.

While the economic outlook remains uncertain, we expect ITV Family NAR to be positive in the first half with Q1 up 1% – a continuation of the improvement we saw towards the end of 2017. In 2018 we expect online to show double digit revenue growth.

We have kicked off our strategic refresh and when we report to you at the interims we will be able to give you an update and some of the key headlines. In the meantime, we remain very focused on the business. There is a lot to do and the energy and commitment of ITV people both creatively and commercially will help us deliver all of this.

We have a solid foundation to build on and a strong balance sheet and healthy cash flows gives ITV the flexibility to make the right strategic decisions for the long term future of ITV in an increasingly competitive environment whilst still delivering sustainable returns to shareholders.

Carolyn McCall
Chief Executive

Operating and Performance Review

ITV has delivered a good performance in 2017 as we continue to rebalance and strengthen the business creatively and commercially.

Key highlights

NAR revenue
£1,591m
(2016: £1,672m)

Total non-NAR revenue
£2,066m
(2016: £1,855m)

Group external revenue
£3,132m
(2016: £3,064m)

Adjusted EBITA
£842m
(2016: £885m)

Adjusted EPS
16.0p
(2016: 17.0p)

Statutory EPS
10.2p
(2016: 11.2p)

Net debt
£912m
(2016: £637m)

Dividend per share (ordinary)
7.8p
(2016: 7.2p)

ITV has delivered a strong operational performance in a challenging year with ongoing economic and political uncertainty in the UK. ITV took action early to reduce overhead costs but the uncertainty has undoubtedly had an impact on the demand for television advertising and therefore as expected ITV's financial performance.

We set ourselves challenging objectives to grow our on-screen and online viewing and deliver good growth in non-NAR. And ITV has delivered on these as we have continued to rebalance and strengthen the business creatively and commercially. On-screen, our share of viewing was up for the second year, up 2%, the ITV Hub continues to deliver strong viewing, up 39%, Online, Pay & Interactive revenue grew 7% and total ITV Studios revenue grew 13% including currency benefit. We have a strong creative pipeline of high-quality programmes, particularly drama and entertainment, and we continue to perform well across the key genres that return and travel.

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

External revenue was up 2% to £3,132 million (2016: £3,064 million), with 11% growth in non-NAR more than offsetting the decline in NAR, a clear indication that our strategy of rebalancing the business is working. 56% of total revenues came from sources other than spot television advertising (non-NAR).

Adjusted EBITA declined 5% to £842 million (2016: £885 million) and adjusted EPS declined 6% to 16.0p (2016: 17.0p) impacted by a 5% decline in NAR and the ongoing investment across the business and the fact that the prior year includes the full £37 million revenue and profit benefit of the four year licence deal for The Voice of China. We did however benefit from the delivery of £29 million of overhead cost savings and £25 million lower schedule costs. Broadcast & Online adjusted EBITA declined 7% and ITV Studios adjusted EBITA was flat.

Statutory profit before tax declined by 10% to £500 million (2016: £553 million) and statutory EPS declined by 9% to 10.2p primarily due to the decline in earnings and higher amortisation and impairment of acquired assets, which is explained in more detail in the Finance Review.

We have a strong balance sheet and the business continues to be highly cash generative. Our profit to cash conversion remains high at 91% and we ended the year with net debt of £912 million (2016: £637 million) after the effect of acquisitions and investments of £95 million, dividend payments of £494 million and pension contributions of £80 million.

The Board has proposed an ordinary dividend of 7.8p, an increase of 8%, reflecting our confidence in the underlying strength of the business and the outlook for 2018. This is in line with the Board's commitment to a long-term sustainable dividend policy and for ordinary dividends to grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term.

We remain focused on being a creator, owner, distributor and broadcaster of content and in 2017 we continued to deliver on our strategy to diversify the business and grow new revenue streams, further reducing our reliance on UK spot advertising and making ITV a stronger and more resilient business. We continue to build our free-to-air, online and pay businesses through Broadcast & Online and are further growing our international content and distribution business, ITV Studios. We are currently undertaking a strategic refresh to ensure we have a clear strategy and well-defined priorities which reflect what ITV needs to be in three and five years' time.

Broadcast & Online

The media environment in which we operate is constantly changing. Our Broadcast & Online business is robust and evolving to take advantage of the significant opportunities for growth.

ITV through its free-to-air channels offers unique audience scale and reach as well as the key demographics demanded by advertisers. The ITV Hub, the digital home for all our channels and content, is growing rapidly, driven by viewers' appetite for catch up and VOD and the quality of our content. We continue to explore and trial new ways, both free and pay, to distribute content to broadcasters and platform owners as well as directly to consumers.

Financial performance

Broadcast & Online total revenue was down 3% in the year at £2,075 million (2016: £2,132 million). We delivered 7% growth in Online, Pay & Interactive, driven by double-digit growth in online advertising, but this was offset by the 5% decline in NAR. Including sponsorship, VOD and self-promotion, ITV total advertising was down 3%.

Advertising categories such as Retail, Finance and Food continued to see declines due to the uncertain economic outlook, along with the weaker pound causing inflationary pressures, leading advertisers to reduce spend in order to maintain margins. Within Retail, spending has been mixed: the high street was weak while supermarkets increased their spend and some of the FMCGs returned to spend in the second half of 2017. Entertainment & Leisure was down, impacted by tough comparatives from the European Football Championship in 2016. Cars and Telecommunications increased their spend around product launches and digital brands continue to spend heavily on television to build brand awareness.

Total costs were down as the cost savings and lower schedule costs offset the increased investment on the ITV Hub, ITV Hub+ and ITV Box Office (our pay-per-view channel used to show boxing matches).

Overall Broadcast & Online adjusted EBITA declined 7% to £599 million (2016: £642 million) which has led to a one percentage point reduction in the adjusted EBITA margin to 29% (2016: 30%).

Twelve months to 31 December – on a continuing basis	**2017 £m**	2016 £m	Change £m	Change %
NAR	**1,591**	1,672	(81)	(5)
Online, Pay & Interactive revenue	**248**	231	17	7
SDN external revenue	**70**	67	3	4
Other commercial income	**166**	162	4	2
Broadcast & Online non-NAR revenue	**484**	460	24	5
Total Broadcast & Online revenue	**2,075**	2,132	(57)	(3)
Total schedule costs	**(1,025)**	(1,050)	25	(2)
Other costs	**(451)**	(440)	(11)	3
Total Broadcast & Online adjusted EBITA	**599**	642	(43)	(7)
Adjusted EBITA margin	**29%**	30%		

Viewing

On-screen we performed strongly with viewing up for the second consecutive year. We increased our spend on entertainment but sports costs were lower as a result of there being no major sports tournament in 2017.

ITV Family SOV grew 2% with a strong performance across the schedule. This level of growth is the second biggest in ITV's recent history and never before has ITV delivered two years of consecutive growth. Daytime shows including Good Morning Britain, This Morning and The Chase grew their audiences and Coronation Street and Emmerdale continue to perform well and are now the UK's two largest soaps. We launched the sixth weekly episode of Coronation Street in September, which has further strengthened its performance. We successfully aired a range of new dramas including Liar, Good Karma Hospital, Fearless, Bancroft and Little Boy Blue and new entertainment shows, The Voice, The Voice Kids, The Keith and Paddy Picture Show and Five Gold Rings, as well as new sitcom Bad Move. We continued to drive significant audiences with our returning brands such as Broadchurch – which was the most watched drama in the year – Vera, Unforgotten, Victoria, Cold Feet, Ant & Dec's Saturday Night Takeaway, I'm A Celebrity...Get Me Out Of Here! and Britain's Got Talent. Our news programming continues to perform well with highlights including our General Election coverage, as does our sporting schedule with the Six Nations Rugby Championships and the launch of horse racing on ITV. Some of our schedule did not perform as well as we had hoped, for example The Nightly Show, Fearless and Bigheads, so will not return in 2018.

We continue to target the hard to reach demographics demanded by advertisers – particularly young and male audiences – through our digital channels and online, and have seen a significant increase in our target demographics on ITV2 and ITV4. Our 16-34s share of commercial impacts (SOCI) on ITV2 was up 17% helped by the phenomenal success of Love Island as well as Celebrity Juice, Family Guy and American Dad. Male SOCI on ITV4 was up 12% helped by ITV's horse racing coverage, The French Open and the Isle of Man TT Races. ITV3's viewing performance improved in the year due to the strong performance of dramas such as Midsomer Murders, Lewis and Endeavour. ABC1 adults SOCI on ITV3 was up 1% making it the most popular digital channel for this demographic.

ITV Hub

The ITV Hub, which is now available on 29 platforms, continues to grow rapidly, driven by viewing on mobile and connected televisions. The ITV Hub is now pre-installed on around 90% of all connected televisions sold in the UK and launched on Apple TV, Apple's new TV app and Microsoft XBox in 2018.

Long-form video requests were up 34% and online viewing consumption, which measures how long viewers are spending online, was up 39%. The ITV Hub has now been the fastest-growing public service broadcaster online service for the last three years driven by the good user experience and great content and now has 21 million registered users.

The ITV Hub helps ITV reach valuable younger audiences – 75% of the UK's 16–24 year olds are registered together with 65% of the UK's 16–34 year olds. Younger viewers increasingly use the ITV Hub for simulcast viewing, as well as catch up, with programmes such as Love Island delivering record viewing with 1.3 million simulcast requests for the final.

We are using the insight we gain from our registered users to develop more targeted advertising solutions and to increasingly drive viewing through personalisation. In the year, we launched personalised ITV Hub home pages for our audiences and have introduced data-driven recommendations and mobile notifications to registered users.

Strong advertising proposition

While political and economic uncertainty has led advertisers to reduce their current spend, 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 of advertising that television, and particularly ITV, delivers becomes increasingly valuable.

ITV's unique ability to deliver mass audiences, as well as more targeted demographics across the family of channels, has enabled us to again increase our share of the television advertising market (SOB) to 47.6% from 47.4%. ITV delivered 99% of all commercial audiences over five million and 96% of all commercial audiences over three million. SOV provides an overall measure of viewing performance, but because advertisers are buying scale and breadth of audience, SOV is not necessarily a direct indicator of advertising performance.

ITV aims to maximise further the value of its airtime and drive new revenue streams through sponsorship, interactivity and branded extensions. ITV utilises the core assets of its strong brand and reputation, unique commercial relationships and quality production capability to deliver a wide variety of marketing solutions.

As a result, ITV's 'Other commercial income' increased by 2%, with new sponsorship around ITV horse racing and The Voice, offset by a reduction in third-party airtime sales commission and revenue primarily from UTV following ITV's acquisition in February 2016 and successful integration of the business.

Digital advertising is growing rapidly and we have seen double-digit growth in our VOD advertising revenues on the ITV Hub, which delivers more targeted demographics and a high-quality, trusted and measured environment for online advertisers.

In 2017, ITV announced a trial for addressable advertising with Sorenson on connected Smart televisions. We have also launched a trial of a self-service portal so that any business, however small, can easily access advertising on ITV.

Remain responsive to a changing media environment

Linear television viewing remains resilient despite significant changes in the availability and delivery of content. On average viewers watched 203 minutes of television a day in 2017. This is lower than 212 minutes in 2016 and partly is due to there being no major sports tournament in 2017. The majority of viewing remains live at over 75% 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 The Voice, Britain's Got Talent, Saturday Night Takeaway and Love Island, television reaches around 90% of young people each week and remains their dominant choice of media.

Developing ITV's digital broadcast assets

We are further developing our social media assets across our international portfolio of programmes as live television continues to demonstrate a growing relevance as viewers increasingly connect and engage through social media. We now have over 160 YouTube branded channels and had around 20 owned and operated programme apps across the year which, together with our quality content, is driving significant growth in viewer engagement. Our programmes generated over 100 million interactions in 2017.

Building our pay offering in the UK and internationally

As a creator, owner and distributor of sought after content, ITV is well positioned to take advantage of the opportunities that arise from the changes we are seeing in digital media and consumer behaviour. We must ensure that however our content is viewed and on whatever platform it is viewed on, we are paid the appropriate value for it.

As we look to build our pay offerings, we are developing SVOD services to target direct to consumer pay revenues. In March 2017, we launched our US joint venture with the BBC, BritBox, (with AMC Networks taking a minority share), an ad-free SVOD service offering the most comprehensive collection of British content in the US. A version of the service also launched in Canada in February 2018 and we now have over 250,000 subscribers in total. In 2018, we will explore opportunities for BritBox on other platforms, include original commissions, and look to roll it out further internationally.

We are continuing to develop the ITV Hub+, our ad-free subscription version of the ITV Hub, which while relatively small, tripled its subscribers in the year. We have extended the service across all platforms so subscribers can now watch on mobile, PC and connected televisions and launched it on Amazon.

Over the last few years we have also established a number of smaller pay propositions. We own a majority stake in Cirkus, a best of British SVOD service in the Nordics and Germany. We also have a general entertainment channel, ITV Choice, for emerging markets available in over 100 countries.

We are trialling ITV Box Office, a direct to consumer pay per view offering which currently focuses on boxing and we have a number of live events based around our key brands, which build relationships directly with our viewers. For example, we have the Emmerdale Studios Experience, which showcases the process of creating an episode of the soap, and This Morning Live, a shopping and lifestyle festival.

ITV also continues to license its channels and content across multiple platforms, including our HD digital channels and catch-up VOD on Sky and Virgin Media set top boxes and all our live channels and catch up VOD across their connected platforms. We announced that ITV Encore will close as an exclusive Sky channel in 2018 which allows ITV to distribute box sets more widely across multiple platforms. The closure of Encore will impact ITV's pay revenues in 2018.

SDN

SDN generates revenue by licensing capacity to broadcast channels, radio stations and data providers on digital terrestrial television or Freeview. It holds a licence with capacity for 16 broadcast channels, including ITV services and third-party channels. SDN external revenue grew 4% driven by the full year impact of the 16th stream, which was launched in 2016.

ITV Studios

Growing an international content business has been central to ITV's strategy as an integrated producer broadcaster. 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.

Growing demand for content

The strong global demand for content from broadcasters and platform owners provides significant opportunity for ITV Studios. We estimate that the global content market is growing at around 5% per annum, with some genres, such as drama, growing more rapidly. To capitalise on this growth, we continue to develop, own and manage rights in genres that return and travel internationally, namely drama, entertainment and factual entertainment, and we have built a healthy pipeline of new and returning programmes.

Operating and Performance Review continued

Financial performance

ITV Studios is now a global producer of scale and total revenues grew 13% to £1,582 million (2016: £1,395 million) including currency benefit, with growth across the business as we continue to build our capability in key creative markets.

Twelve months to 31 December	**2017 £m**	2016 £m	Change £m	Change %
Studios UK	**692**	626	66	11
ITV America	**313**	235	78	33
Studios RoW	**390**	355	35	10
Global Entertainment	**187**	179	8	4
Total Studios revenue	**1,582**	1,395	187	13
Total Studios costs	**(1,339)**	(1,152)	(187)	16
Total Studios adjusted EBITA*	**243**	243	–	
Studios adjusted EBITA margin	**15%**	17%		

* Includes the benefit of production tax credits.

Twelve months to 31 December	**2017 £m**	2016 £m	Change £m	Change %
Sales from ITV Studios to Broadcast & Online	**523**	463	60	13
External revenue	**1,059**	932	127	14
Total Studios revenue	**1,582**	1,395	187	13

Total organic revenue, which excludes our current year acquisitions and foreign exchange, was up 7% and acquisitions continue to deliver with a 13% return on investment in 2017.

Reflecting our growth in key production markets in Europe and the US, 54% of ITV total revenue was generated outside the UK (2016: 50%). ITV is the number one commercial producer in the UK and a leading producer in Europe and the US. As our Studios business grows internationally, foreign currency movements have an increasing impact on our results.

In 2017, the foreign currency benefit was £43 million on revenue and £7 million on adjusted EBITA.

Adjusted EBITA was flat year-on year at £243 million. There was good underlying profit growth but adjusted EBITA was impacted by our ongoing investment in US drama and the fact that the prior year includes the full £37 million benefit of the four year licence deal for The Voice of China. Adjusted EBITA margin declined by two percentage points to 15%, impacted by revenue mix on new and returning shows.

Building scale in key creative markets

ITV Studios has three production divisions – Studios UK, ITV America and Studios Rest of World (RoW). Across these divisions, ITV produced over 8,400 hours of programming, compared to 7,800 in 2016 and secured 240 recommissions and 239 new commissions in the year.

The US and the UK are the dominant creative markets, with the US the largest exporter of scripted content 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 that travel.

The UK performed well with total revenue up 11% at £692 million (2016: £626 million). We continue to grow our sales to ITV, which were up 13% with deliveries including The Voice, The Voice Kids, Love Island, Next of Kin, Bancroft, Fearless, Unforgotten, Little Boy Blue and an extra episode of Coronation Street. We have again grown ITV Studios UK share of original content on ITV main channel from 63% to 66%. Our off-ITV revenues grew 10% with deliveries including The City And The City, Shetland, Moorside and Motherland for BBC, Back for Channel 4, Blind Date for Channel 5 and Living the Dream for Sky. We strengthened our UK drama business with the acquisition in April of a majority stake in World Productions, the producer of Line of Duty, and our entertainment business with an investment in start-up Koska in October.

ITV America total revenue grew 33% to £313 million (2016: £235 million) including foreign exchange. We delivered five drama commissions – the third series of the Good Witch for Hallmark which has been commissioned for a fourth series, Sun Records for CMT, Somewhere Between for ABC and two pilots for TNT, Highland and Snowpiecer, which has been commissioned for a ten-part series. We have also delivered a high volume of programmes from our entertainment portfolio including two series of Hell's Kitchen, Pawn Stars, Alone, Forged in Fire and First 48 and new commissions including Sideserf, World Hip Hop Star and Big Star's Little Star.

Studios RoW has production bases in Australia, Germany, France, the Netherlands, the Nordics and Italy where we produce original content as well as local versions of ITV Studios UK and Talpa formats. Revenue grew 10% to £390 million (2016: £355 million) including foreign exchange, driven particularly by good growth in Australia, France and the Nordics. Across the territories, our entertainment and format deliveries included The Voice in Australia and Germany, The Chase in Australia and Germany, and Love Island in Germany.

Talpa continues to develop its formats including The Voice Senior, A Year To Remember, I Love My Country, A Whole New Beginning and Around The World With 80 Year Olds. Our international scale now enables ITV to make The Voice and these other formats in all our international production territories and therefore earn the production revenue as well as the format fee.

Some of our content will not be recommissioned in 2018 as they have not performed as expected, for example The Loch and Sun Records.

We are making real progress in building a European scripted business. In February 2017, ITV acquired a majority stake in Tetra Media Studio, a French scripted production company, and in October ITV acquired a majority stake in Cattleya, the Italian scripted production company behind Gomorrah and Suburra. We also took a stake in a Danish scripted producer Apple Tree Productions in December. These, along with our existing European drama businesses, will enable us to benefit from the increasing demand for locally produced content with global appeal.

We have further strengthened our international business with a number of other small investments. In April, we acquired a 45% stake in Blumhouse Television, established by Jason Blum, the renowned film and television producer, which finances and produces original scripted and unscripted 'dark' genre programming for global audiences including The Jinx and Cold Case Files. In May we entered into a joint venture with the US talent agent and production company, Circle of Confusion, and in June we acquired Elk Production, a Swedish entertainment production company.

Investing in content with international appeal
We have continued to expand our portfolio of successful formats and series that return and can be distributed internationally.

With the acquisition of Talpa Media in 2015, we have significantly strengthened our global capability in entertainment formats. Across the business, we have grown a solid portfolio of high volume and high margin formats that travel internationally and that we produce locally. For example, during 2017 we produced The Voice in five countries and The Voice Kids and Four Weddings in four countries.

Demand for drama is growing strongly as standout original content becomes brand defining for both broadcasters and OTT players. To capitalise on this, we are investing in our global scripted business, particularly in the US, to build on the success of our UK drama business. We are strengthening our development and creative capabilities internally and have invested in a number of development relationships. In 2017, we increased our investment in drama across the business, investing £243 million (2016: £160 million).

We finance our large-scale scripted projects through our strong 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 (the difference between the cost and what the broadcaster pays), is recovered through distribution revenue from selling the finished product globally to other broadcasters and platforms.

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.

We are seeing increasing demand from OTT platforms for original long-form content and secondary rights. As well as distributing library content to OTT platforms through Global Entertainment, we are also producing and jointly commissioning a number of scripted and unscripted programmes with OTT platforms including Vanity Fair with Amazon, Robozuna, Queer Eye for the Straight Guy and Dark Web for Netflix, Harlots for Hulu and we are in development with a number of shows for Facebook.

Expanding our global distribution business
Global Entertainment, the distribution arm within ITV Studios, delivered revenue growth of 4% to £187 million (2016: £179 million) as we continue to drive value from our investment in creating and owning the rights to quality content with international appeal. As well as funding and creating new content from ITV Studios, we also invest in third-party producers and their content from all over the world. Global Entertainment's pipeline of new projects is strengthening with projects such as Vanity Fair, The City And The City and World On Fire expected for 2018.

Our content continues to sell well internationally to broadcasters and OTT platforms and in particular, our scripted programmes with titles including Victoria, Poldark, Vera, Good Witch, The Murdoch Mysteries, Schitts Creek, The Loch, Fearless and Harlots. Over 15 of our scripted programmes have been sold to more than 100 countries Our entertainment and factual entertainment formats are highly demanded and include programmes such as The Voice, Love Island, The Chase, Big Star's Little Star, This Time Next Year, Five Gold Rings, Come Dine With Me and Four Weddings. In 2017, we sold 62 different formats internationally, 17 of which are being produced by ourselves or other producers in three or more countries including Love Island, Keeping the Nation Alive and Hell's Kitchen. We currently have over 250 programme supply agreements in place with online platforms including Netflix, Amazon and Hulu.

Operating and Performance Review continued

We consistently seek to drive productivity across the Group by investing in our people, new broadcast and production technology as well as up to date office facilities.

By investing in these areas, we aim to transmit our content and our advertisements more efficiently, increase our production output and the rights we own and improve our viewer experience.

People

During the year, we continued to invest in our people, rolling out a new conversation based performance management process and continuing to provide general and more specific training for staff across the business.

We use employee engagement scores as a key measure. We will undertake our next engagement survey in 2018. Our 2016 survey showed that ITV continues to have high levels of engagement (90%), (see the KPIs section on pages 24 to 26 for details on how this is measured). We always seek to recruit and promote internally where possible with 34% of vacancies in 2017 filled from within ITV.

Broadcast and content technology

One of the key initiatives in our Broadcast business is to improve our processes around our content supply chain, which includes how we store our content and how our content is managed and ultimately played out via our transmission centres. We have sought to reduce the time taken from live transmission to content being available for catch up on the ITV Hub. We are in the process of upgrading our advertising sales system and during the year we began investigating how robotic process automation may benefit ITV in the future.

Production facilities

September 2017 saw the launch of a sixth weekly episode of Coronation Street, which required a significant step up in productivity and investment in expanding the production site with new streets, as well as new equipment, sound stages and a state of the art production control room. We refresh our regional news production facilities on a continuous rotation basis and this year we built new facilities for our UTV licence in Northern Ireland. During 2018, we are relocating our Daytime studios to a new state of the art facility as part of our London property move.

We also seek to use established and emerging technology to drive productivity, where it makes commercial sense to do so. In our Studios business, we have recently implemented a new process and technology for script editing and management. We commenced roll-out of a bespoke artist payment system, which has reduced duplication across the business and uses less paper. Our regional news teams are taking advantage of new production technologies and increasingly use mobile kits that enable reporters to shoot more efficiently and transmit high-quality live reports.

Alternative Performance Measures

The Annual Report includes both statutory and adjusted measures, 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 to 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.

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 amortisation and impairment of assets and 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. Ireland, Hungary, Canada and South Africa) within cost of sales, whereas in the UK and Italy 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 below.

Exceptional items

These include acquisition-related costs, reorganisation and restructuring costs, property costs and non-routine legal costs. 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. We also adjust for the tax effect of these items. Note 2.2 includes further detail on exceptional items.

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 and are excluded from our adjusted measures.

Restructuring and reorganisation costs

These arise from Group-wide initiatives to reduce the ongoing cost base and improve efficiency in the business. 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 Group-wide initiative, these costs are highlighted and are excluded from our adjusted measures.

Property costs

In 2018, ITV will relocate to various properties on a temporary basis while its headquarters are redeveloped. The fit-out costs will be capitalised but the incremental one-off property project costs, including move costs, rental payments for these properties and accelerated depreciation for assets made redundant due to the move, will be ring-fenced as they relate to a one-off property project and are therefore excluded from our adjusted measures. As a ring-fenced cost, rental payments will continue to be excluded from our adjusted measures until we move back, which is expected in 2023.

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 and 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, 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 on the following page.

Alternative Performance Measures continued

Reconciliation between statutory and adjusted results

Twelve months to 31 December – on a continuing basis	**2017 Statutory £m**	**2017 Adjustments £m**	**2017 Adjusted £m**	2016 Statutory £m	2016 Adjustments £m	2016 Adjusted £m
EBITA[1]	810	32	842	857	28	885
Exceptional items (operating)[2]	(153)	153	–	(164)	164	–
Amortisation and impairment[3]	(102)	97	(5)	(89)	77	(12)
Operating profit	**555**	**282**	**837**	604	269	873
Net financing costs[4]	(50)	17	(33)	(51)	25	(26)
Share of losses on JVs and Associates	(4)	–	(4)	–	–	–
Gain on sale of non-current assets and subsidiaries (non-operating exceptional items)	(1)	1	–	–	–	–
Profit before tax	**500**	**300**	**800**	553	294	847
Tax[5]	(87)	(67)	(154)	(100)	(60)	(160)
Profit after tax	**413**	**233**	**646**	453	234	687
Non-controlling interests	(4)	–	(4)	(4)	–	(4)
Loss from discontinuing operations (net of tax)	–	–	–	(1)	1	–
Earnings	**409**	**233**	**642**	448	235	683
Shares (million), weighted average	4,006	–	4,006	4,010	–	4,010
EPS (p)	10.2p		16.0p	11.2p		17.0p
Diluted EPS (p)	10.2p		16.0p	11.1p		17.0p

1. £32 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 and an insured trade receivable provision in relation to The Voice of China. Further detail is included on page 28.
3. £97 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 PBT.
4. £17 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 PBT and adjusted PBT. A full reconciliation is included on page 29.

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 & Online. Our broadcast channels are a significant customer for ITV Studios and selling programmes to Broadcast & Online is an important part of our strategy as 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	**2017 £m**	2016 £m
External revenue (Reported)	**3,132**	3,064
Internal supply	**525**	463
Total revenue (Adjusted)	**3,657**	3,527

Adjusted net debt
Net debt (as defined in note 4.1) 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.

Twelve months to 31 December	2017 £m	2016 £m
Net debt	(912)	(637)
Expected contingent payments on acquisitions	(292)	(328)
Net pension deficit	(83)	(328)
Operating leases*	(143)	(344)
Adjusted net debt	(1,430)	(1,637)
Adjusted net debt to adjusted EBITDA	1.6x	1.8x
Reported net debt to adjusted EBITDA	1.0x	0.7x

* 2017 excludes transponder costs, which are now treated as service contracts. See page 66 for further detail. The comparator has not been re-presented.

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

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 before exceptional items, net of capex on property, plant and equipment (excluding capex relating to the redevelopment of our London headquarters) and intangible assets, and including the cash impact of high end production tax credits.

Free cash flow
This is our measure of 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 on pages 32 and 33.

Key Performance Indicators

We have defined our KPIs to align our performance and accountability to our business segments and strategy.

Financial

Adjusted EBITA

Definition

This is the key profitability measure used across the whole business. Adjusted earnings before interest, tax and amortisation (EBITA) is calculated by adding back exceptional items and 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.

Further detail on this measure is included within the Alternative Performance Measures section, page 21.

Performance

In 2017, adjusted EBITA decreased by £43 million or 5%, predominantly due to a £81 million or 5% decline in NAR. This was partially offset by growth from high margin Online, Pay & Interactive, £25 million lower programming budget due to the absence of a major sports tournament, delivery of £29 million of overhead savings, and foreign exchange benefit.

Group adjusted EBITA margin decreased by two percentage points to 27% driven by the decline in NAR and revenue mix within ITV Studios.

Adjusted EPS

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 high end production tax credits. Further adjustments include amortisation and impairment of assets, 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.

Further detail on this measure is included within the Alternative Performance Measures section, page 21.

Performance

Adjusted EPS decreased by 6% from 17.0p to 16.0p. This is higher than the corresponding decrease in adjusted EBITA of 5% due to higher adjusted financing costs in the year of £33 million (2016: £26 million).

Profit to cash conversion

Definition

Profit to cash conversion represents the proportion of adjusted EBITA converted into a measure of adjusted cash flow, after capex on property, plant and machinery (excluding capex relating to the redevelopment of our London headquarters). Further detail on this measure is included within the Alternative Performance Measures section, page 21.

This measures the effectiveness of our working capital management and capital expenditure control.

Performance

Profit to cash remains high at 91% (2016: 97%). In the year we saw an increase in working capital. This was due to the payment schedule for sports rights for future years and the timing difference between the production and the final delivery and payment of scripted and entertainment titles such as Snowpiercer, Good Witch, Vanity Fair, Poldark, Dancing on Ice and Survival of the Fittest.

Non-NAR revenue

Definition

Non-NAR reflects all ITV revenue, both internal and external, except NAR (spot advertising revenues). Online, Pay, Interactive, Sponsorship, SDN and ITV Studios revenues are all included within Non-NAR, with the key drivers of growth being Online and ITV Studios.

Growing non-NAR is key to the strategy as we aim to rebalance the business away from our reliance on television advertising revenue.

Performance

Non-NAR revenue increased by 11% in 2017 as we continue to rebalance the business away from a reliance on NAR. We delivered strong growth in ITV Studios total revenue and double-digit growth in Online. Non-NAR revenues were 56% of total revenue which has increased from 53% in 2016.

Non-financial

Employee engagement

Definition

Continuing to develop a creative, commercial and global organisation requires high-quality employees who are engaged in and motivated by the work that they do.

Employee engagement measures pride in the work we do, pride in working for ITV and also what we say about our programmes and services.

Performance

There was no employee engagement survey in 2017. Employee engagement for the last survey performed in 2016 was 90% with an 80% participation rate.

A full employee engagement survey is expected in 2018.

Broadcast & Online

ITV Family share of viewing

Definition

Keeping our free-to-air proposition strong and our audiences healthy is vital for the Broadcast & Online 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 grew 2% in 2017 to 21.7%. Within this, the ITV main channel was up 1% with strong performances from daytime, the soaps, drama and entertainment. The digital channels were up 3% in the year mainly across ITV2 and ITV4. ITV2 viewing amongst 16–34s continues to grow, with 16–34s SOV up 18% in the year. It remains the most popular digital channel in the UK based on SOV and is the largest digital channel for 16–34s.

ITV also continues to deliver mass audiences and in 2017 delivered 99% of all commercial audiences over five million and 96% over three million, which is unchanged from 2016.

ITV Family share of commercial impacts

Definition

To maintain our position as a leading commercial broadcaster, we need to have strong ITV Family SOCI. SOCI is the trading currency in the television advertising market, and since it only covers commercial television it does not include the BBC. This is the share of total UK television commercial impacts which is delivered by ITV's family of channels. An impact is one viewer watching one 30-second commercial. SOCI provides an overall measure of viewing performance. However, because advertisers are buying scale and breadth of audience, SOCI is not necessarily a direct indicator of advertising performance.

Performance

ITV Family SOCI was broadly flat year-on-year, with ITV main channel flat and the digital channels up 1%. ITV2 is now more targeted towards younger viewers with SOCI amongst 16–34s up 17% in the year. ITV4 is more targeted towards male viewers with Men SOCI up 12% in the year. ITV3 is targeted to ABC1 adults with SOCI up 1% in the year for this demographic. The move of The Great British Bake Off from BBC1 to C4 affected ITV main channel's SOCI performance in the year.

ITV Family share of broadcast

Definition

ITV's share of UK television spot advertising revenue is known as its share of broadcast (SOB).

Our SOB has always been based on our estimate of the pure spot advertising market, excluding sponsorship, VOD and all broadcasters' self-promotion revenues on their own channels, which this year has seen a significant increase and therefore further distorts the external spot market.

It is increasingly difficult to measure the total television advertising market as all broadcasters have different definitions and include other sources of revenue, such as sponsorship and VOD, in their estimates of television advertising.

Performance

We again gained share in 2017 as a result of our unique ability to deliver mass audiences across the key demographics to our advertisers and more targeted demographics on our digital channels. This was helped by ITV's coverage of the horse racing, which targets the male demographic and is highly demanded by advertisers. Our SOB increased to 47.6% in the year.

Key Performance Indicators continued

Total long-form video requests

Definition

We remain focused on growing our audience share from our free-to-air broadcast and increasingly from our VOD business as well.

Long-form video requests is a measure of the total number of our videos requested across all platforms on which the ITV Hub is available and therefore provides a key measure of how much of our content is being viewed online. A long-form video is a programme that has been broadcast on television and is available to watch online and on demand in its entirety.

Performance

Long-form video requests were up 34% in 2017 to 1,426 million views supported by our continued investment and focus on the ITV Hub, mobile apps and simulcast offering. Online consumption, which is the measure of how long viewers are spending online, is an important indicator of online performance and this increased by 39% in 2017.

ITV Studios

Number of new commissions for ITV Studios

Definition

As we grow our international content business, tracking the performance of the creative renewal pipeline and the number of new commissions won is a key indicator. This figure includes programmes shown both on ITV and on other broadcasters, and both in the UK and internationally.

Performance

There was strong growth in the number of new commissions for ITV Studios in 2017, up 5%
to 239. Eighty three of these new commissions came from the UK business, with the remaining 156 coming from our international businesses. In addition, there were 240 recommissions in the year (2016: 188) with 106 from ITV Studios UK and 134 from the international businesses.

We continue to invest in our creative pipeline, building on our existing portfolio of programmes and formats. We are particularly focused on the genres that can return and travel, namely drama, entertainment and factual entertainment.

Percentage of ITV* output from ITV Studios

Definition

As an integrated producer broadcaster, part of our strategy is to use our broadcast channels as a platform for ITV Studios content where we aim to make them famous and then sell them around the world.

The proportion of the total spend on original commissions on ITV transmitted in the year, delivered by ITV Studios, demonstrates this and our current aim is to increase ITV Studios supply of programmes to ITV.

Performance

The percentage of ITV output from ITV Studios increased to 66% in 2017 driven by new entertainment programmes in the year such as The Voice, The Voice Kids and Cannonball as well as an extra episode of Coronation Street during 2017. Many of the ITV Studios programmes broadcast in 2017 have now been distributed around the world including Victoria, Cold Feet, The Chase, The Voice and I'm A Celebrity... Get Me Out Of Here!

* ITV main channel only.

Finance Review

ITV's strong operational performance in a challenging year reflects the continued benefit of rebalancing the business.

ITV delivered a strong operational performance in a challenging year with ongoing economic and political uncertainty in the UK. ITV took action early to reduce overhead costs but the continued uncertainty has undoubtedly had an impact on the demand for television advertising and therefore as expected, on ITV's financial performance.

We set ourselves challenging objectives to grow our on-screen and online viewing and deliver good growth in non-NAR, and we have delivered on these. On-screen, our share of viewing grew for the second consecutive year, up 2%, online viewing was up 39%, Online, Pay & Interactive revenues grew 7% and ITV Studios total revenues grew 13%, including currency. In total, ITV delivered 2% external revenue growth to £3,132 million, with the 11% increase in non-NAR to £2,066 million more than offsetting the 5% decline in spot advertising revenue.

Twelve months to 31 December – on a continuing basis	2017 £m	2016 £m	Change £m	Change %
NAR	1,591	1,672	(81)	(5)
Total non-NAR	2,066	1,855	211	11
Total revenue	3,657	3,527	130	4
Internal supply	(525)	(463)	(62)	13
Group external revenue	3,132	3,064	68	2
Group adjusted EBITA	842	885	(43)	(5)
Group adjusted EBITA margin	27%	29%		
Adjusted EPS	16.0p	17.0p	(1.0)p	(6)
Statutory EPS	10.2p	11.2p	(1.0)p	(9)
Dividend per share	7.8p	7.2p	0.6p	8
Net debt as at 31 December	(912)	(637)	(275)	

Adjusted EBITA declined 5% to £842 million, with the £81 million decline in NAR partly offset by £29 million overhead savings, £25 million lower programme budget due to no major sports tournament, growth from high margin Online, Pay & Interactive and foreign exchange benefit. ITV Studios showed good underlying profit growth but the comparator included £37 million benefit of the four year licence deal for The Voice of China which was recognised in full in accordance with accounting standards. ITV Studios adjusted EBITA was flat at £243 million. Group adjusted EBITA was also impacted by £15 million of investment including in the ITV Hub, ITV Box Office and ITV Studios creative capability, particularly in America.

Adjusted financing costs were higher year-on-year due to the bond issue. We made a number of investments in associates, including Blumhouse Television and Circle of Confusion and our joint venture BritBox US, and our adjusted tax rate was the same year-on-year. The net of these movements and the decline in NAR resulted in a 6% decline in adjusted EPS to 16.0p. Statutory EPS was down 9% to 10.2p due to the decline in EBITA and higher amortisation and impairment, which is explained over the following pages.

Our key strengths include our high margins and healthy cash flows, which, together with our ongoing focus on costs, places us in a good position to continue to invest in growing an even stronger and more resilient business going forward, while delivering sustainable returns to our shareholders.

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 on pages 14 to 20.

Our Alternative Performance Measures, which are detailed on pages 21 and 22 explain the adjustments we make to our statutory results and focus on the key measures that we report on internally and use as KPIs across the business.

Exceptional items

Twelve months to 31 December	2017 £m	2016 £m
Operating exceptional items:		
Acquisition-related expenses	(96)	(131)
Restructuring and property-related costs	(30)	(14)
Insured trade receivable provision	(27)	–
Pension curtailment	–	(19)
Total operating exceptional items	**(153)**	(164)
Non-operating exceptional items	(1)	–
Total exceptional items	**(154)**	(164)

Total exceptional items in the year were £154 million (2016: £164 million). Operating exceptional items principally relate to acquisition-related expenses, which are mainly performance based employment-linked consideration. Restructuring and property-related costs of £30 million include £24 million of incremental one-off property project costs associated with our planned London property move in 2018, primarily related to temporary rent and accelerated depreciation on fixtures and fittings. We will continue to incur exceptional rental costs over the next four or five years until we return to our headquarters at The London Television Centre. Further details can be found later in the section. Restructuring and property-related costs also include £6 million of redundancy costs in relation to the closure of the London Studios business.

The insured trade receivable provision of £27 million relates to the unpaid portion of revenue from the four year licence deal for The Voice of China with Talent Television and Film Co. Ltd (Talent), the revenue for which was fully recognised in 2016 in accordance with accounting standards as ITV had no further obligations under the terms of the agreement. Following a breach of the agreement by Talent as they had not fulfilled their payment obligations, we have taken back the licence for The Voice of China. ITV is pursuing Talent vigorously for the £30 million still due under the agreement. Further, ITV has credit insurance in place and a claim has been submitted. ITV will continue to pursue the amounts due and believes there will ultimately be no material impact. Whilst ITV is confident that it will recover the amount due, accounting standards set very specific requirements for the recognition of contingent assets, which is how the recovery of the amount due will be accounted for. As discussions with the insurers and the claim against Talent are in progress, at this early stage of pursuing recovery ITV is not able to demonstrate sufficient certainty for accounting purposes, to be able to recognise a cash receivable at the year end. Accordingly, ITV has made a provision amounting to £27 million (£30 million net of £3 million insurance excess) against the Talent receivable recorded in our accounts in the year ended 31 December 2017. The cash received in future will also be treated as an exceptional item.

The cash cost of exceptionals in 2017 was £126 million.

The pension curtailment in 2016 related to the closure of the defined benefit pension sections of the ITV pension scheme to future benefit accrual.

Net financing costs

Twelve months to 31 December	2017 £m	2016 £m
Financing costs directly attributable to loans and bonds	(30)	(22)
Cash-related net financing costs	(2)	(3)
Amortisation of bonds	(1)	(1)
Adjusted financing costs	**(33)**	(26)
Mark-to-market on swaps and foreign exchange	–	(3)
Imputed pension interest	(9)	(5)
Unrealised foreign exchange and other net financial losses	(8)	(17)
Net financing costs	**(50)**	(51)

Adjusted financing costs increased to £33 million (2016: £26 million) primarily due to the full year impact of the new €500 million Eurobond issued in December 2016.

Net financing costs were £50 million in 2017 which was broadly flat year-on-year (2016: £51 million). The increase in adjusted financing costs was offset by lower unrealised foreign exchange and other net financial losses. These costs largely relate to the movement in the value of put and call options for unowned equity on acquisitions we have made when it is not dependent on the seller remaining within the business. The put and call options normally run for three to five years. The value in the put and call option will fluctuate with currency and the expected performance of the business.

JVs and associates

The share of losses from JVs and associates has increased to £4 million (2016: nil) and is in relation to losses arising on our investments in BritBox US (a US based SVOD service launched as a joint venture with the BBC in the US in 2017) along with Blumhouse Television and Circle of Confusion, both of which are scripted talent investments within ITV Studios.

Profit before tax

Adjusted profit before tax, after amortisation and impairment of assets and financing costs, was down 6% at £800 million (2016: £847 million). Statutory profit before tax decreased by 10% to £500 million (2016: £553 million), due to the decline in EBITA as explained earlier, along with higher costs associated with amortisation and impairment of acquired assets in the year.

Profit before tax (PBT)

Twelve months to 31 December – on a continuing basis	2017 £m	2016 £m
Profit before tax	500	553
Production tax credits	32	28
Exceptional items	154	164
Amortisation and impairment*	97	77
Adjustments to net financing costs	17	25
Adjusted profit before tax	**800**	847

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

Tax

Adjusted tax charge

The total adjusted tax charge for 2017 was £154 million (2016: £160 million), corresponding to an effective tax rate on adjusted profit before tax (PBT) of 19% (2016: 19%), which is broadly in line with the standard UK corporation tax rate of 19.25% (2016: 20%). We expect this effective tax rate to be sustainable over the medium term. 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	2017 £m	2016 £m
Tax charge	(87)	(100)
Production tax credits	(32)	(28)
Charge for exceptional items	(12)	(15)
Charge in respect of amortisation and impairment*	(19)	(11)
Charge in respect of adjustments to net financing costs	(4)	(6)
Adjusted tax charge	**(154)**	(160)
Effective tax rate on adjusted profits	**19%**	19%

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

Implications of US tax reforms

As a result of the recent enactment of the Tax Cuts and Jobs Act in the US, ITV has recognised a non-cash tax charge of £9 million, resulting from the revaluation of our US deferred tax assets to reflect the reduction in the US federal corporate tax rate to 21% from 1 January 2018.

We are working through the new legislative provisions in order to assess the full impact on our tax profile going forward, however we do not expect them to have a material impact on the Group's effective tax rate.

Finance Review continued

Cash tax

Cash tax paid in the year was £95 million (2016: £90 million), the majority of which was paid in the UK. The 2017 cash tax figure is net of £23 million of production tax credits received in the year (2016: £36 million). The cash tax paid is higher than the full year tax charge for 2017 of £87 million largely due to the timing of receipt of production tax credits in the UK and Italy and the tax treatment of allowable pension contributions. 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	2017 £m	2016 £m
Tax charge	(87)	(100)
Temporary differences recognised through deferred tax	(17)	(13)
Prior year adjustments to current tax	2	(10)
Current tax, current year	(102)	(123)
Phasing of tax payments – UK	12	5
Phasing of tax payments – overseas	(11)	5
Production tax credits – timing of receipt	(9)	7
Cash tax impact of allowable UK pension payments	15	16
Cash tax paid	(95)	(90)

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:

1. Engage with tax authorities in an open and transparent way in order to minimise uncertainty
2. Proactively partner with the business to provide clear, timely, relevant and business focused advice across all aspects of tax
3. Take an appropriate and balanced approach when considering how to structure tax sensitive transactions
4. 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. 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, including through the operation of the Tax & Treasury Committee. Further details of the Committee can be found on page 66 of the Annual Report and Accounts. 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 6% at £646 million (2016: £687 million). After non-controlling interests of £4 million (2016: £4 million), adjusted basic earnings per share was 16.0p (2016: 17.0p), down 6%, which is marginally higher than the decrease in adjusted EBITA of 5% due to an increase in adjusted financing costs to £33 million (2016: £26 million) and our investment in associates in the year. The weighted average number of shares declined marginally to 4,006 million (2016: 4,010 million) because ITV bought shares during the year on behalf of the Employee Benefit Trust and, in line with accounting standards, shares held by the Trust are not included in the total share count. Diluted adjusted EPS in 2017 was 16.0p (2016: 17.0p) reflecting a weighted average diluted number of shares of 4,017 million (2016: 4,029 million). The weighted average diluted number of shares was down year-on-year because of a decrease in the number of shares expected to vest in ITV's long term incentive plans in the future.

Statutory EPS declined by 9% to 10.2p (2016: 11.2p) due to the decline in statutory EBITA as explained earlier, along with higher costs associated with amortisation and impairment of acquired assets in the year.

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

Dividend per share

The Board has declared a final dividend of 5.28p, an increase of 10% (2016: 4.8p). This equates to a full year dividend of 7.8p (an increase of 8% year-on-year), which gives a cover of 2.1x and reflects our confidence in the underlying strength of the business and the outlook for 2018.

This is in line with the Board's commitment to a long-term sustainable dividend policy and for ordinary dividends to grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term. ITV plc had £1.6 billion of distributable reserves at 31 December 2017 available immediately to support the dividend policy.

Given that there is now a more normal ordinary dividend, five consecutive special dividends, leverage of 1x net debt to adjusted EBITDA and the strategic refresh under way, the Board has decided not to pay a special dividend in respect of 2017.

Acquisitions

Since 2012, we have acquired a number of content businesses in the UK, US and creative locations across Europe, 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.

During the year, we have strengthened our UK business with the acquisition in April of a majority stake in World Productions, the drama production company behind the critically acclaimed and multi-award-winning Line of Duty. In October, we acquired a 25% stake in Koska Limited, a UK factual-entertainment production start-up, founded by Nick Emmerson, co-creator of Supernanny.

We are also making real progress in building a European scripted business. In February, we acquired a majority stake in Tetra Media Studios, the French television production group behind leading dramas including crime series Profilage, now in its seventh series, and Les Hommes de l'Ombre, the critically acclaimed political thriller. In October, we acquired a majority stake in Cattleya, the leading Italian independent producer behind international hit TV dramas Gomorrah, Suburra and Romanzo Criminale, and in December we acquired a 25% stake in Apple Tree Productions, a Danish scripted production company headed up by the award-winning producers of The Killing and The Bridge.

We have further strengthened our international business with a number of other small investments and acquisitions. In April, we acquired a 45% stake in Blumhouse Television, established by Jason Blum, the renowned film and television producer, which finances and produces original scripted and unscripted 'dark' genre programming for global audiences, including The Jinx and Cold Case Files. In May, we acquired a 49% stake in Circle of Confusion, a premier talent management and production company in the US, to launch Circle of Confusion Television Studios. The new television studio label will source, develop and produce premium scripted programming. Additionally, in June we acquired a majority stake in Elk Production, one of the leading independent production companies in Sweden. The company produces original formats such as the award-winning reality TV series Parneviks, along with acquired formats including Ninja Warrior and Dessertmästarna.

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. We have a corporate cost of capital (WACC), which we flex when assessing investment opportunities reflecting the size, risk profile, geography and type of investment. We also use our WACC to assess the performance of our investments and in the year we had a 13% return on capital employed from our acquisitions, well in excess of our WACC. 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 entertainment, as well as succession planning for key individuals in the business.

Acquisitions – 2012 to 2017 (undiscounted)

Company	Geography	Genre	Initial consideration £m	Additional consideration paid in 2017 £m	Expected future payments* £m	Total expected consideration** £m	Expected payment period	Total maximum consideration** £m
2017								
Various	Various	Content	81	–	44	125	2020–2024	418
Total for 2017			**81**	**–**	**44**	**125**		**418**
Total for 2012–2016	Various	Content & Broadcast TV	860	91	248	1,199	2018–2021	1,923
Total			**941**	**91**	**292**	**1,324**		**2,341**

* 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.

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.

Finance Review continued

The majority of earnouts or put and call options are dependent on the seller remaining within the business, the most significant of which is for Talpa Media whereby the total maximum consideration, including the payment made to date, is up to €1.1 billion, which is contingent on Talpa Media continuing to deliver significant profit growth to 2022 as well as John de Mol's continued commitment to the business during this time. To date, we have paid €600 million to John de Mol including €100 million for the first tranche of the earnout which was paid out in full in May 2017. Under the deal structure, because all future payments are directly related to John de Mol 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. This is consistent with our treatment of all costs of this type.

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 maximum consideration payable, which is only payable if exceptional compound earnings growth is delivered.

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 £292 million have decreased by £36 million since 31 December 2016, which is the net of the additional future payments relating to our 2017 acquisitions, the €100 million payment made to John de Mol for the first tranche of his earnout and foreign exchange on future payments denominated in foreign currency. At 31 December 2017, £161 million of expected future payments had been recorded on the balance sheet.

In 2018, around £78 million will be payable on our acquisitions, primarily to those based in the US.

Cash generation

Profit to cash conversion

Twelve months to 31 December	**2017 £m**	2016 £m
Adjusted EBITA	**842**	885
Working capital movement	**(58)**	(28)
Adjustment for high end production tax credits	**(9)**	8
Depreciation	**30**	31
Share-based compensation and pension service costs	**13**	10
Acquisition of property, plant and equipment and intangible assets	**(71)**	(44)
Adjustment for capex relating to redevelopment of London headquarters	**16**	–
Adjusted cash flow	**763**	862
Profit to cash ratio	**91%**	97%

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.

One of ITV's key strengths is its healthy cash flows reflecting our ongoing tight management of working capital balances and our disciplined approach to cash and costs. This is particularly important when there is wider political and economic uncertainty. Remaining focused on cash and costs means we are in a good position to continue to invest across the business and deliver sustainable returns to our shareholders.

In the year, we generated £763 million (2016: £862 million) of operational cash from £842 million (2016: £885 million) of adjusted EBITA, which equates to a strong profit to cash ratio of 91% after capex (2016: 97%). In the year, we saw an increase in working capital. This was due to the payment schedule for sports rights for future years, and the timing difference between the production and the final delivery and payment of scripted and entertainment titles such as Snowpiercer, Good Witch, Vanity Fair, Poldark, Dancing on Ice and Survival of the Fittest.

To facilitate our working capital management, 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 the 31 December, £90 million of receivables were sold under the purchase agreement (2016: £35 million).

Free cash flow

Twelve months to 31 December	**2017 £m**	2016 £m
Adjusted cash flow	**763**	862
Net interest paid	**(38)**	(20)
Adjusted cash tax*	**(118)**	(126)
Pension funding	**(80)**	(80)
Free cash flow	**527**	636

* Adjusted cash tax of £118 million is total cash tax paid of £95 million excluding receipt of production tax credits, which are included within adjusted cash flow from operations, as these production tax credits relate directly to the production of programmes.

While our free cash flow after payments for interest, cash tax and pension funding remained healthy in the period, it was down 17% to £527 million (2016: £636 million). This was primarily due to the year-on-year decline in adjusted EBITA along with the increase in working capital, as explained earlier.

Overall, after dividends (ordinary and special), acquisitions and acquisition-related costs, pension and tax payments, we ended the year with net debt of £912 million, compared with net debt of £1,074 million at 30 June 2017 and net debt of £637 million at 31 December 2016. Our net cash generation was weighted towards the second half of 2017 due to the payment in the first half of the special dividend, the Talpa earnout and content acquisitions.

Funding and liquidity

Debt structure and liquidity

Our balance sheet strength, together with our healthy free cash flow, enables us to continue to invest in opportunities to grow the business and to make sustainable returns to our shareholders. We have a number of facilities in place to preserve our financial flexibility. We have a £630 million Revolving Credit Facility (RCF) in place until 2022 (with the option to extend to 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. Of the total £930 million of facilities in place, £60 million was drawn down at 31 December 2017. Our policy is to maintain at least £250 million of available liquidity at any point.

In January 2017, we repaid the £161 million Eurobond as it matured.

Net debt

At 31 December	**2017 £m**	2016 £m
Gross cash	**(126)**	(561)
Gross debt	**1,038**	1,198
Net debt	**912**	637

Financing – gross debt

We are financed using debt instruments and facilities with a range of maturities. Borrowings at 31 December 2017 were repayable as follows:

Amount repayable as at 31 December 2017	£m	Maturity
£630 million Revolving Credit Facility*	**60**	2022
€600 million Eurobond	**529**	Sep 2022
€500 million Eurobond**	**424**	Dec 2023
Other loans	**25**	Various
Total debt repayable on maturity**	**1,038**	

* Option to extend to 2023.
** Net of £20 million cross-currency swaps.

At 31 December 2017, £570 million of the £630 million RCF was undrawn.

Capital allocation and leverage

Our objective is to run an efficient balance sheet. We have always believed that maintaining leverage below 1.5x net debt to adjusted EBITDA (2017 Adjusted EBITDA was £872 million) will optimise our cost of capital and maintain our investment grade credit. At 31 December 2017, reported net debt to adjusted EBITDA was 1.0x (2016: 0.7x). Our priority has been to invest to drive organic growth and we have made acquisitions where we have found the right opportunities. We balanced this investment with attractive returns to shareholders. Our investment decisions are based upon value creation and returns analysis. Our returns analysis looks at the 360 degree value creation and the long-term future value of our investments in Broadcast and Studios.

We also look at 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, net of gilts held as security against a proportion of those liabilities, and the undiscounted operating lease commitments, which mainly relate to property. This adjusted leverage measure better reflects how the credit rating agencies look at our balance sheet. This is important to monitor as our investment grade rating is a key criteria when considering our overall capital allocation. At 31 December 2017, adjusted net debt was £1,430 million (31 December 2016: £1,637 million) and adjusted net debt to adjusted EBITDA was 1.6x (31 December 2016: 1.8x). A reconciliation of net debt to adjusted net debt is provided in the Alternative Performance Measures section on page 23.

Credit ratings

We are 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. Continuing to execute our strategy will strengthen our position against all these metrics.

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 discussed and approved by the ITV plc Board and implemented by our internal Tax and Treasury Committee which oversees governance and approval of tax and treasury related policies and procedures within the business. During 2017, we reviewed our foreign exchange risk management policies and made some amendments. There were no significant changes to the previous policy.

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	±6-8
Euro	±40-50	±4-5

Pensions

The net pension deficit for the defined benefit schemes at 31 December 2017 was £83 million (31 December 2016: £328 million). The year-on-year reduction in the deficit reflects gains from asset values in the year, more accurate data on scheme members based on the preliminary results of 1 January 2017 actuarial valuation and our deficit funding contributions of £80 million. The net pension deficit includes £38 million of gilts, which are held by the Group as security for future unfunded pension payments of four former Granada executives, the liabilities of which are included in our pension obligations. A full reconciliation is included within note 3.7.

Actuarial valuation
The last actuarial valuation was undertaken in 2014. On the basis agreed with the Trustee, the combined deficits as at 1 January 2014 amounted to £540 million and are estimated to be at a broadly similar level today.

The Trustee is in the process of undertaking a full actuarial valuation of all sections of the Scheme as at 1 January 2017, which we expect to agree during H1 2018.

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 acccounting deficit does not drive the deficit funding contribution.

The total deficit funding contribution for 2017 was £80 million, which is consistent with the contributions payable in 2016. We do not expect a material change in the deficit funding contribution for 2018. Further details are included within note 3.7.

New accounting standards

IFRS 9 Financial Instruments, is effective from 1 January 2018. From our assessment, there is no material impact on the Group's results.

IFRS 15 Revenue from Contracts with Customers, is effective from 1 January 2018. An assessment of the impact on all of the Group's material revenue streams has been completed. The new standard requires the Group to reclassify various costs attributable to revenue in the income statement. For the year ending 2017, there will be no material impact on the Group's revenue and no impact on the Group's profit or the Group's adjusted EBITA as detailed below:

	Impact in 2017 £m
Revenue line	
NAR	(11)
Other commercial income	(1)
Online, Pay & Interactive	10
Total Broadcast revenue	**(2)**
Operating costs	**(2)**
Adjusted EBITA	**–**

IFRS 16 Leases, is effective from 1 January 2019. The detailed assessment of the impact on the Group's performance is ongoing. During the early impact assessment, the Group has reviewed the current accounting for the existing key service agreements, including satellite, transponder and playout agreements and concluded that those do not meet definition of a lease and therefore should be classified as service agreements under the regulations of IFRS 16 and current accounting standards. Outside of the transmission infrastructure agreements, the adoption is likely to have a material impact on the presentation of the Group's assets and liabilities, mainly due to property leases.

See pages 60 and 61 for further detail on these new accounting standards.

London property

In 2017, the Board made the decision to redevelop our headquarters at The London Television Centre for which we own the freehold. This requires relocating staff and studios for four to five years to alternative accommodation before moving back into a new freehold building. Therefore, ITV has taken rented office and studios space in the interim while the new headquarters are constructed.

During the course of the project, ITV will ring-fence all incremental costs in relation to the redevelopment. Move costs, dual rates and rent will be treated as exceptional costs in the P&L as they relate to the one-off property project that runs over several years but we will no longer incur them once we return to The London Television Centre. Capital items will be capitalised as investment capex. Investment capex is excluded from capex for our adjusted cash measurements.

In 2017, ITV incurred £24 million of costs in relation to accelerated depreciation for assets made redundant as a result of the move, move costs, dual rates and rent. These were exceptionalised as explained above. ITV also incurred £16 million of costs for the fit out of the interim offices and studios and in relation to planning for the redevelopment of The London Television Centre which were capitalised.

Finance Review continued

In 2018, ITV will incur move costs, dual running costs, dual rates and rent which will be exceptionalised as explained above. ITV will incur around £40 million of cash costs for further fit-out of the interim offices and studios space and further costs associated with the redevelopment of The London Television Centre, which will be capitalised. Depreciation associated with the fit-out of the interim offices and studios space will not be exceptionalised.

In February 2018, Lambeth Council planning committee passed a resolution to grant planning permission for the new headquarters. The application now goes forward to the Greater London Authority for endorsement. Once all approvals have been granted, we expect to commence demolition of the current building in 2018. All build costs will be capitalised until we move back, which is expected in 2023, with the most significant investment capex to be incurred in 2021 and 2022.

Following the step up in London property operating costs in 2018, we do not expect future costs to be materially different from 2018 when we move back in 2023.

2018 full year planning assumptions

Profit and Loss impact:

- Total schedule costs are expected to be £1,055 million to £1,060 million, an increase of around £30 million and weighted to H1 due to the Football World Cup
- Total investments of around £15-£20 million in on-going new property, online and initial data investments
- Adjusted interest is expected to be around £35 million, which is broadly unchanged from 2017
- The adjusted effective tax rate is 19%, which is unchanged and expected to be sustainable over the medium term
- The translation impact of foreign exchange, assuming rates remain at current levels, could have a £35 million negative impact on revenue and £5 million negative impact on profit
- Exceptional items are expected to be around £85 million, mainly due to acquisition accounting and the London Property redevelopment project.

Cash impact

- Total capex is expected to be around £100 million, comprising of £60 million of regular capex to support the business and £40 million relating to the redevelopment of our London site
- The cash cost of exceptionals will be around £85 million, largely relating to accrued earnouts
- Profit to cash is expected to be around 85%, reflecting our continued strong cash generation and investment in Studios working capital
- Total pension deficit funding is expected to be £80 million, unchanged subject to agreeing the triennial valuation

Ian Griffiths
Chief Operating Officer and Group Finance Director

Risks and uncertainties

As a producer and broadcaster, ITV's business carries a number of risks, which we manage through our risk management framework. Our continuing success is dependent on how well we understand and manage our risks.

Risk management framework

The risk management framework sets out our processes for identifying, reviewing and managing our risks and is regularly assessed and adapted as the Company, industry and macro environment evolves.

Risks are primarily controlled through the risk management process. The Board has carried out a robust assessment of the principal risks facing the Company and details of these are set on out on the following pages.

Our ongoing process for risk identification, review and management is set out below and is consistent with last year.

Board

- Sets strategic objectives
- Identifies and evaluates principal risks and uncertainties
- Sets our strategy on risk and establishes tolerance levels and risk appetite
- Ensures a robust and appropriate risk management framework is in place
- Continually monitors the risk management and internal control systems

Risk appetite and culture

The Board is responsible for setting the level of risk the Company is willing to take in line with our strategy. There are clear approval frameworks in place and we continue to develop our approach to ensure that the business understands the Board's risk appetite and the tolerance levels and track the key risk indicators to help manage each risk.

Throughout the year, we have continued to focus on and strengthen our risk culture. We have an open communication culture where information is shared and issues are escalated as appropriate.

Management and Divisional Boards

Have responsibility for:

- The development and operation of the risk management framework and for the operation of our systems of internal control. This includes:
  - Risk identification and assessment and establishing controls and procedures to monitor and mitigate risks
  - Assessment and review of financial controls, policies and procedures to ensure risks are identified and the processes and procedures are in accordance with and aligned to the strategy
  - Reviewing and monitoring the effectiveness of internal controls and putting in place remedial plans where controls are weak or there are opportunities for improvement. Serious control weakness (if any) is reported to the Board and action taken as appropriate
- Routinely reviewing and challenging risks and mitigations.

Operational Risk Steering Group

Has responsibility for:

- Considering and setting actions for improving controls and mitigations for pan ITV risks and for ongoing monitoring of those actions
- Reviewing incident reports and other statistics
- Reviewing policies and processes to ensure they remain fit for purpose
- identifying and reporting emerging risks
- identifying and resolving issues

Risk areas in scope of the group and sub-committees that deal with specific risk areas are set out in the governance framework on page 66 of the Annual Report and Accounts.

The Chairman of the Audit and Risk Committee attends meetings of the Operational Risk Steering Group periodically.

Risks and uncertainties continued

Audit and Risk Committee
Has responsibility for:
- Overseeing and advising the Board on risk exposures and future mitigation strategy
- Reviewing internal controls and their effectiveness.
- Reviewing the effectiveness of the risk management framework
- 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 internal audit actions and management responsiveness to the findings
- Details of risk reviews undertaken during the year are set out in the Audit and Risk Committee Report on page 72 of the Annual Report and Accounts.

Operation and Assurance – three lines of defence
- We are continuing to develop our three lines of defence model to better manage our risks. We are moving our approach to risk away from a rules and process driven system to a cultural people driven solution, which we believe encourages a focus on prevention rather than reaction to failure. The Leading Risk training programme in place for ITV Studios production management continues to be developed

1. Business divisions
- The business divisions own the management of their risks and are responsible for:
  - Identifying and reporting local risks
  - Maintaining risk registers and business continuity plans where appropriate
  - Reviewing and implementing mitigating actions and controls

2. Group functions
- Including Group Finance, Legal, Human Resources, Group Secretariat, Technology, Procurement, Health & Safety, Tax & Treasury and Insurance
- Support the business divisions in managing risks

3. Internal audit
- Internal Audit provides objective assurance as to the effectiveness of the Group's systems of internal control and risk management, reporting to the Management Board, Divisional boards and the Audit and Risk Committee.
- The internal audit plan is driven from ITV's risk management framework. Internal Audit reviews the auditable elements of the principal and operational risks and this review informs the areas and topics that Internal Audit focuses on

Principal risks

For each principal risk, mitigating actions have been identified and the risk has been mapped to its relevant business segment and, where possible, assigned key risk indicators. Risk direction has also been given to each risk which is after mitigation. Where appropriate, the key risk indicators are aligned to our key performance indicators (KPIs) on pages 24 to 26. All principal risks are owned by at least one member of the Management Board.

The Management and Divisional Boards have reviewed ITV's principal risks and uncertainties and these potential risks are predominantly unchanged.

The Market

Potential Risk
There is a major decline in advertising revenue due to economic uncertainty and ITV does not build sufficient non-NAR revenue streams to mitigate the financial impact of this decline.

Key Drivers
- The current economic environment is uncertain, which may impact demand for advertising

Mitigating Factors and Risk Direction
- TV has made significant progress in rebalancing the business and 56% of our total revenue comes from sources other than television spot advertising
- Growing non-NAR in areas such as ITV Studios and Online, Pay & Interactive, remains a key priority of the business
- The Company has adequate financial liquidity and balance sheet flexibility to continue to invest as ITV maintains its focus on cash and costs

Potential Risk
A faster than expected shift to VOD or other new technologies, such as internet enabled televisions or online only services, causes a sustained loss of viewing and advertising revenue.

Key Drivers
- Television is now available on many different devices and platforms, which is changing the way people are consuming television and viewers are now spending more time watching content online
- This structural shift is impacting the advertising market in the UK as digital advertising continues to grow strongly
- While growing rapidly, online viewing remains a small percentage of total viewing at around 12% (2016: 9%, source: BARB/Thinkbox data) and television advertising represents 25.5% of total advertising in the UK, which is slightly down on 2016 (2016: 27.5%)

Mitigating Factors and Risk Direction
- The business continues to develop the ITV Hub VOD services, maximise the distribution of the ITV Hub and grow its VOD advertising business
- ITV monitors the market for new technology and where appropriate explores how ITV can participate
- ITV continues to invest around £1 billion in its programme budget annually
- ITV is focused on ensuring that television provides a trusted and safe environment for advertisers and delivers the highest return on investment of any advertising media.
- ITV has launched its SVOD proposition, Britbox, in the US and Canada
- Cirkus, our SVOD proposition, has been rolled out further and is now in the Nordics and Germany

This risk has increased since last year as online viewing is growing particularly amongst younger viewers.

Talent and People

Potential Risk
A significant event removes a number of the key management team from the business on a long-term or permanent basis.

Key Drivers
- In the ordinary course of business activities, there will be times when the Management Board is in one location or travel together as a group

Mitigating Factors and Risk Direction
- There is a business resilience plan in place, which includes succession plans or nominated replacements for all key positions within the Company

Potential Risk
ITV fails to evolve its organisational structure and culture and therefore fails to attract, develop and retain key creative, commercial and management talent.

Key Drivers
- Employing the best creative, commercial and management talent is key to our success
- Failing to create the right culture to attract and retain this talent increases this risk

Mitigating Factors and Risk Direction
- Employee engagement is critical and we continue to monitor it through our employee surveys, which take place every two years (90% engagement in 2016 employee survey)
- ITV constantly reassesses the business to create a fit-for-purpose organisation
- ITV is focused on working across the business to embed and strengthen the culture of 'One ITV' way of working
- ITV invests in training and development programmes
- Succession plans are in place for all key positions within the Company

Risks and uncertainties continued

Operational

Potential Risk

There is significant loss of programme rights or ITV fails to identify and obtain the optimal rights packages.

Key Drivers

- There is increased competition for high-quality programme rights as broadcasters and platform owners demand brand defining content
- The significant budgets of the new platforms, such as Netflix and Amazon, have changed the market for on-screen and off-screen talent, which has impacted the cost of content

Mitigating Factors and Risk Direction

- ITV is focused on both protecting and exploiting existing rights and ensuring that future rights generated accrue to ITV
- As an integrated producer broadcaster, ITV produces a significant proportion of the broadcast schedule. In 2017, this increased to 66% of the main channel's original commissions
- ITV invests in creating and owning quality content through ITV Studios
- ITV maintains good relationships with independent producers to ensure it has opportunities to acquire quality content
- ITV has a detailed model to evaluate the value of third-party rights to ensure it only buys rights that make economic sense

This risk and opportunity has increased since last year as OTT platforms are increasing their programme spend. This presents an opportunity for ITV Studios to supply content to them

Potential Risk

ITV fails to create, own and protect the rights to a sufficient number of hit programmes/formats across its international portfolio of content companies.

Key Drivers

- Our ability to create and own hit programmes depends on the quality of our content business
- ITV is the largest UK commercial producer and a leading independent non-scripted producer in the US and Europe

Mitigating Factors and Risk Direction

- ITV maximises opportunities for ITV Studios to create successful shows by investing in the creative pipeline and focusing on programmes and genres that can return and travel internationally, i.e. drama, entertainment and factual entertainment, as evidenced by our increased investment in producing scripted content
- ITV is focused on hiring and retaining the right key creative talent

Potential Risk

ITV does not react quickly enough to changes in the broader market and fails to properly resource, financially, creatively and operationally, the new growth businesses, in particular online and international content.

Key Drivers

- In a fast-changing media environment, there is an increased risk that sub-optimal investment decisions are made

Mitigating Factors and Risk Direction

- Investment opportunities and decisions are made by the relevant board based on their strategic fit and return on investment profile
- Talent management plans have been developed and reviewed to ensure adequate succession planning across ITV
- ITV continues to embed and strengthen the culture of 'One ITV' way of working
- Lessons from recent investments are captured through post-acquisition reviews

Technology

Potential Risk

A major incident results in ITV being unable to continue with scheduled broadcasting for a sustained period of time.

Key Drivers

- ITV's broadcast technology chain is complex because it operates in multiple regions and links to many platforms
- Risk can therefore materialise within ITV or with third parties responsible for servicing the broadcast supply chain
- With the move out of Southank, ITV will be using third-party managed studio facilities for some of its daytime shows

Mitigating Factors and Risk Direction

- A risk register of broadcast operations, including key outsourced functions, is in place and reviewed on a regular basis
- There are business continuity and disaster recovery plans in place in high risk areas to help deliver a rapid and flexible response
- Major incident scenario testing takes place bi-annually
- ITV has ongoing modernisation projects to ensure transmission and distribution technologies are fit-for-purpose
- ITV continues to proactively manage its broadcast chain partners and suppliers to ensure the risk of incidents and regulatory breaches is minimised

Potential Risk

TV remains heavily reliant on legacy systems, which could potentially restrict the ability to grow the business. These systems and processes may not be appropriate for new non-advertising revenue or rapid international growth.

Key Drivers

- Our system requirements change as we continue to rebalance the business, grow new revenue streams and become increasingly international

Mitigating Factors and Risk Direction

- System requirements are kept under review with business growth and system modernisation projects implemented as appropriate
- A modernisation plan is in place for the legacy systems, which remains under constant review and development to ensure technology systems meet the needs of the business
- Cyber risk mitigations in relation to all of our systems are set out below.

Potential Risk

Impact of cyber attack on ITV

There is a sustained cyber attack causing prolonged system denial or major reputational damage, for example:

- The ability to broadcast our channels
- The availability of ITV Hub
- ITV loses a significant volume of personal or sensitive data
- Corporate systems are compromised

Key Drivers

- Cyber security is an increasing risk as our business develops new revenue streams and direct to consumer propositions
- With increasingly sophisticated technology and proliferation of cyber hacking tools, along with increased amounts of company data, the risk of a cyber attack has increased across the world
- There are a growing volume of software and hardware vulnerabilities being identified by technology providers in their own products
- Further, we are higher risk as a result of being a media company and operating in a public environment

Mitigating Factors and Risk Direction

- By establishing further internal cyber controls across our devices, apps, networks and servers, we have improved our ability to monitor, detect and respond to cyber threats
- We continue to educate our colleagues in order to improve our ability to spot, avoid and report cyber attacks
- We have worked with specialist security organisations to implement 24x7 monitoring of our network traffic and during the year they conducted cyber simulation and phishing exercises
- We have enhanced our process for the risk assessment of third-party security as our cyber risk extends to our supply chain
- There are disaster recovery and incident management plans in place for high-risk areas of the business

This risk has increased since last year as our technology becomes more sophisticated.

Reputation

Potential Risk

An event with public interest causes significant reputational and brand damage.

Key Drivers

- With our Broadcasting and Studios businesses, the Company operates in a public environment and is exposed to the risk of a high-profile incident, for example through our association with the actions of our talent

Mitigating Factors and Risk Direction

- ITV has a crisis management policy and process in place and is increasing emphasis on its development and application
- ITV proactively manages its broadcast chain partners and suppliers to ensure the risk of incidents and regulatory breaches is minimised

Risks and uncertainties continued

Potential Risk
There is a major health and safety incident that results in a significant loss of human life on a production.

Key Drivers
- As ITV Studios expands, there is a continued increase in the number of production hours, and an increased potential to produce certain types of programming that have higher inherent risks

Mitigating Factors and Risk Direction
- ITV has a central health and safety team and health and safety policies and procedures in place, with appropriate training for employees where required
- We have developed our safety management approach to align with our studios label model to ensure ownership of risk in the appropriate business areas. To reflect this, we are developing our training programme initially through Leading Risk (see case study on page 79 of the Annual Report and Accounts)
- We are continually reviewing our processes and overall approach to production safety (see case study on page 78 of the Annual Report and Accounts) and have built a comprehensive online resource to provide easily accessible production focused health and safety advice and support
- We are developing our reporting tools to provide increased oversight of risks across the Studios division

This risk has increased since last year as ITV undertakes more complex productions.

Regulation
Potential Risk
There is a significant or unexpected change in UK regulation or legislation.

Key Drivers
- ITV could be affected if there is a change in UK media regulation or legislation; for example, if there is a change in advertising restrictions in key categories

Mitigating Factors and Risk Direction
- ITV regularly communicates with appropriate groups and its legal panel and Ofcom to monitor potential policy, legal and regulatory developments

Potential Risk
Impact of exiting the European Union
The political and economic uncertainty arising from the UK's referendum vote to leave the EU could result in continued macro uncertainty. This may impact the overall health of the UK television advertising market, with corporate and consumer confidence both weakening since the outcome.

Further, there is considerable uncertainty regarding the likely terms of the post Brexit trading arrangement between the UK and the EU, which is expected to continue for the foreseeable future.

Key Drivers
While the potential changes and the impact of any such changes will remain unknown for a while, ITV could, for example, be affected by:

- Changes to EU broadcasting legislation and/or rules around EU market access, for example if the UK does not retain classification of UK content as European. This could potentially reduce the scale of the market opportunity for UK content in the EU
- Restrictions to the free movement of our staff impacting our operating model and ability to attract and retain the best talent
- New non-EU worldwide trade deals that could, for example, see pressure to weaken requirements for UK broadcasters to purchase original content made in the UK/EU or for the UK to broaden exceptions from intellectual property protection. This could potentially reduce the scale of the market opportunity for our content in the UK
- Changes in taxation, free movement of capital and transfer pricing regulation

Mitigating Factors and Risk Direction
The likelihood or extent of any impact is currently unknown, however, we continue to work closely with industry bodies and discuss key issues with key UK Government departments

We will closely monitor negotiations with the EU, as well as emerging non-EU worldwide trade deals, and will evaluate any potential areas of risk

Financial

Potential Risk

ITV loses its credit status or lines of funding with existing lenders or there is an event that impacts financial arrangements/availability of credit.

Key Drivers

- There is a repeat of the 2008/09 financial crisis as a result of a major bank collapse or there is a similar financial outcome as a result of an unexpected world event

Mitigating Factors and Risk Direction

- The business is cash generative and working capital management remains a key focus
- ITV has a balance sheet policy to maintain adjusted net debt below 1.5x adjusted EBITDA and have available liquidity headroom of at least £250 million
- ITV has a £630 million Revolving Credit Facility with a number of core relationship banks and £300 million of financial covenant free facilities
- The relatively low levels of ITV debt and our two investment grade ratings mean ITV continues to have good access to both bank and bond financing

Potential Risk

There is a major collapse in investment values or a material change in liabilities leading to an impact on the pension scheme deficit.

Key Drivers

- As a result of macroeconomic changes, there can be material movements in the Group's defined benefit pension scheme
- For example, the Bank of England's monetary policy may impact gilt yields and corporate bonds rates, increasing the scheme's liabilities
- Or if there is an unexpected world event that impacts property values and/or impacts share prices

Mitigating Factors and Risk Direction

- There is regular communication between ITV and the pension trustees
- The pension scheme's assets are invested in a diversified portfolio, with a significant amount of the fund held in bonds
- ITV has worked with the pension trustees to limit the potential deficit by a series of asset-backed arrangements. Further, it has taken some mortality risk out of the scheme with a longevity swap and hedged a portion of inflation and interest rate variability

Viability Statement

What is the process ITV follows?

At an annual strategy meeting the Board assesses ITV's prospects and risks. Amongst other topics, the Board reviews the five year financial plan, which is based on our strategic priorities. Pages 18 to 19 of the Annual Report provide detail of ITV's prospects in the Strategy and Business Model section.

What is the assessment period for viability?

In its assessment of viability, the Board reviewed the planning horizon and is of the view that a three year period to 31 December 2020 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 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 scheme
- ITV's business model does not necessitate investment in large capital projects that would require a longer-term horizon assessment or returns

Risks and uncertainties continued

Assessment of viability
When considering the longer term viability of ITV, the Board reviewed each of ITV's principal risks and, taking into account current operational and financial performance, has in particular analysed the impact of:

Scenario modelled	Link to principal risks (pages 38 to 43)
Scenario 1: The Broadcast division experiencing a significant and sharp downturn, similar to the 2008/09 financial crisis, with advertising revenues declining for two years followed by a year of flat revenue. This scenario could be regarded as cautious as recessions in the advertising market have historically not exceeded a two-year period and showed growth following that period.	There is a major decline in advertising revenues and ITV does not build sufficient non-NAR revenue streams to mitigate the financial impact of this decline.
Scenario 2: A number of key programme brands within the Studios division are not recommissioned. While the scheduling decisions of commissioners are made in advance, a number of key shows could come to an end at the same time.	ITV fails to create and own a sufficient number of hit programmes/formats across its international portfolio of content companies.

In line with prior years, the Board has considered a scenario involving changes in pension funding obligations. However, while the final actuarial valuation as at 1 January 2017 has not been agreed, the Board does not anticipate any material changes in funding obligations in the three year period under assessment. The Board will continue to monitor the risk, as the next valuation as at 1 January 2020 could have an impact on the periods assessed in future viability statements.

Further, the impact of the London Property project on the Group's viability was considered. Due to the medium-term nature of the project, it is not currently anticipated to have a significant impact on liquidity in the period reviewed in this statement. The Board will continue to monitor the impact of the project as it progresses.

The viability review involved flexing the underlying strategic forecast for the above impacts, both individually and concurrently, and no specific mitigations were assumed. The underlying strategic forecast assumed: business as usual capital spending; the ongoing availability of the financing facilities (as ITV remains within the covenants, current bank facilities are secured for more than three years and there are no major bond repayments due in this period); and the Group maintains the stated dividend policy.

The scenarios used are hypothetical but are considered appropriate to model risks that could impact the viability of the Group. In addition, there are options at the disposal of the Board to maintain liquidity and continue operations in the event of any of the scenarios arising, such as reducing M&A activity and non-essential 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 in operation and meet its liabilities as they fall due over the three year period ending 31 December 2020. 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:

Ian Griffiths
Chief Operating Officer and Group Finance Director
28 February 2018

Directors' responsibilities

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy. Each of the Directors, whose names and functions are listed on pages 62 and 63, confirm that, to the best of their knowledge:

- the Group accounts, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

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 for the year ended 31 December 2017. 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 the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards, including FRS 101 (Reduced Disclosure Framework).

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required:

- To select suitable accounting policies and then apply them consistently
- To make judgements and estimates that are reasonable and prudent
- For the Group financial statements, to state whether they have been prepared in accordance with IFRSs as adopted by the EU
- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements
- To prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

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 statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Annual Remuneration Report and Corporate Governance Statement that comply 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 statements may differ from legislation in other jurisdictions.

By order of the Board

Ian Griffiths
Chief Operating Officer and Group Finance Director
28 February 2018
ITV plc
Registered Number 4967001

Independent Auditor's Report to the members of ITV plc

1. Our opinion is unmodified

We have audited the financial statements of ITV plc ('the Company') for the year ended 31 December 2017, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, company balance sheet, company statement of changes in equity, and the related notes, which include the accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the Directors in December 2003 prior to the Company becoming the parent company of the now ITV Group on 2 February 2004. The period of total uninterrupted engagement for the listed ITV Group is 14 financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the 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. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These 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 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 risk	Our response
Net Advertising Revenue ('NAR') £1,591 million (2016: £1,672 million) Risk vs 2016: ◄► Refer to page 75 in the Annual Report (Audit and Risk Committee report), page 62 (accounting policy) and pages 63 and 64 (financial disclosures)	
Subjective estimate The majority of ITV's advertising revenue ('NAR') 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 ITV 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 and involve estimation. In particular, the complexity of the pricing mechanism means it is possible for a difference to arise between the price received by ITV 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 ITV's accounts, as a liability. Net deal credit positions are not recognised. NAR is therefore considered a significant risk due to: • The number and complexity of contractual agreements with advertising agencies; • The complexity of the systems and processes of control used to record revenue; and, • The level of estimation involved in determining any deal debt liability at the period end.	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. • **Assessing estimate:** challenging the year end deal debt positions based on comparison with customers' correspondence and agreed terms of business. • **Test of detail:** confirming that the transmissions occurred prior to invoices being raised and revenue recognised by agreeing the transmissions to the corresponding spots. • **Assessing disclosures:** we also assessed the adequacy of the Group's disclosures in respect of the accounting policies on revenue recognition. Our results: • From the evidence we obtained, we found the resulting amount of recorded NAR and the estimated level of deal debt position liabilities to be acceptable (2016: acceptable).

Independent Auditor's Report to the members of ITV plc continued

The risk	Our response
Other revenue streams ('Non-NAR revenue') £2,066 million (2016: £1,855 million) Risk vs 2016: ◄► Refer to page 75 in the Annual Report (Audit and Risk Committee report), page 62 (accounting policy) and pages 63 and 64 (financial disclosures)	
Complex contract accounting Non-NAR revenue includes revenue from: programme production and the sale of programme rights within the Studios segment; transmission supply arrangements and the Online, Pay & Interactive division within the Broadcast segment. 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 individual consideration and judgement. 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 procedures included: • **Assessing principles:** we considered the Group's revenue recognition policies against the relevant accounting standards. • **Test of detail:** on a sample basis we assessed revenue contracts entered into during the year, and considered whether revenue had been recognised in accordance with the contractual terms in the correct accounting period, given the requirements of the relevant accounting standard. • **Assessing disclosures:** we also assessed the adequacy of the Group's disclosures in respect of the accounting policy on revenue recognition. Our findings: • From the evidence we obtained we found the resulting amount of recorded Non-NAR to be acceptable (2016: acceptable).
Gross defined benefit pension scheme obligations £3,987 million (2016: £4,200 million) Risk vs 2016: ◄► Refer to page 74 in the Annual Report (Audit and Risk Committee report), page 91 (accounting policy) and pages 91 to 99 (financial disclosures)	
Subjective valuation Significant estimates are made in determining the key assumptions used in valuing the Group's post-retirement defined benefit obligations. When making these assumptions, the Directors take independent actuarial advice relating to their appropriateness. In addition, the Group has a longevity swap, the valuation of which is complex being dependent on mortality and longevity experience. The valuation of the gross defined benefit obligations and longevity swap are considered a significant risk given the quantum of the gross pension obligation, the impact of the longevity swap on the net obligation position, and that a small change in assumptions can have a material financial impact on the Group.	Our procedures included: • **Benchmarking assumptions:** challenging the key financial assumptions applied in determining the Group's gross pension obligations, being the discount rate, inflation rate and mortality/life expectancy, with the support of our own actuarial specialists. This included a comparison of these key assumptions against externally derived data. • **Assessing application:** assessing methodology applied to the longevity swap valuation and challenging underlying mortality assumptions against externally derived data, with the support of our own actuarial specialists. • **Assessing disclosures:** considering the adequacy of the Group's disclosures in respect of the sensitivity of the gross defined benefit obligations to these assumptions. Our findings: • The results of our testing were satisfactory and we considered the valuation of the gross pension obligations and the longevity swap to be acceptable (2016: acceptable).
Recoverability of parent company's investment in subsidiaries £2,191 million (2016: £1,861 million) Risk vs 2016: ◄► Refer to page 119 (accounting policy) and pages 121 (financial disclosures)	
Low risk, high value The carrying amount of the parent company's investments in subsidiaries represents 34% (2016: 29%) of the parent company's total assets. 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: • **Test of detail:** comparing the carrying amount of 100% of the investments balance (2016: 100%) 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 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 subsidiaries to be acceptable (2016: acceptable).

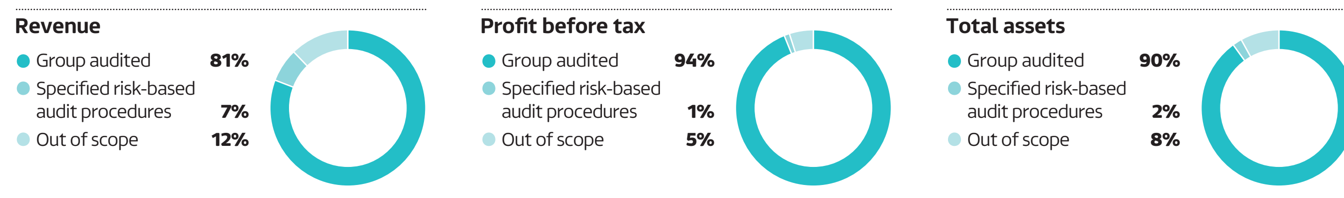
3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £28 million (2016: £35 million), determined with reference to a benchmark of normalised Group profit before tax of £568 million (2016: £623 million) which excludes the pre-paid employment-linked remuneration charge, the exceptional bad debt provision in relation to the contract receivables and the non-recurring element of the property project costs disclosed in note 2.2, of which materiality represents 5% (2016: 5.5%).

Materiality for the parent company financial statements as a whole was set as £27 million (2016: £34 million) determined with reference to the benchmark of the Company total assets, of which it represents 0.4% (2016: 0.5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.4 million (2016: £1.7 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Scoping and coverage



The Group's principal operations are in the United Kingdom. The Group audit team performed the audit of the core UK operations (comprising Broadcast and Online, the UK Studios, Global Entertainment and the central functions) as if they were a single aggregated set of financial information using materiality of £20 million (2016: £25 million). Talpa Media B.V. – a significant component of the Group in the Netherlands – was subject to an audit for Group reporting purposes. The Group audit team instructed the component auditor as to the significant areas to be covered, including the relevant risks described above and the determination of the information to be reported back. Specified audit procedures were performed by other component auditors, as instructed by the Group audit team, on two entities in the US included in our scope based on the relative size of their operations. The Group audit team set the materiality of £5 million (2016: £5 million) for both the audit of the component and the specified audit procedures. The Group audit team performed procedures on the items excluded from normalised Group profit before tax.

The Group audit team held several telephone conference meetings with the component audit teams to assess the audit risk and strategy. The Group audit team also visited the component in the Netherlands. At this visit and in these meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

Together, the above audit and these specified audit procedures covered 88% (2016: 90%) of Group revenue, 95% (2016: 89%) of Group profit before taxation; and 92% (2016: 90%) of total Group assets.

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 1 on page 58 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 45 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

Independent Auditor's Report to the members of ITV plc continued

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement on pages 43 and 44 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the risks and uncertainties on pages 37 to 43 disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules, we are required to review the Viability Statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements 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; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 45, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using 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.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the Directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition, we considered the impact of laws and regulations in the specific areas of broadcasting regulations recognising the nature of the Group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the Directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

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

Paul Sawdon (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
28 February 2018

Consolidated Income Statement

For the year ended 31 December	Note	2017 £m	2016 £m
Revenue	2.1	**3,132**	3,064
Operating costs		**(2,577)**	(2,460)
Operating profit		**555**	604
Presented as:			
Earnings before interest, tax and amortisation (EBITA) before exceptional items	2.1	**810**	857
Operating exceptional items	2.2	**(153)**	(164)
Amortisation and impairment	3.3	**(102)**	(89)
Operating profit		**555**	604
Financing income	4.4	**4**	2
Financing costs	4.4	**(54)**	(53)
Net financing costs	4.4	**(50)**	(51)
Share of losses of joint ventures and associated undertakings	3.5	**(4)**	–
Loss on sale of non-current assets (exceptional items)	2.2	**(1)**	–
Profit before tax		**500**	553
Taxation	2.3	**(87)**	(100)
Profit from continuing operations		**413**	453
Loss after tax for the period from discontinued operation	2.5	**–**	(1)
Profit for the year		**413**	452
Profit attributable to:			
Owners of the Company		**409**	448
Non-controlling interests	4.6.6	**4**	4
Profit for the year		**413**	452
Earnings per share			
Basic earnings per share	2.4	**10.2p**	11.2p
Diluted earnings per share	2.4	**10.2p**	11.1p
Earnings per share from continuing operations			
Basic earnings per share	2.4	**10.2p**	11.2p
Diluted earnings per share	2.4	**10.2p**	11.1p

Consolidated Statement of Comprehensive Income

For the year ended 31 December	Note	2017 £m	2016 £m
Profit for the year		**413**	452
Other comprehensive income:			
Items that are or may be reclassified to profit or loss			
(Loss)/gain on revaluation of available-for-sale financial assets	4.6.4	**(1)**	1
Net loss on cash flow hedges	4.6.3	**(3)**	(2)
Exchange (loss)/gain on translation of foreign operations (net of hedging)	4.6.3	**(32)**	46
Items that will never be reclassified to profit or loss			
Remeasurement gains/(losses) on defined benefit pension schemes	3.7	**172**	(248)
Income tax (charge)/credit on items that will never be reclassified	2.3	**(39)**	40
Other comprehensive income/(loss) for the year, net of income tax		**97**	(163)
Total comprehensive income for the year		**510**	289
Total comprehensive income attributable to:			
Owners of the Company		**506**	285
Non-controlling interests	4.6.6	**4**	4
Total comprehensive income for the year		**510**	289

Consolidated Statement of Financial Position

As at 31 December	Note	2017 £m	2016 £m
Non-current assets			
Property, plant and equipment	3.2	**256**	244
Intangible assets	3.3	**1,645**	1,624
Investments in joint ventures, associates and equity investments	3.5	**74**	76
Derivative financial instruments	4.3	**10**	1
Distribution rights	3.1.2	**19**	31
Defined benefit pension surplus	3.7	**16**	–
Other pension asset	3.7	**38**	39
Deferred tax asset	2.3	**31**	17
		2,089	2,032
Current assets			
Programme rights and other inventory	3.1.1	**570**	406
Trade and other receivables due within one year	3.1.3	**514**	526
Trade and other receivables due after more than one year	3.1.3	**27**	39
Trade and other receivables		**541**	565
Current tax receivable		**19**	11
Derivative financial instruments	4.3	**6**	8
Cash and cash equivalents	4.1	**126**	561
		1,262	1,551
Current liabilities			
Borrowings	4.2	**(76)**	(165)
Derivative financial instruments	4.3	**(2)**	(3)
Trade and other payables due within one year	3.1.4	**(1,029)**	(960)
Trade payables due after more than one year	3.1.5	**(68)**	(57)
Trade and other payables		**(1,097)**	(1,017)
Current tax liabilities		**(86)**	(76)
Provisions	3.6	**(16)**	(19)
		(1,277)	(1,280)
Net current (liabilities)/assets		**(15)**	271
Non-current liabilities			
Borrowings	4.2	**(982)**	(1,035)
Derivative financial instruments	4.3	**(1)**	(9)
Defined benefit pension deficit	3.7	**(137)**	(367)
Deferred tax liabilities	2.3	**(111)**	(70)
Other payables	3.1.5	**(106)**	(63)
Provisions	3.6	**(7)**	(4)
		(1,344)	(1,548)
Net assets		**730**	755
Attributable to equity shareholders of the parent company			
Share capital	4.6.1	**403**	403
Share premium	4.6.1	**174**	174
Merger and other reserves	4.6.2	**199**	221
Translation reserve	4.6.3	**41**	79
Available-for-sale reserve	4.6.4	**6**	7
Retained earnings	4.6.5	**(138)**	(162)
Total equity attributable to equity shareholders of the parent company		**685**	722
Non-controlling interests		**45**	33
Total equity		**730**	755

The accounts were approved by the Board of Directors on 28 February 2018 and were signed on its behalf by:

Ian Griffiths
Chief Operating Officer and Group Finance Director

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	Available-for-sale reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2017		**403**	**174**	**221**	**79**	**7**	**(162)**	**722**	**33**	**755**
Total comprehensive income/(loss) for the year										
Profit for the year		–	–	–	–	–	409	409	4	**413**
Other comprehensive income/(loss)										
Revaluation of available-for-sale financial assets		–	–	–	–	(1)	–	(1)	–	**(1)**
Net loss on cash flow hedges		–	–	–	(3)	–	–	(3)	–	**(3)**
Exchange differences on translation of foreign operations (net of hedging)		–	–	–	(32)	–	–	(32)	–	**(32)**
Remeasurement gain on defined benefit pension schemes	3.7	–	–	–	–	–	172	172	–	**172**
Income tax charge on other comprehensive income	2.3	–	–	–	–	–	(39)	(39)	–	**(39)**
Total other comprehensive (loss)/income		–	–	–	(35)	(1)	133	97	–	**97**
Total comprehensive (loss)/income for the year		**–**	**–**	**–**	**(35)**	**(1)**	**542**	**506**	**4**	**510**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	(494)	(494)	(4)	**(498)**
Movements due to share-based compensation	4.7	–	–	–	–	–	12	12	–	**12**
Purchase of own shares via employees' benefit trust	4.7	–	–	–	–	–	(36)	(36)	–	**(36)**
Total transactions with owners		**–**	**–**	**–**	**–**	**–**	**(518)**	**(518)**	**(4)**	**(522)**
Changes in non-controlling interests [(a)]	3.4	**–**	**–**	**(22)**	**(3)**	**–**	**–**	**(25)**	**12**	**(13)**
Balance at 31 December 2017	4.6	**403**	**174**	**199**	**41**	**6**	**(138)**	**685**	**45**	**730**

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

Consolidated Statement of Changes in Equity continued

		Attributable to equity shareholders of the parent company								
	Note	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available-for-sale reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2016		403	174	221	35	6	275	1,114	33	1,147
Total comprehensive income/(loss) for the year										
Profit for the year		–	–	–	–	–	448	448	4	452
Other comprehensive income/(loss)										
Revaluation of available-for-sale financial assets		–	–	–	–	1	–	1	–	1
Net loss on cash flow hedges		–	–	–	(2)	–	–	(2)	–	(2)
Exchange differences on translation of foreign operations (net of hedging)		–	–	–	46	–	–	46	–	46
Remeasurement loss on defined benefit pension schemes	3.7	–	–	–	–	–	(248)	(248)	–	(248)
Income tax charge on other comprehensive income	2.3	–	–	–	–	–	40	40	–	40
Total other comprehensive income/(loss)		–	–	–	44	1	(208)	(163)	–	(163)
Total comprehensive income/(loss) for the year		–	–	–	44	1	240	285	4	289
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	(663)	(663)	(4)	(667)
Movements due to share-based compensation	4.7	–	–	–	–	–	10	10	–	10
Tax on items taken directly to equity	2.3	–	–	–	–	–	(4)	(4)	–	(4)
Purchase of own shares via employees' benefit trust	4.7	–	–	–	–	–	(20)	(20)	–	(20)
Total transactions with owners		–	–	–	–	–	(677)	(677)	(4)	(681)
Balance at 31 December 2016	4.6	403	174	221	79	7	(162)	722	33	755

Consolidated Statement of Cash Flows

For the year ended 31 December	Note	£m	2017 £m	£m	2016 £m
Cash flows from operating activities					
Cash generated from operations before exceptional items	2.1		**795**		870
Cash flow relating to operating exceptional items:					
Operating exceptional items	2.2	**(153)**		(164)	
Increase in exceptional payables		**(18)**		71	
Decrease in exceptional prepayments and other receivables		**45**		66	
Cash outflow from exceptional items			**(126)**		(27)
Operating cash flow from discontinued operation	2.5		**–**		(6)
Cash generated from operations			**669**		837
Defined benefit pension deficit funding		**(80)**		(80)	
Interest received		**21**		38	
Interest paid on bank and other loans		**(59)**		(58)	
Net taxation paid		**(95)**		(90)	
			(213)		(190)
Net cash inflow from operating activities			**456**		647
Cash flows from investing activities					
Acquisition of subsidiary undertaking, net of cash acquired	3.4	**(35)**		(97)	
Acquisition of property, plant and equipment		**(46)**		(29)	
Acquisition of intangible assets		**(25)**		(15)	
Acquisition of investments		**(19)**		(41)	
Loans granted to associates and joint ventures		**(4)**		(2)	
Net proceeds from sale of assets held for sale	2.5	**–**		10	
Net cash outflow from investing activities			**(129)**		(174)
Cash flows from financing activities					
Bank and other loans – amounts repaid		**(680)**		(655)	
Bank and other loans – amounts raised		**465**		1,177	
Capital element of finance lease payments		**(4)**		(6)	
Equity dividends paid		**(494)**		(663)	
Dividends paid to minority interest		**(4)**		(4)	
Purchase of own shares via employees' benefit trust		**(36)**		(20)	
Net cash outflow from financing activities			**(753)**		(171)
Net (decrease)/increase in cash and cash equivalents			**(426)**		302
Cash and cash equivalents at 1 January	4.1		**561**		294
Reclassification of gilts to other pension assets	3.7		**–**		(39)
Effects of exchange rate changes and fair value movements			**(9)**		4
Cash and cash equivalents at 31 December	4.1		**126**		561

Notes to the Financial Statements
Section 1: Basis of Preparation

In this section

This section sets out the Group's accounting policies that relate to the financial statements 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 2017 or later years. We explain how these changes are expected to impact the financial position and performance of the Group.

The financial statements 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 statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'), and approved by the Directors.

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

The financial information in this preliminary announcement represents non-statutory accounts within the meaning of Section 435 of the Companies Act 2006. The auditors have reported on the statutory accounts for the year ended 31 December 2016. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors 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. These accounts will be sent to the Registrar of Companies following the Company's Annual General Meeting. A separate dissemination announcement in accordance with the Disclosure and Transparency Rules (DTR) 6.3 will be made when the annual report and audited financial statements are available on the Group's website.

Going concern

At 31 December 2017, the Group was in a financial net debt position with a positive gross cash balance. Even though the Group is in a net current liability position, its strong balance sheet and continued generation of significant free cash flows enables the Group to meet its obligations and has enabled further investment.

As a part of the going concern test, the Group reviews forecasts of the television 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 statements.

Subsidiaries, joint ventures, associates and available-for-sale 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 where the Group concludes it does not have significant influence are deemed 'available-for-sale'. These 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.

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 IAS 39 'Financial Instruments':

- Loans and receivables – separately disclosed as cash and cash equivalents and trade and other receivables;
- Available-for-sale financial assets – 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 (contingent consideration); and
- 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, call deposits with a maturity of less than or equal to three months from the date of acquisition and cash held to meet certain finance lease commitments. 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 statements 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. 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.

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.

Non-monetary assets and liabilities measured at historical cost are translated into pounds sterling at the exchange rate on the date of the transaction.

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.

Notes to the Financial Statements
Section 1: Basis of Preparation continued

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 statements 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 a higher degree of estimation, judgement or complexity are set out below and in more detail in the related notes:

- Revenue recognition (note 2.1)
- Business combinations (note 3.3 and note 3.4)

In addition to the above, the areas involving the most sensitive estimates and assumptions that are significant to the financial statements are set out below and in more detail in the related notes:

- Defined benefit pension (note 3.7)
- Taxation (note 2.3)

New or amended EU endorsed accounting standards

The table below represents new or amended EU endorsed accounting standards relevant to the Group's results that are effective in 2017:

Accounting Standard	Requirement
Amendments to IAS 7 'Statement of Cash Flows' on Disclosure Initiative	The amendments introduce an additional disclosure that will enable users of the financial statements to evaluate changes in liabilities arising from financing activities.
Amendments to IAS 12 'Income Taxes' on recognition of deferred tax assets for unrealised losses	The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.
Annual Improvements to IFRS 2014 – 2016 cycle	Amendments to a number of IFRSs, one of which is effective in 2017; this amendment clarified the scope of IFRS 12, specifically the disclosure requirements for interests in subsidiaries, associates or joint ventures that are classified as held-for-sale.

Based on the Directors' analysis, the amendments outlined above do not have a material impact on the Group's financial position or performance for the year ended 31 December 2017.

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. IFRS 15 and IFRS 9 are both effective for the period beginning 1 January 2018 and, while the Directors do not expect these standards to have a significant impact on the Group's results, they highlight the conclusions from the impact assessment below.

IFRS 16 is effective for the period beginning 1 January 2019. The Directors have detailed the status of the impact assessment below.

IFRS 15 'Revenue from Contracts with Customers' is effective 1 January 2018. IFRS 15 requires the Group to identify distinct promises in contracts with customers that qualify as 'performance obligations'. The consideration receivable from customers must then be allocated between the performance obligations identified.

An assessment of the impact on all of the Group's material revenue streams has been completed. The impact on the Group's revenues and results is not material for either the Group or for the individual divisions, Broadcasting & Online and ITV Studios.

The changes to the current accounting policies on adoption of IFRS 15 require the Group to reclassify various costs which are now deemed to be attributable to revenue within the income statement. The impact on the results for the year ending 2017, which is not considered material to the Group, either individually or collectively, will be:

Income statement account	Impact
NAR revenue	Reduction of £11 million
Other commercial income	Reduction of £1 million
Online, pay & interactive revenue	Increase of £10 million
Operating costs	Reduction of £2 million

There is no impact on either profit or adjusted EBITA for the year for the Group or for an individual division.

The Directors adopted IFRS 15 on 1 January 2018 on a fully retrospective basis and will present, within the 2018 financial statements, a restatement of the comparative periods.

IFRS 9 'Financial Instruments' is also effective 1 January 2018. IFRS 9 introduces new models for classification of financial assets and accounting for credit losses. Hedging rules have been amended to allow hedge accounting to be applied to more risks.

The analysis of the impact focused on the following items:

- Classification and measurement of financial assets and liabilities;
- Trade receivables impairment; and
- Recognition of hedging instruments and on the type of hedging relationships.

No material impacts were identified compared with the existing accounting treatment.

IFRS 16 'Leases' is effective 1 January 2019. IFRS 16 will change lease accounting for lessees under operating leases. Such agreements will 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) will be recognised in the form of depreciation and interest, rather than as an operating cost.

The detailed assessment of impact on the Group's performance is ongoing, with the current focus on the completeness of the lease data. During the early impact assessment, the Group has reviewed the current accounting for existing key agreements, including satellite, transponder and playout agreements, and concluded that those do not meet lease definition under the regulations of IFRS 16, and therefore should continue to be classified as service agreements as presented within these financial statements.

The adoption is likely to have a material impact on the presentation of the Group's assets and liabilities, mainly due to property leases. Due to the quantity of leases under review, the Group has not substantially completed the assessment of lease contracts under the new accounting standard. Therefore, a quantification of the impact on the Group's results cannot currently be estimated.

Notes to the Financial Statements
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

Revenue is stated exclusive of VAT and equivalent sales taxes, and comprises the sale of products and services to third parties. Judgement is required when determining the appropriate timing and amount of revenue that can be recognised, specifically around whether there is a firm contract and whether the service has been provided and if so, whether there is a fixed or reasonably determinable price that is reasonably certain to be collected. Complexity in advertising revenue recognition is driven by intricate automated and manual processes involved in measuring the value delivered to the customer.

Revenue is recognised when the Group has transferred both the significant risks and rewards of ownership and control, and the amount of revenue can be measured reliably. Revenue recognition criteria for the Group's key classes of revenue are as follows:

Applicable segment	Class of revenue	Recognition criteria
Broadcast & Online	Advertising (NAR)	on transmission
	Video on Demand (VOD)	as audience targets are met
	Sponsorship	across the period of transmission of the sponsored programme or series
	Pay	over the term of the contract or per subscriber or download
	Participation (Interactive and Brand Extensions)	as the service is provided or the event occurs
Studios	Programme production	on delivery of episode and acceptance by the customer
	Programme distribution rights	when the contract is signed and content is available for exploitation
	Format and licences	at the point in time when the licence is transferred and the customer is able to use and benefit from the licence or over the licence period if continued involvement of the Group is required
	Digital: archive	on delivery of content (one-off) or over the contract period in a manner that reflects the flow of content delivered (top-up)

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

	2017 £m	**2017 % of total**	2016 £m	2016 % of total
NAR				
Broadcast & Online	**1,591**	**44%**	1,672	47%
Non-NAR				
Broadcast & Online	**484**		460	
ITV Studios: Productions	**1,307**		1,089	
ITV Studios: Distribution	**275**		306	
Total Non-NAR	**2,066**	**56%**	1,855	53%
Total revenue from continuing operations	**3,657**	**100%**	3,527	100%

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 2017 and 31 December 2016 are therefore Broadcast & Online and ITV Studios, the results of which are outlined in the following tables:

	Broadcast & Online 2017 £m	**ITV Studios* 2017 £m**	**Consolidated 2017 £m**
Total segment revenue	**2,075**	**1,582**	**3,657**
Intersegment revenue	**(2)**	**(523)**	**(525)**
Revenue from external customers	**2,073**	**1,059**	**3,132**
Adjusted EBITA**	**599**	**243**	**842**

	Broadcast & Online 2016 £m	ITV Studios* 2016 £m	Consolidated 2016 £m
Total segment revenue	2,143	1,395	3,538
Intersegment revenue	–	(463)	(463)
Revenue from external customers including discontinued operations	2,143	932	3,075
Less: Discontinued operations (note 2.5)	(11)	–	(11)
Revenue from external customers	2,132	932	3,064
Adjusted EBITA including discontinued operations**	636	243	879
Less: Operating loss from discontinued operations (note 2.5)	(6)	–	(6)
Adjusted EBITA**	642	243	885

* Revenue of £397 million (2016: £320 million) was generated in the US during the year; the US represented £330 million (2016: £346 million) of non-current assets at year end.

** 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. This measure represents the continuing operations.

The Group's principal operations are in the United Kingdom. Revenue from external customers in the United Kingdom is £2,272 million (2016: £2,370 million), and revenue from external customers in other countries is £860 million (2016: £694 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 & Online 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 (2016: one) acting on behalf of a number of advertisers that represent the Group's major customers. This agency is the only customer that individually represents over 10% of the Group's revenue. Revenue of approximately £561 million (2016: £552 million) was derived from this customer. This revenue is attributable to the Broadcast & Online segment.

Broadcast & Online

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 television advertising, where revenue is generated from the sale of audiences for advertising airtime and sponsorship.

Other sources of revenue are from: online advertising; HD digital channels on pay platforms (e.g. Sky and Virgin); SDN revenue (which generates licence sales for DTT Multiplex A); and participation revenue (which includes interactive sales from competitions) and the ITV Choice subscription service in other countries.

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 66% of ITV main channel spend on commissioned programming (2016: 63%). Programming is also sold to other UK broadcasters such as the BBC, Channel 4 and Sky.

ITV America 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 six other international locations, being Australia, Germany, France, Italy, the Netherlands (primarily Talpa) and the Nordics, where content is produced for local broadcasters. This content is either locally created IP or formats that have been created elsewhere by ITV, primarily in the UK and the Netherlands.

Global Entertainment and Talpa Global, ITV's distribution businesses, license ITV's finished programmes and formats and third-party content internationally. Within this business, we also finance 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 pages 21 to 23 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:

	2017 £m	2016 £m
Adjusted EBITA	**842**	885
Production tax credits	**(32)**	(28)
EBITA before exceptional items from continuing operations	**810**	857
Operating exceptional items	**(153)**	(164)
Amortisation and impairment	**(102)**	(89)
Net financing costs	**(50)**	(51)
Share of losses of joint ventures and associated undertakings	**(4)**	–
Loss on sale of non-current assets (exceptional items)	**(1)**	–
Profit before tax from continuing operations	**500**	553

Cash generated from operations

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

	2017 £m	2016 £m
Cash flows from operating activities		
Profit before tax	**500**	553
Loss on sale of non-current assets (exceptional items)	**1**	–
Share of losses of joint ventures and associated undertakings	**4**	–
Net financing costs	**50**	51
Operating exceptional items	**153**	164
Depreciation of property, plant and equipment	**30**	31
Amortisation and impairment	**102**	89
Share-based compensation and pension service costs	**13**	10
Increase in programme rights and other inventory, and distribution rights	**(94)**	(35)
Decrease/(increase) in receivables	**13**	(56)
Increase in payables	**23**	63
Movement in working capital	**(58)**	(28)
Cash generated from operations before exceptional items	**795**	870

Operating costs

Staff costs

Staff costs before exceptional items can be analysed as follows:

	2017 £m	2016 £m
Wages and salaries	**358**	336
Social security and other costs	**55**	46
Share-based compensation (see note 4.7)	**12**	10
Pension costs	**24**	27
Total staff costs	**449**	419
Less: staff costs allocated to productions	**(166)**	(147)
FTEE staff costs (non-production)	**283**	272

Exceptional staff costs are disclosed separately in note 2.2.

The number of full-time equivalent employees (FTEE) (excluding short-term contractors and freelancers who are predominantly allocated to the cost of productions), calculated on a weighted average basis, during the year was:

	2017	2016
Broadcast & Online	**2,053**	2,087
ITV Studios	**4,002**	4,034
	6,055	6,121

The decrease in full-time equivalent employees is primarily driven by redundancies in the organic business as a result of restructuring offset by the weighted average impact of acquisitions completed in 2017.

Details of Directors' emoluments, share options, pension entitlements and long-term incentive scheme interests are set out in the Remuneration Report. Listed Directors' gains on share options for 2017 are set out in the ITV plc Company financial statements.

Depreciation

Depreciation in the year was £30 million (2016: £31 million), of which £11 million (2016: £13 million) relates to Broadcast & Online and £19 million (2016: £18 million) to ITV Studios. A further £11 million of accelerated depreciation relating to assets made redundant as a result of the property project has been recorded as an exceptional item in 2017. See notes 2.2 and 3.3 for further details.

Operating leases

The total undiscounted future minimum lease payments under non-cancellable operating leases are due for payment as follows:

2017	Property £m	Other £m	Total £m
Within one year	**28**	**3**	**31**
Later than one year and not later than five years	**89**	**4**	**93**
Later than five years	**19**	**–**	**19**
	136	**7**	**143**

			Re-presented*
2016	Property £m	Other £m	Total £m
Within one year	19	–	19
Later than one year and not later than five years	59	–	59
Later than five years	17	–	17
	95	–	95

* The Group holds 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. The Group has assessed the contracts under the new accounting standard IFRS 16, and consequently has reassessed the transponder assets under the current accounting standard, IAS 17. As a result, the Group has re-presented the transmission supply agreements as service agreements as opposed to operating leases. The impact of this is to remove the transponder assets from the operating lease disclosures in this note and disclose them instead as a commitment within note 3.1. There is no impact on the income statement, financial position or cash flow of the Group for this presentational change.

The Group's operating leases relate to offices, studio properties and other assets such as cars and office equipment.

Property leases run for terms ranging from five to 20 years, depending on the expected operational use of the site. Leases may include break clauses or options to renew (options to renew are not included in the commitments table). Lease payments are generally subject to market review every five years to reflect market rentals, but because of the uncertainty over the amount of any future changes, such changes have not been reflected in the table above. None of the lease agreements include contingent rentals.

The total operating lease expenditure recognised during the year was £21 million (2016: £19 million) and total sublease payments received were £1 million (2016: £1 million).

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:

	2017 £m	2016 £m
For the audit of the Group's annual accounts	**0.6**	0.6
For the audit of subsidiaries of the Group	**0.6**	0.6
Audit-related assurance services	**0.2**	0.2
Total audit and audit-related assurance services	**1.4**	1.4
Taxation advisory services	**–**	0.2
Other assurance services	**–**	0.1
Total non-audit services	**–**	0.3
Total fees paid to KPMG	**1.4**	1.7

There were no fees payable in 2017 or 2016 to KPMG and associates for the auditing of accounts of any associate or pension scheme of the Group, internal audit services, 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 (e.g. costs relating to capital transactions, such as professional fees on acquisitions). 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 on pages 21 to 23 for the detailed explanation of the Group's use of adjusted performance measures.

Subsequent revisions of estimates for items initially recognised as exceptional are recorded as exceptional items in the year that the revision is made. 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.	**2017 £m**	2016 £m
Operating exceptional items:			
Acquisition-related expenses	A	**(96)**	(131)
Restructuring and property project costs	B	**(30)**	(14)
Insured trade receivable provision	C	**(27)**	–
Pension curtailment cost	D	**–**	(19)
Total operating exceptional items		**(153)**	(164)
Non-operating exceptional items:			
Loss on sale of non-current assets		**(1)**	–
Total non-operating exceptional items		**(1)**	–
Total exceptional items before tax		**(154)**	(164)
Tax on exceptional items		**12**	15
Total exceptional items net of tax		**(142)**	(149)

A – Acquisition-related expenses

Acquisition-related expenses of £96 million includes £86 million (2016: £110 million) relating to performance-based, employment-linked costs to former owners mainly in relation to Talpa Media. The remaining £10 million (2016: £21 million) is primarily comprised of integration costs and professional fees (mainly financial due diligence and legal costs). See note 3.4 for further details on acquisitions.

B – Restructuring and property project costs

In 2017, the Directors made the decision to redevelop the Group's headquarters at The London Television Centre for which the Group owns the freehold. This requires relocating staff and studios for 4 to 5 years to alternative accommodation before moving back into a new freehold building. Therefore, the Group has taken rented office and studios space in the interim while the new headquarters are constructed.

During the course of the construction the Group will ring fence all incremental costs in relation to the redevelopment. Move costs, dual rates and rent will be treated as exceptional costs in the financial statements as they relate to the one-off property project that runs over several years but the Group will no longer incur them after the return to The London Television Centre.

In 2017, the Group incurred £24 million of costs being:

- Dual running costs of £7 million while the properties were vacant during refurbishment;
- £11 million of accelerated depreciation relating to assets made redundant as a result of the property project;
- £3 million of dilapidation provisions relating to these new property leases; and
- Other incremental one-off project costs of £3 million.

As a result of the review of the Group's London property needs, the Directors have decided to close The London Studios business incurring £6 million of redundancy costs in 2017.

Notes to the Financial Statements
Section 2: Results for the Year continued

In 2016, £14 million of costs were incurred as a result of a one-off project stemming from the Group-wide commitment to reduce the overhead cost base by £25 million. This cost was primarily comprised of redundancies across the Broadcasting, ITV Studios and Shared Services divisions as well as professional support to successfully plan and implement the project.

C – Insured trade receivable provision

The insured trade receivable provision of £27 million relates to the unpaid portion of revenue from the four-year licence deal for The Voice of China with Talent Television and Film Co. Ltd (Talent), the revenue for which was fully recognised in 2016 in accordance with accounting standards as the Group had no further obligations under the terms of the agreement.

Following a breach of the agreement by Talent as they had not fulfilled their payment obligations, the Group have taken back the licence for The Voice of China. The Group is pursuing Talent vigorously for the £30 million still due under the agreement.

Further, the Group has credit insurance in place and a claim has been submitted. Whilst the Directors continue to pursue the amounts due and believe there is ultimately no material financial impact, the Group will need to reflect a provision against this unpaid amount in its 2017 results. Whilst the Directors are confident in recovering the amount due, the accounting standards set very specific requirements for the recognition of contingent assets, which is how the recovery of the amount due will be accounted for. As discussions with the insurers and the claim against Talent are in progress, at this early stage of pursuing recovery the Group is not able to demonstrate sufficient certainty for accounting purposes to be able to recognise a cash receivable at the year end. Accordingly, The Group has made a provision amounting to £27 million (£30 million net of £3 million insurance excess) against the Talent receivable recorded in the accounts in the year ended 31 December 2017. The cash received in the future will also be treated as an exceptional item.

D – Pension curtailment cost

In 2016, following a member consultation, the Group decided to close the ITV Pension Scheme to future benefit accrual, resulting in a one-off non-cash curtailment cost of £19 million.

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; and
- 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.

Notes to the Financial Statements
Section 2: Results for the Year continued

Taxation – Income statement

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

	2017 £m	2016 £m
Current tax:		
Current tax charge on profit before exceptional items	**(110)**	(134)
Current tax credit on exceptional items	**8**	11
	(102)	(123)
Adjustments to prior periods	**(2)**	10
	(104)	(113)
Deferred tax:		
Origination and reversal of temporary differences	**13**	18
Deferred tax credit on exceptional items	**4**	4
Impact of change in the statutory tax rate	**(6)**	1
	11	23
Adjustments to prior periods	**6**	(10)
	17	13
Total taxation charge in the income statement	**(87)**	(100)

In order to understand how, in the income statement, a tax charge of £87 million (2016: £100 million) arises on a profit before tax of £500 million (2016: £553 million), the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2017 £m	2016 £m
Profit before tax	**500**	553
Notional taxation charge at UK corporation tax rate of 19.25% (2016: 20%) on profit before tax	**(96)**	(111)
Non-taxable income/non-deductible expenses	**(35)**	(25)
Prior year adjustments	**4**	–
Other taxes	**–**	(1)
Previously unrecognised deferred tax asset	**11**	–
Current year losses not recognised	**(4)**	(2)
Impact of overseas tax rates	**7**	10
Impact of changes in tax rates	**(6)**	1
Production tax credits	**32**	28
Total taxation charge in the income statement	**(87)**	(100)

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 a £2 million charge relating to prior years, and the deferred tax credit includes a £6 million credit relating to prior years.

Previously unrecognised deferred tax assets are in relation to deferred tax assets arising on consolidation in relation to intangible assets which are now being brought on to the balance sheet in the current period.

Current year losses not recognised primarily relate to a capital loss arising on the write-down of an investment, as it is uncertain whether this loss can be utilised in future periods.

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, losses arising in higher taxed jurisdictions, which we recognise through deferred tax, give rise to a reconciling benefit.

The UK corporation tax rate fell from 20% to 19% from 1 April 2017 and has been enacted to fall further to 17% from 1 April 2020. These rates were enacted at the previous balance sheet date, and the carrying value of UK temporary differences were adjusted accordingly. To the extent that temporary differences have unwound in the current year, this has given rise to a credit of £6 million (2016: charge of £5 million) of which £2 million is recognised as a credit in the income statement and £4 million as a credit in other comprehensive income. In addition, as a result of the recent enactment of the Tax Cuts and Jobs Act in the US, the Group has recognised a tax charge of £9 million through the

income statement, resulting from the revaluation of our US deferred tax assets to reflect the reduction in the US federal corporate tax rate to 21% from 1 January 2018. Changes to enacted rates in other countries have given rise to a further credit of £1 million reported in the income statement. The total impact of changes in tax rates is therefore a charge of £6 million in the income statement and a credit of £4 million in other comprehensive income.

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, and also Italian production tax credits. 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 17.4% (2016: 18.1%), and is the tax charge on the face of the income statement expressed as a percentage of the profit before tax. In the years ended 31 December 2017 and 31 December 2016, the effective tax rate is comparable to the standard rate of UK corporation tax of 19.25% in 2017 and 20% in 2016. 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.

This year, the current year movement on origination and reversal of temporary differences (excluding exceptional items) is a credit of £13 million, compared with a credit of £18 million in 2016.

Taxation – Other comprehensive income and equity

As analysed in the table below, a deferred tax charge of £39 million on actuarial movements on pensions has been recognised in other comprehensive income (2016: £40 million credit). A deferred tax charge of £1 million has been recognised in equity in respect of share-based payments (2016: £6 million).

A current tax credit of £1 million has also been recognised in equity in relation to share-based payments (2016: £2 million).

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 2017 £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 2017 £m**
Tangible assets	–	3	(3)	–	–	–	–
Intangible assets	(94)	–	22	–	(6)	(2)	**(80)**
Programme rights	1	–	–	–	–	–	**1**
Pension scheme deficits	34	–	(13)	(39)	–	–	**(18)**
Tax losses	30	–	(6)	–	–	(3)	**21**
Share-based compensation	(4)	–	–	(1)	–	–	**(5)**
Other temporary differences	(20)	(2)	17	–	4	2	**1**
	(53)	1	17	(40)	(2)	(3)	**(80)**

	At 1 January 2016 £m	Reclassification £m	Recognised in the income statement £m	Recognised in OCI and equity £m	Business acquisitions £m	Foreign exchange £m	At 31 December 2016 £m
Intangible assets	(101)	14	15	–	(10)	(12)	(94)
Programme rights	1	–	–	–	–	–	1
Pension scheme deficits	1	1	(8)	40	–	–	34
Tax losses	4	–	23	–	–	3	30
Share-based compensation	11	(5)	(4)	(6)	–	–	(4)
Other temporary differences	5	(10)	(13)	–	–	(2)	(20)
	(79)	–	13	34	(10)	(11)	(53)

At 31 December 2017, total deferred tax assets are £23 million (2016: £65 million) and total deferred tax liabilities are £103 million (2016: £118 million). After netting off balances within countries, there is a deferred tax liability of £111 million and a deferred tax asset of £31 million (2016: deferred tax liability of £70 million and deferred tax asset of £17 million) recognised in the Consolidated Statement of Financial Position.

Notes to the Financial Statements
Section 2: Results for the Year continued

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; and
- 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 of £80 million to the Group's defined benefit pension scheme. The adjustment in other comprehensive income to the deferred tax balance primarily relates to the actuarial gain recognised in the period.

A deferred tax asset of £377 million (2016: £377 million) in respect of capital losses of £2,217 million (2016: £2,215 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, deferred tax assets of £13 million (2016: £19 million) in respect of overseas losses that time expire between 2018 and 2026 have not been recognised.

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 believe 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. In 2016, we presented EPS for the continuing business and the discontinued operation, UTV Ireland Limited (see note 2.5 for further details).

Basic EPS is calculated on the Group profit for the year attributable to equity shareholders of £409 million (2016: £448 million) divided by 4,006 million (2016: 4,010 million), being the weighted average number of shares in issue during the year, which excludes EBT shares held in trust (see note 4.7).

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

	2017 £m	2016 £m
Profit for the year attributable to equity shareholders of ITV plc	**409**	448
Less: Loss for the year from discontinued operations	**–**	(1)
Profit for the year attributable to equity shareholders of ITV plc from continuing operations	**409**	449
Weighted average number of ordinary shares in issue – million	**4,006**	4,010
Basic earnings per ordinary share and from continuing operations	**10.2p**	11.2p
Basic loss per ordinary share from discontinued operations	**–**	–

Diluted earnings per share

	2017 £m	2016 £m
Profit for the year attributable to equity shareholders of ITV plc from continuing operations	**409**	449
Weighted average number of ordinary shares in issue – million	**4,006**	4,010
Dilution due to share options	**11**	19
Total weighted average number of ordinary shares in issue – million	**4,017**	4,029
Diluted earnings per ordinary share and from continuing operations	**10.2p**	11.1p
Diluted loss per ordinary share from discontinued operations	**–**	–

Adjusted earnings per share

	Ref.	2017 £m	2016 £m
Profit for the year attributable to equity shareholders of ITV plc		**409**	448
Exceptional items (net of tax)	A	**142**	149
Less: Loss after tax for the period from discontinued operations		**–**	(1)
Profit for the year before exceptional items from continuing operations		**551**	598
Amortisation and impairment of acquired intangible assets	B	**78**	66
Adjustments to net financing costs	C	**13**	19
Adjusted profit from continuing operations		**642**	683
Total weighted average number of ordinary shares in issue – million		**4,006**	4,010
Adjusted earnings per ordinary share and from continuing operations		**16.0p**	17.0p
Adjusted loss per ordinary share from discontinued operations		**–**	–

Diluted adjusted earnings per share

	2017 £m	2016 £m
Adjusted profit from continuing operations	**642**	683
Weighted average number of ordinary shares in issue – million	**4,006**	4,010
Dilution due to share options	**11**	19
Total weighted average number of ordinary shares in issue – million	**4,017**	4,029
Diluted adjusted earnings per ordinary share and from continuing operations	**16.0p**	17.0p
Diluted adjusted loss per ordinary share from discontinued operations	**–**	–

Details of the adjustments to earnings are as follows:

A. Exceptional items (net of tax) £142 million (2016: £149 million), calculated as total of:
- exceptional items of £154 million (2016: £164 million), see note 2.2 for the detailed composition,
- net of related tax credit of £12 million (2016: £15 million).

B. Amortisation and impairment of acquired intangible assets of £78 million (2016: £66 million), calculated as total of:
- amortisation and impairment of assets acquired through business combinations and investments of £102 million (2016: £89 million), excluding amortisation of software licences and development of £5 million (2016: £12 million),
- net of related tax credit of £19 million (2016: £11 million).

C. Adjustments to net financing costs £13 million (2016: £19 million). Net financing costs of £50 million (2016: £51 million) are adjusted for:
- mark-to-market movements on derivative instruments, foreign exchange and imputed pension interest charges of £33 million (2016: £26 million),
- net of related tax credit of £4 million (2016: £6 million).

Notes to the Financial Statements
Section 2: Results for the Year continued

2.5 Discontinued operations

Keeping it simple

A discontinued operation is a distinct component of the business that has been or is in the process of being disposed of. Accounting standards dictate that the loss from discontinued operations is recognised outside of the Group's operating results.

The Group's 2017 results were all derived from continuing operations.

During 2016, management agreed to sell UTV Ireland Limited to Virgin Media for €10 million. The sale completed on 30 November 2016 and the assets and liabilities classified as a disposal group held-for-sale have been disposed of.

Results of discontinued operations

	2017 £m	2016 £m
Revenue	–	11
Expenses	–	(17)
Operating loss	–	(6)
Taxation	–	–
Loss after tax	–	(6)
Gain on sale of discontinued operations	–	5
Tax on gain on sale of discontinued operations	–	–
Loss for the period	–	(1)
Earnings per share		
Basic loss per share	–	–
Diluted loss per share	–	–

Cash flows from (used in) discontinued operations

	2017 £m	2016 £m
Net cash used in operating activities	–	(6)
Net cash from investing activities	–	10
Net cash flow for the period	–	4

Notes to the Financial Statements
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 and production costs, trade and other receivables and trade and other payables.

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. The Group's target profit to cash ratio on a rolling three year basis is at least 90%. 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, other inventory and commitments

Accounting policies

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

Programme rights and production costs 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:

	2017 £m	2016 £m
Acquired programme rights	**179**	157
Commissions	**86**	69
Sports rights	**58**	27
	323	253

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities continued

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. These have been re-presented as a commitment in 2017 (see operating leases section in note 2.1 for details).

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.

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

2017	**Transmission £m**	**Programme £m**	**Total £m**
Within one year	**32**	**455**	**487**
Later than one year and not more than five years	**132**	**709**	**841**
More than five years	**58**	**47**	**105**
	222	**1,211**	**1,433**

2016	Transmission £m	Programme £m	Re-presented Total £m
Within one year	28	454	482
Later than one year and not more than five years	129	789	918
More than five years	92	112	204
	249	1,355	1,604

Studios production costs
Production inventory comprises the costs incurred by ITV Studios in producing a programme, where the programme is part way through the production process and not yet available for delivery to a broadcaster. Inventory is recognised within current assets at the value of the production cost incurred, and is expensed in operating costs on delivery of episodes.

Also included here are dramas where production costs are partly funded by the commissioning network licence fee and tax credits, if available. The remaining deficit is funded by the Group and is recovered by future distribution sales. Once the production is complete, the deficit is classified as a distribution right.

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

	2017 £m	2016 £m
Production costs	**247**	153

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:

	2017 £m	2016 £m
Distribution rights	**19**	31

During the year, £35 million was charged to the income statement (2016: £38 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 statements at their net present value to reflect the economic cost of delayed payment. The Group provides goods and services to substantially all 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 carrying value of trade receivables is considered to approximate fair value. Trade and other receivables can be analysed as follows:

	2017 £m	2016 £m
Due within one year:		
Trade receivables	**311**	315
Other receivables	**51**	39
Prepaid employment-linked consideration	**–**	21
Prepayments and accrued income	**152**	151
	514	526
Due after more than one year:		
Trade receivables	**19**	12
Accrued income and other receivables	**8**	27
	27	39
Total trade and other receivables	**541**	565

In 2016, prepaid employment-linked consideration of £21 million related to the acquisition of Talpa Media in 2015. This represented the portion of the initial consideration of €150 million that was recoverable from the seller in the event he left within the initial two years following acquisition. This amount was amortised over the two years to 31 March 2017 and recognised as exceptional expense (see note 2.2).

£330 million (2016: £327 million) of total trade receivables, stated net of provisions for impairment, are aged as follows.

	2017 £m	2016 £m
Current	**275**	299
Up to 30 days overdue	**28**	19
Between 30 and 90 days overdue	**16**	6
Over 90 days overdue	**11**	3
	330	327

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

	2017 £m	2016 £m
At 1 January	**4**	5
Charged during the year – insured trade receivable provision (note 2.2)	**30**	–
Charged during the year – other receivables	**5**	3
Unused amounts reversed	**(4)**	(4)
At 31 December	**35**	4

Of the provision total, £4 million relates to balances overdue by more than 90 days (2016: £3 million) and less than £1 million relates to current balances (2016: £1 million). £30 million of the provision relates to the overdue Talent receivable, which is impairing £14 million of trade receivables and £16 million of accrued income. The provision for these insured receivables, net of insurance excess, has been recognised as an exceptional expense (see note 2.2).

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities continued

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:

	2017 £m	2016 £m
Trade payables	**63**	71
VAT and social security	**67**	61
Other payables	**234**	186
Acquisition-related liabilities – employment-linked contingent consideration	**34**	72
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	**42**	33
Accruals	**371**	332
Deferred income	**218**	205
	1,029	960

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:

	2017 £m	2016 £m
Trade payables	**68**	57
Other payables	**21**	10
Acquisition-related liabilities – employment-linked contingent consideration	**54**	38
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	**31**	15
	174	120

Trade payables primarily relate to film creditors for which payment is due after more than one year.

3.1.6 Working capital management

Cash and working capital management continues to be a key focus. During the year, the cash outflow from working capital was £58 million (2016: outflow of £28 million) derived as follows:

	2017 £m	2016 £m
Increase in programme rights and other inventory and distribution rights	**(94)**	(35)
Decrease/(increase) in receivables	**13**	(56)
Increase in payables	**23**	63
Working capital outflow	**(58)**	(28)

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.

Leases

Finance leases are those that transfer substantially all the risks and rewards of ownership to the lessee.

Determining whether a lease is a finance lease requires judgement as to whether substantially all of the risks and benefits of ownership have been transferred to the Group. Estimates used by management in making this assessment include the useful economic life of assets, the fair value of the asset and the discount rate applied to the total payments required under the lease. Assets held under such leases are included within property, plant and equipment and depreciated on a straight-line basis over their estimated useful lives.

Outstanding finance lease obligations, which comprise the principal plus accrued interest, are included within borrowings. The finance element of the agreements is charged to the income statement over the term of the lease on an effective interest basis.

All other leases are operating leases, the rentals on which are charged to the income statement on a straight-line basis over the lease term (see note 2.1 for further details of operating lease commitments).

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

* 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.

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities continued

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		**Total**
	£m	Long £m	Short £m	Owned £m	Finance leases £m	**£m**
Cost						
At 1 January 2016	89	66	18	264	16	453
Additions	–	–	2	27	–	29
Acquisitions	3	–	–	1	–	4
Foreign exchange	–	–	–	6	–	6
Reclassifications	–	–	–	3	(3)	–
Disposals and retirements	–	–	–	(29)	(13)	(42)
At 31 December 2016	92	66	20	272	–	450
Additions	–	6	–	40	–	46
Acquisitions	7	–	–	4	–	11
Foreign exchange	–	–	–	(3)	–	(3)
Disposals and retirements	–	(2)	–	(30)	–	(32)
At 31 December 2017	**99**	**70**	**20**	**283**	**–**	**472**
Depreciation						
At 1 January 2016	6	14	15	165	14	214
Charge for the year	1	2	1	27	–	31
Foreign exchange	–	–	–	3	–	3
Reclassifications	–	–	–	1	(1)	–
Disposals and retirements	–	–	–	(29)	(13)	(42)
At 31 December 2016	7	16	16	167	–	206
Charge for the year	8	2	–	31	–	41
Foreign exchange	–	–	–	(1)	–	(1)
Disposals and retirements	–	(2)	–	(28)	–	(30)
At 31 December 2017	**15**	**16**	**16**	**169**	**–**	**216**
Net book value						
At 31 December 2017	**84**	**54**	**4**	**114**	**–**	**256**
At 31 December 2016	85	50	4	105	–	244

Included within property, plant and equipment are assets in the course of construction of £41 million (2016: £19 million), £16 million of which relates to the London property project (refer to note 2.2 for further details).

Included within the depreciation charge for the year of £41 million is £11 million of accelerated depreciation relating to assets made redundant as a result of the property project. This accelerated depreciation has been recorded as an exceptional item in 2017. Refer to note 2.2 for further details.

In 2013, the Group acquired the freehold for the London Television Centre for £58 million, although the Directors' view is that the fair value of the property would be significantly higher than the carrying value.

Capital commitments

There are £15 million of capital commitments at 31 December 2017 (2016: £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 5 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 statements.

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 2016	3,744	481	411	10	121	99	104	4,970
Additions	–	–	–	–	–	–	13	13
Acquisitions	44	3	–	–	55	–	–	102
Foreign exchange	47	51	9	1	–	4	–	112
At 31 December 2016	3,835	535	420	11	176	103	117	5,197
Additions	–	–	–	–	–	–	23	23
Acquisitions	85	–	21	–	–	–	–	106
Foreign exchange	(21)	9	(4)	–	–	(2)	–	(18)
Disposals, retirements and impairment	(10)	–	(1)	–	–	–	(5)	(16)
At 31 December 2017	**3,889**	**544**	**436**	**11**	**176**	**101**	**135**	**5,292**
Amortisation and impairment								
At 1 January 2016	2,654	205	365	7	94	65	80	3,470
Charge for the year	–	44	16	2	6	9	12	89
Foreign exchange	–	5	6	1	–	2	–	14
At 31 December 2016	2,654	254	387	10	100	76	92	3,573
Charge for the year	–	46	17	1	6	7	5	82
Foreign exchange	–	3	(4)	–	–	(1)	–	(2)
Disposals, retirements and impairment	–	–	(1)	–	–	–	(5)	(6)
At 31 December 2017	**2,654**	**303**	**399**	**11**	**106**	**82**	**92**	**3,647**
Net book value								
At 31 December 2017	**1,235**	**241**	**37**	**–**	**70**	**19**	**43**	**1,645**
At 31 December 2016	1,181	281	33	1	76	27	25	1,624

Gurney Productions LLC has been treated as if it would have been wound down, with no further results to be recognised in the accounts. A provision of £13 million has been recognised against onerous contracts and various assets and liabilities relating to Gurney Productions LLC, which includes £3 million write-off of goodwill. The net effect of these provisions and the derecognition of non-controlling interest is less than £1 million (see note 4.6.6).

Goodwill impairment tests

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

	2017 £m	2016 £m
Broadcast & Online	**386**	386
SDN	**76**	76
ITV Studios	**773**	719
	1,235	1,181

£3 million of goodwill was written off in the ITV Studios CGU in relation to Gurney Productions LLC. There has been no impairment charge for any CGU during the year (2016: £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% (2016: 2%). 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 revised 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 & Online
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 & Online 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 & Online 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 2018 and -8% to 2019 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 & Online 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 substantially 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 9.5% (2016: 10.4%) 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 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 (2018: -10% growth, 2019: 0% growth). The Directors believe that currently no reasonably possible change in the cash flow and availability assumptions would reduce the headroom in this CGU to zero.

A pre-tax market discount rate of 11.4% (2016: 11.7%) 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 (2018: -10% growth, 2019: 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 10.8% (2016: 11.6%) has been used in discounting the projected cash flows.

Following the acquisitions made by ITV Studios in 2017, 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.

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities continued

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

During the year, the Group made payments totalling £54 million for five acquisitions.

All acquisitions have been included in the results of the ITV Studios operating segment. The businesses fit with the strategy of strengthening the Group's existing position as a producer for major television networks in the UK, Europe, US and OTT platforms.

Tetra Media Studios SAS

On 28 February 2017, the Group purchased 65.04% of the share capital of Tetra Media Studios SAS, a French television production group which specialises in drama, including flagship crime series Profilage, now in its seventh series, and political crime thriller Les Hommes de l'Ombre.

Tomorrow ITV Studios LLC

On 1 April 2017, the Group gained control of Tomorrow ITV Studios LLC due to the conversion of its 75% preference share capital into 75% ordinary share capital. The company produced Aquarius, a US period crime series, which aired on NBC, and is producing Snowpiercer, an action sci-fi drama series, expected to be released in the US in 2018.

World Productions Limited

On 30 April 2017, the Group purchased 92% of the share capital of World Productions Limited, a company which specialises in producing drama series with titles including Line of Duty, an award-winning British police crime drama, and Born to Kill, a British thriller television mini-series.

Elk Production AB

On 21 June 2017, the Group acquired 96% of the share capital of Elk Production AB. Elk is one of the leading independent production companies in Sweden. Key titles produced by the company include Ninja Warrior, an obstacle course competition series, Dessertmästarna, a dessert cooking competition, and award-winning TV series Wahlgrens and Parneviks.

Cattleya S.r.l.

On 11 October 2017, the Group purchased 51% of the share capital of Cattleya Srl, an Italian scripted production company behind international hit TV dramas Gomorrah, Romanzo Criminale and Suburra, Netflix's first Italian original TV series.

Acquisition accounting:

Put and call options have been granted over the non-controlling interest of all five acquisitions, exercisable over the next two to seven years. The total maximum consideration for the acquisitions is capped at £418 million (undiscounted). All future payments are dependent on future performance of the business and linked to ongoing employment.

Goodwill totalling £85 million arising on these acquisitions is not expected to be deductible for tax purposes and represents the value placed on the opportunity to grow the content produced by the Group.

Acquisitions in 2016

In 2016, the Group completed the acquisition of UTV Limited, which has been included in the results of the Broadcast & Online operating segment. The business fits with the strategy of strengthening the Group's free-to-air business and enables it to run a more efficient network. The following section provides a summary of the acquisition.

UTV Limited

On 29 February 2016, the Group acquired a 100% controlling interest in UTV Limited which, together with its 100% subsidiary UTV Ireland Limited, owned the television assets of UTV Media plc, for cash consideration of £100 million. UTV is the market-leading commercial broadcaster in Northern Ireland, broadcasting ITV content alongside high-quality local programming. The strategic rationale for the acquisition was to purchase the Northern Irish Channel 3 licence.

Before ITV's acquisition, UTV Limited launched a new dedicated channel for the Republic of Ireland in 2015 via its subsidiary, UTV Ireland Limited. Management concluded that the best prospect of delivering a strong and sustainable Irish broadcaster was to bring UTV Ireland under common ownership with TV3. ITV therefore sold the company to Virgin Media, owner of TV3, on 30 November 2016, for consideration of €10 million.

Acquisition accounting:

Intangibles, being the value placed on brands and licences, of £58 million were identified and goodwill was valued at £44 million. Goodwill represents the value placed on the opportunity to diversify and grow the business by the Group. The goodwill arising on acquisition is not expected to be deductible for tax purposes. Other fair value adjustments have been made to the opening balance sheet, though none of them are individually significant.

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities continued

Effect of acquisition

The acquisitions noted above had the following impact on the Group assets and liabilities:

£m	2017 Total*	2016 Total
Consideration transferred:		
Initial consideration (net of cash acquired) (Note A)	**35**	97
Total consideration	**35**	97
Fair value of previously held preference shares (Note B)	**29**	–
Fair value of net assets acquired:		
Property, plant and equipment	**11**	4
Intangible assets	**21**	58
Deferred tax liabilities	**(8)**	(11)
Deferred tax assets	**6**	–
Inventory	**60**	–
Trade and other receivables	**49**	5
Trade and other payables	**(100)**	(7)
Borrowings	**(35)**	–
Net assets held for sale	**–**	4
Fair value of net assets	**4**	53
Non-controlling interest measured at fair value (Note C)	**25**	–
Goodwill	**85**	44
Other information		
Present value of the expected liability on put options	**23**	–
Present value of the expected earnout payment at acquisition	**11**	–
Contributions to the Group's performance:		
From date of acquisition		
Revenue	**59**	27
EBITA before exceptionals	**–**	8
Proforma – January to December		
Revenue	**131**	33
EBITA before exceptionals	**–**	9

* 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 £19 million (2016: £3 million).

Note B: The acquisition of Tomorrow Studios was effected by the right to convert of the Group's non-controlling preference shares into a controlling stake of ordinary shares. On change of control, the IFRS accounting standards require the Group to fair value the previously held preference shares and include within the calculation of goodwill.

Note C: 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 available-for-sale 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 available-for-sale 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. Available-for-sale 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:

	2017 £m	2016 £m
Joint ventures	**2**	4
Associates	**68**	60
Available-for-sale investments	**4**	12
	74	76

The carrying amount of associates has increased in the year due to investments made in Blumhouse and Circle of Confusion, two independent studios focusing on original premium scripted and unscripted programming. This was offset by the acquisition of a controlling stake in ITV Tomorrow Studios, in which the Group previously held an investment (see note 3.4). Further smaller investments have been made in line with Group's strategy to grow the international content business.

Please refer to page 188 of the Annual Report for the list of principal investments held at 31 December 2017.

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities continued

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 1 January 2017	–	2	21	23
Additions	3	3	–	6
Utilised	–	–	(5)	(5)
Released	–	(1)	–	(1)
At 31 December 2017	**3**	**4**	**16**	**23**

Provisions of £16 million are classified as current liabilities (2016: £19 million). Unwind of the discount is £nil in 2017 and 2016.

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 temporary rental properties.

Legal and Other provisions totalling £16 million (2016: £21 million) primarily relate to potential liabilities that may arise as a result of Boxclever having been placed into administrative receivership, most of which relate to pension arrangements. In 2011, the Determinations Panel of the Pensions Regulator determined that Financial Support Directions should be issued against certain Group companies, which would require the Group to put in place financial support for the Boxclever Scheme. The Group is challenging this in the Upper Tribunal. The timing of the Upper Tribunal's decision is not yet clear. The Directors, having taken advice, believe that they have a strong case. There are significant points of legal principle at issue and consequently any potential liability may take a significant period to resolve. The Directors continue to believe that the provision held is appropriate.

The utilisation of provisions during the year was due to settlement of various other legal matters.

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 statements. 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 remains open to future accrual.

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 statements, 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 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 2014, with the 1 January 2017 valuation expected to be agreed in early 2018.

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 2017, total contributions expensed were £18 million (2016: £16 million).

Defined benefit scheme

The Group's obligation in respect of the Defined Benefit Scheme (the '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.

The liabilities of the Scheme 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 2014 by an independent actuary appointed by the Trustee of the Scheme and agreed in early 2016. The next triennial valuation will be as at 1 January 2017 and is expected to be agreed during H1 2018. This will drive subsequent contribution rates.

An unfunded scheme in relation to four former Granada executives is accounted for under IAS 19 and the Group is responsible for meeting the pension obligations as they fall due. The unfunded scheme has additional security compared with the ITV main scheme, in the form of a charge over gilts held by the Group. Therefore, the £38 million securitised gilts have been classified as other pension assets to reflect the Group's net pension deficit.

In December 2016, following a member consultation, the Group decided to close the ITV Pension Scheme to future benefit accrual with effect from 28 February 2017. Members' benefits are no longer subject to a capped pensionable salary; the benefits are now linked to statutory revaluation until retirement. This decision gave rise to a one-off, non-cash £19 million curtailment charge recognised in 2016.

On 29 February 2016, the Group acquired 100% of the assets and liabilities of UTV Limited, including responsibility for a defined benefit pension scheme. Due to the size of the scheme, within this note the Directors present the results and position of the UTV Scheme combined with the existing ITV Schemes. The next triennial valuation will be as at 30 June 2017 and is expected to be agreed during H1 2018.

Unless otherwise stated, references to 'the Schemes' within this note refer to the ITV Pension Scheme, the unfunded scheme and the UTV Scheme combined. 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 £83 million at 31 December 2017 (2016: £328 million) is stated after including the unfunded scheme security asset of £38 million (2016: £39 million).

The totals recognised in the current and previous years are:

	2017 £m	2016 £m
Total defined benefit scheme obligations	**(3,987)**	(4,200)
Total defined benefit scheme assets	**3,866**	3,833
Defined benefit pension deficit (IAS 19)	**(121)**	(367)
Presented as:		
Defined benefit pension surplus *	**16**	–
Defined benefit pension deficit	**(137)**	(367)
Defined benefit pension deficit (IAS 19)	**(121)**	(367)
Other pension asset	**38**	39
Net pension deficit	**(83)**	(328)

* The defined benefit pension surplus relates solely to the UTV Scheme. The defined benefit scheme assets in the UTV Scheme were £130 million as at 31 December 2017 (2016: £117 million) and the defined benefit scheme obligations were £114 million (2016: £117 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 statements.

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 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 set out above.

The movement in the present value of the Group's defined benefit obligation is analysed below:

	2017 £m	2016 £m
Defined benefit obligation at 1 January	**4,200**	3,446
Current service cost	**2**	7
Curtailment charge	**–**	19
Interest cost	**107**	131
Actuarial (gain)/loss	**(121)**	664
UTV acquisition	**–**	98
Benefits paid	**(201)**	(165)
Defined benefit obligation at 31 December	**3,987**	4,200

Of the above total defined benefit obligation at 31 December 2017, £58 million relates to unfunded schemes (2016: £51 million), including the scheme in relation to the four former Granada executives.

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities continued

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;
- The discount rate used to estimate the present day fair value of these obligations;
- Future salary levels for the UTV Scheme; and
- Future pensionable salary levels for the UTV Scheme.

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 15 years (2016: 17 years).

The principal assumptions used in the Scheme's valuations at the year end were:

	2017	2016
Discount rate for:		
Past service liabilities	**2.50%**	2.60%
Future service liabilities	**2.50%**	2.70%
Inflation assumption for:		
Past service liabilities	**3.15%**	3.25%
Future service liabilities	**3.15%**	3.20%
Rate of pensionable salary increases		
UTV Pension Scheme	**3.65%**	3.75%
Rate of increase in pension payment (LPI[1] 5% pension increases)	**2.95%**	3.15%
Rate of increase to deferred pensions (CPI)	**2.15%**	2.25%

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:

	2017	**2017**	2016	2016
Retiring today at age	**60**	**65**	60	65
Males	**27.1**	**22.5**	27.1	22.4
Females	**29.2**	**24.4**	29.3	24.5
Retiring in 20 years at age	**60**	**65**	60	65
Males	**28.7**	**23.9**	28.8	23.9
Females	**30.8**	**25.9**	31.0	26.1

The net pension deficit is sensitive to changes in assumptions. Those 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 2017, the Scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. 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:

	2017 £m	2016 £m
Fair value of Scheme assets at 1 January	**3,833**	3,270
Interest income on Scheme assets	**98**	126
Return on assets, excluding interest income	**51**	416
Employer contributions	**90**	93
UTV acquisition	**–**	98
Benefits paid	**(201)**	(165)
Administrative expenses paid	**(5)**	(5)
Fair value of Scheme assets at 31 December	**3,866**	3,833

The actual return on the Scheme's assets, being the sum of the interest income on Scheme assets and return on Scheme assets, for the year ended 31 December 2017 was £149 million (2016: £542 million).

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities continued

How are the Scheme's assets invested?

At 31 December 2017, the Scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. 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 2017 £m		Market value 2016 £m	
Liability hedging assets				
Fixed interest gilts	**633**		678	
Index-linked interest gilts	**1,456**		1,135	
Interest rate and inflation hedging derivatives (swaps and repos)	**279**		270	
	2,368	**61%**	2,083	54%
Other bonds	**865**	**22%**	784	20%
Return seeking investments				
Quoted equities	**260**		633	
Infrastructure	**88**		95	
Property	**109**		62	
Hedge funds/alternatives	**193**		222	
	650	**17%**	1,012	27%
Other investments				
Cash and cash equivalents	**240**		183	
Insurance policies	**41**		42	
Longevity swap fair value	**(298)**		(271)	
	(17)	**–**	(46)	(1%)
Total Scheme assets	**3,866**	**100%**	3,833	100%

Included in the above are overseas assets of £978 million (2016: £1,304 million), comprised of quoted equities of £244 million (2016: £565 million) and bonds of £734 million (2016: £739 million).

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 2017, mainly due to a decrease in gilts yields over the year.

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 £15 million
	Decrease by 0.1%	Decrease by £25 million
Rate of inflation (Consumer Price Index)	Increase by 0.1%	Increase by £10 million
	Decrease by 0.1%	Decrease by £10 million
Life expectations	Increase by one year	Increase by £110 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 expectations by one year would benefit from an estimated increase of the value of the longevity swap by £100 million, reducing the net impact on the defined pension deficit to £10 million.

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.

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities continued

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 statements.

Amounts recognised through the income statement
Amounts recognised through the income statement are as follows:

	2017 £m	2016 £m
Amount charged to operating costs:		
Current service cost	**(2)**	(7)
Scheme administration expenses	**(5)**	(5)
	(7)	(12)
Amount charged to net financing costs:		
Net interest on defined benefit obligation	**(9)**	(5)
Amount charged to exceptional costs:		
Curtailment cost	**–**	(19)
Total charged in the consolidated income statement	**(16)**	(36)

Amounts recognised through the consolidated statement of comprehensive income
The amounts recognised through the consolidated statement of comprehensive income/(cost) are:

	2017 £m	2016 £m
Remeasurement gains/(losses):		
Return on scheme assets excluding interest income	**51**	416
Actuarial gains/(losses) on liabilities arising from change in:		
– experience adjustments	**138**	31
– financial assumptions	**12**	(868)
– demographic assumptions	**(29)**	173
	121	(664)
Total recognised in the consolidated statement of comprehensive income	**172**	(248)

The £121 million actuarial gain on the Scheme's liabilities was principally due to an experience gain of £138 million based on the use of updated membership data underlying the Trustee's triennial valuation as at 1 January 2017. The true-up of the membership data has resulted in a decrease in the liabilities. The £51 million gain on the Scheme's assets primarily results from increases in the market values of return-seeking investments, which has led to assets outperforming expectations.

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 current service costs (as assessed by the Scheme Trustee) and the expected future cash flows of the Scheme. Normal employer contributions in 2018 for UTV Scheme current service and administration expenses are expected to be in the region of £5 million (2017: £6 million) and deficit funding contributions for the main ITV scheme in 2018 are expected to be £66 million (2017: £66 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 £2.5 million, increasing by 5% per annum until 2038. In 2018, a payment of £14 million is expected as a result of those agreements.

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 Statements
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 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 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.

A Tax and Treasury committee acting under delegated authority from the Board, approves certain financial transactions and monitors compliance with the Group's tax and treasury policies.

4.1 Net debt

Keeping it simple

Net cash/(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 undiscounted operating lease commitments. 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 net cash during the year:

	1 January 2017 £m	Net cash flow £m	Acquisitions* £m	Currency and non-cash movements £m	**31 December 2017 £m**
Cash	549	(438)	19	(9)	**121**
Cash equivalents	12	(7)	–	–	**5**
Total cash and cash equivalents	561	(445)	19	(9)	**126**
Loans and facilities due within one year	(161)	115	(26)	(4)	**(76)**
Finance leases due within one year	(4)	4	–	–	**–**
Loans and facilities due after one year	(1,035)	100	(9)	(38)	**(982)**
Total debt	(1,200)	219	(35)	(42)	**(1,058)**
Currency component of swaps held against euro denominated bonds	2	–	–	18	**20**
Net debt	(637)	(226)	(16)	(33)	**(912)**

* Balances as at acquisition date.

	1 January 2016 £m	Net cash flow £m	Acquisitions* £m	Reclassifications £m	Currency and non-cash movements £m	31 December 2016 £m
Cash	238	301	3	–	7	549
Cash equivalents	56	(6)	–	(39)	1	12
Total cash and cash equivalents	294	295	3	(39)	8	561
Loans and facilities due within one year	(5)	5	–	–	(161)	(161)
Finance leases due within one year	(6)	6	–	–	(4)	(4)
Loans and facilities due after one year	(598)	(525)	–	–	88	(1,035)
Finance leases due after one year	(4)	–	–	–	4	–
Total debt	(613)	(514)	–	–	(73)	(1,200)
Currency component of swaps held against euro denominated bonds	–	–	–	–	2	2
Net debt	(319)	(219)	3	(39)	(63)	(637)

* Balances as at acquisition date.

Cash and cash equivalents

Included within cash equivalents is £nil (2016: £4 million), the use of which is restricted to meeting finance lease commitments under programme sale and leasebacks (see note 4.2).

Loans and facilities due within one year

At various periods during the year, the Group drew down on the Revolving Credit Facility ('RCF') to meet short-term funding requirements. At 31 December 2017, the Group had drawings of £60 million under the RCF (2016: £nil). The maximum draw down of the RCF during the year was £390 million (2016: £500 million).

The Group also had an unsecured £161 million Eurobond that matured in January 2017 and had a coupon of 6.125%.

Loans and loan notes due after one year

In 2016, the Group had a £100 million bilateral loan facility, which was repaid in full in June 2017.

The Group has issued the following Eurobonds:

- A seven-year €600 million Eurobond at a fixed coupon of 2.125%, which matures in September 2022; and
- A seven-year €500 million Eurobond at a fixed coupon of 2.0%, which will mature in December 2023. The bond issued in December 2016 has been swapped back to sterling using a cross-currency interest swap. The resulting fixed rate payable is c. 3.5%.

4.2 Borrowings and finance leases

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 in 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 discussed 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. It is sourced in the capital markets. 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.

Finance leases

Historically, ITV has entered into sale and leaseback agreements in relation to certain programme titles. Related outstanding sale and leaseback obligations, which comprise the principal and accrued interest, are included within borrowings. The finance-related element of the agreement is charged to the income statement over the term of the lease on an effective interest basis. Sale and leaseback obligations are secured against an equivalent cash balance held within cash and cash equivalents.

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 2017, £10 million was available under the agreement (2016: £65 million).

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. Deposits longer than 12 months require the approval of the Board.

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, which was amended and extended in December 2016, matures in 2022 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 2021.

Fair value versus book value
The tables below provide fair value information for the Group's borrowings:

		Book value		Fair value	
	Maturity	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Loans due within one year					
£630 million Revolving Credit Facility	Various	**60**	–	**60**	–
Other short-term loans	Various	**16**	–	**16**	–
£161 million Eurobond	Jan 2017	**–**	161	**–**	162
Loans due in more than one year					
Bilateral loan facility	Jun 2018	**–**	100	**–**	100
€600 million Eurobond	Sept 2022	**529**	508	**560**	529
€500 million Eurobond	Dec 2023	**444**	427	**461**	431
Other long-term loans	Various	**9**	–	**9**	–
		1,058	1,196	**1,106**	1,222

Finance leases
At 31 December 2017, the Group had no finance lease liabilities (2016: £4 million due in one year or less).

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs continued

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. 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:

	2017 – post-tax profit	**2017 – equity**	2016 – post-tax profit	2016 – equity
US dollar	**£1 million**	**£23 million**	£3 million	£32 million
Euro	**£3 million**	**£17 million**	£10 million	£11 million

The Group's sensitivity to translation risk for revenue and adjusted EBITA is disclosed in the Finance Review on page 34. 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 2017, the Group's fixed rate debt represented 92% of total gross debt (2016: 92%). Consequently, a 1% movement in interest rates on floating rate debt would impact the 2017 post-tax profit for the year by less than £1 million (2016: £2 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.

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs continued

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 2017	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	**4**	**(1)**
Foreign exchange forward contracts and swaps – fair value through profit or loss	**2**	**(1)**
Non-current		
Cross-currency interest swaps – cash flow hedges	**10**	**–**
Foreign exchange forward contracts and swaps – cash flow hedges	**–**	**(1)**
	16	**(3)**

At 31 December 2016	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	6	(1)
Foreign exchange forward contracts and swaps – fair value through profit or loss	2	(2)
Non-current		
Cross-currency interest swaps – cash flow hedges	–	(6)
Foreign exchange forward contracts and swaps – cash flow hedges	1	(3)
	9	(12)

Cash flow hedges

The Group 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 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 (2016: £1 million) ineffectiveness taken to the income statement and £20 million cumulative gain (2016: £5 million gain) recycled to the income statement in the year.

On issuing the 2023 Eurobond, the Group entered into a portfolio of cross-currency interest rate swaps, which swapped the euro principal and fixed rate coupons into sterling. As a result, the Group makes sterling interest payments at a fixed rate.

Net investment hedges

The Group uses euro denominated debt to partially 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 £177 million (2016: £168 million). A foreign exchange loss of £6 million (2016: £21 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 2017	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	**(1,058)**	**(1,171)**	(97)	(21)	(595)	(458)
Trade and other payables	**(1,021)**	**(1,021)**	(953)	(47)	(16)	(5)
Other payables – non-current	**(21)**	**(21)**	–	(19)	(1)	(1)
Other payables – commitments on acquisitions	**(161)**	**(292)** *	(78)	(19)	(190)	(5)
Derivative financial instruments						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	**4**	**206**	148	58	–	–
Outflow	**(2)**	**(204)**	(146)	(58)	–	–
Cross-currency swaps – cash flow hedges						
Inflow	**10**	**557**	11	11	32	503
Outflow	**–**	**(513)**	(15)	(15)	(44)	(439)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	**2**	**136**	124	7	5	–
Outflow	**(1)**	**(135)**	(123)	(7)	(5)	–
	(2,248)	**(2,458)**	(1,129)	(110)	(814)	(405)

At 31 December 2016	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	(1,196)	(1,338)	(194)	(119)	(58)	(967)
Trade and other payables	(912)	(912)	(855)	(48)	(8)	(1)
Other payables – non-current	(11)	(11)	–	(6)	(4)	(1)
Other payables – commitments on acquisitions	(158)	(328) *	(122)	(56)	(150)	–
Derivative financial instruments						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	7	213	127	86	–	–
Outflow	(4)	(210)	(123)	(87)	–	–
Cross-currency swaps – cash flow hedges						
Inflow	–	497	10	10	30	447
Outflow	(6)	(542)	(17)	(17)	(51)	(457)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	263	263	258	5	–	–
Outflow	(263)	(263)	(258)	(5)	–	–
Interest rate swaps – fair value through profit or loss						
Inflow	–	13	13	–	–	–
Outflow	–	(6)	(6)	–	–	–
	(2,280)	(2,624)	(1,167)	(237)	(241)	(979)

* Undiscounted expected future payments depending on performance of acquisitions; the total maximum consideration is discussed in the Finance Review.

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs continued

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 buy-backs, 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 and finance leases, unwinding of the discount on provisions, unwinding of the discount on liabilities to non-controlling interest, foreign exchange gains/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:

	2017 £m	2016 £m
Financing income:		
Interest income	**4**	2
	4	2
Financing costs:		
Interest expense on financial liabilities measured at amortised cost	**(30)**	(25)
Net pension interest (see note 3.7)	**(9)**	(5)
Change in fair value of instruments classified at fair value through profit or loss	**–**	(1)
Foreign exchange loss	**(3)**	(8)
Other finance expense	**(12)**	(14)
	(54)	(53)
Net financing costs	**(50)**	(51)

Interest on financial liabilities relates to the interest incurred on the Group's borrowings in the year.

Other finance expense includes the amortisation of facility commitment and upfront fees as well as movements in the estimated value of acquisition-related contingent liabilities, which contributed to most of the 2017 expense. 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, that 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 2017 £m	Level 1 31 December 2017 £m	Level 2 31 December 2017 £m	Level 3 31 December 2017 £m
Assets measured at fair value				
Available-for-sale financial instruments				
Other pension assets – gilts (see note 3.7)	38	38	–	–
Available-for-sale investments (see note 3.5)	4	–	–	4
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	2	–	2	–
Financial assets at fair value through reserves				
Cash flow hedges	14	–	14	–
	58	38	16	4

	Fair value 31 December 2017 £m	Level 1 31 December 2017 £m	Level 2 31 December 2017 £m	Level 3 31 December 2017 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts and swaps	(1)	–	(1)	–
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	(73)	–	–	(73)
Financial liabilities at fair value through reserves				
Cash flow hedges	(2)	–	(2)	–
	(76)	–	(3)	(73)

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs continued

	Fair value 31 December 2016 £m	Level 1 31 December 2016 £m	Level 2 31 December 2016 £m	Level 3 31 December 2016 £m
Assets measured at fair value				
Available-for-sale financial instruments				
Other pension assets – gilts (see note 3.7)	39	39	–	–
Available-for-sale investments (see note 3.5)	12	–	–	12
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	2	–	2	–
Financial assets at fair value through reserves				
Cash flow hedges	7	–	7	–
	60	39	9	12

	Fair value 31 December 2016 £m	Level 1 31 December 2016 £m	Level 2 31 December 2016 £m	Level 3 31 December 2016 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Contingent consideration	(1)	–	–	(1)
Foreign exchange forward contracts and swaps	(3)	–	(3)	–
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	(48)	–	–	(48)
Financial liabilities at fair value through reserves				
Cash flow hedges	(9)	–	(9)	–
	(61)	–	(12)	(49)

Refer to note 4.3 for how we value interest rate swaps and forward foreign currency contracts. The available-for-sale investments are valued at cost and assessed for impairment.

Acquisition-related liabilities are valued based on the forecast performance of each acquisition and where there has been a change in expectations, the Group adjusts the value of future commitments.

4.6 Equity

Keeping it simple

This section explains material movements recorded in shareholders' equity, presented in the Consolidated Statement in Changes in Equity, that are not explained elsewhere in the financial statements.

Accounting policies

Available-for-sale reserve
Available-for-sale assets are stated at fair value, with any gain or loss recognised directly in the available-for-sale 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.

4.6.1 Share capital and share premium
The Group's share capital at 31 December 2017 of £403 million (2016: £403 million) and share premium of £174 million (2016: £174 million) is the same as that of ITV plc. Details of this are given in the ITV plc Company financial statements section of this Annual Report.

4.6.2 Merger and other reserves
Merger and other reserves at 31 December include the following reserves:

	2017 £m	2016 £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	**(49)**	(27)
Total	**199**	221

4.6.3 Translation reserve
The translation reserve comprises:

- All foreign exchange differences arising on the translation of the accounts of, and investments in, foreign operations; and
- The gains or losses on the portion of cash flow hedges that have been deemed effective (see note 4.3).

4.6.4 Available-for-sale reserve
The available-for-sale reserve comprises all movements arising on the revaluation of gilts accounted for as available-for-sale financial instruments (see note 3.7).

4.6.5 Retained earnings
The retained earnings reserve comprises profit for the year attributable to owners of the Company of £409 million (2016: £448 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 4.7.

The distributable reserves of ITV plc are disclosed in note viii to the ITV plc Company financial statements. See details on distributable reserves on page 124.

The Directors of ITV plc propose a final dividend of 5.28p per share, which equates to a full year dividend of 7.8p per share. In 2017, £494 million of dividend payments were made (2016: £663 million).

4.6.6 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 £4 million (2016: £4 million);
- The distributions made to NCI of £4 million (2016: £4 million);
- The share of net assets attributable to NCI relating to subsidiaries acquired or disposed of in the year of £25 million (2016: nil); and
- A £13 million write-down of the NCI held in Gurney Productions LLC, as a result of the treatment of the subsidiary as if it would have been wound down. See note 3.3 for further information.

4.7 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.

A description of each type of share-based payment arrangement that existed at any time during the period is set out in the Annual Remuneration Report.

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. The estimate is then used to determine the option fair value, discounted to present value. The Group 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.

Share-based compensation charges totalled £12 million in 2017 (2016: £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:

	2017 Number of options ('000)	2017 Weighted average exercise price (pence)	2016 Number of options ('000)	2016 Weighted average exercise price (pence)
Outstanding at 1 January	**36,533**	**67.86**	40,167	55.63
Granted during the year – nil priced	**7,996**	**144.10**	7,351	–
Granted during the year – other	**7,911**	**–**	8,002	167.62
Forfeited during the year	**(5,614)**	**121.37**	(255)	151.17
Exercised during the year	**(9,883)**	**44.87**	(12,293)	28.81
Expired during the year	**(788)**	**–**	(6,439)	109.25
Outstanding at 31 December	**36,155**	**69.17**	36,533	67.86
Exercisable at 31 December	**2,808**	**–**	83	–

The average share price during 2017 was 185.15 pence (2016: 209.91 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)	2017 Weighted average exercise price (pence)	2017 Number of options ('000)	2017 Weighted average remaining contractual life (years)	2016 Weighted average exercise price (pence)	2016 Number of options ('000)	2016 Weighted average remaining contractual life (years)
Nil	**–**	**20,417**	**1.65**	–	21,531	1.89
20.00 – 49.99	**–**	**–**	**–**	–	–	–
50.00 – 69.99	**66.60**	**34**	**–**	67.71	505	0.91
70.00 – 99.99	**–**	**–**	**–**	–	–	–
100.00 – 109.99	**–**	**–**	**–**	102.59	185	1.92
110.00 – 119.99	**–**	**–**	**–**	–	–	–
120.00 – 149.99	**138.99**	**5,672**	**3.06**	131.44	193	2.16
150.00 – 199.99	**168.21**	**9,447**	**1.39**	167.37	13,251	1.87
200.00 – 249.99	**206.83**	**585**	**0.39**	206.83	891	1.41

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 SAYE scheme, an 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 2016	243.30	187.79	25.00	3.25	3.00	0.41	56.64
5 Year	29 March 2016	243.30	187.79	29.00	5.25	3.00	0.73	65.94
3 Year	16 Sept 2016	195.40	157.46	30.00	3.25	3.00	0.41	46.97
5 Year	16 Sept 2016	195.40	157.46	31.00	5.25	3.00	0.73	52.15
3 Year	29 March 2017	218.90	164.22	30.02	3.25	3.00	0.58	58.50
5 Year	29 March 2017	218.90	164.22	28.61	5.25	3.00	1.28	60.36
3 Year	16 Sept 2017	156.20	138.99	29.35	3.25	3.00	0.51	30.80
5 Year	16 Sept 2017	156.20	138.99	28.55	5.25	3.00	1.12	33.88

Notes to the Financial Statements
Section 5: Other Notes

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 statements and primarily consist of the EBT's purchases of shares in ITV plc, which are 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 2017 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 2017	14,410,124	1,438,557
LTIP releases		(1,727,421)	
DSA releases		(1,942,485)	
PSP releases		(2,399,709)	
SAYE releases		(2,415,665)	
Shares purchased		21,064,677	
	31 December 2017	**26,989,521**	**2,698,952**

The total number of shares held by the EBT at 31 December 2017 represents 0.67% (2016: 0.36%) of ITV's issued share capital. The market value of own shares held at 31 December 2017 is £45 million (2016: £30 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.

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 statements 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:

	2017 £m	2016 £m
Sales to joint ventures	**15**	8
Sales to associated undertakings	**10**	10
Purchases from joint ventures	**28**	26
Purchases from associated undertakings	**70**	70

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:

	2017 £m	2016 £m
Amounts owed by joint ventures	**6**	–
Amounts owed by associated undertakings	**6**	57
Amounts owed to joint ventures	**–**	–
Amounts owed to associated undertakings	**4**	–

Amounts owed by joint ventures primarily relate to trading with BritBox LLC. Balances owed by associated under takings largely relate to loan notes and trading balances with Monumental TV 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:

	2017 £m	2016 £m
Short-term employee benefits	**10**	8
Share-based compensation	**1**	2
	11	10

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 a breach of the agreement by the customer, Talent, for not fulfilling their payment obligations. The Group is pursuing Talent vigorously for the £30 million still due under the agreement. Further, the Group has credit insurance in place and a claim has been submitted.

Whilst the Directors are confident of recovering the amount due, accounting standards set very specific requirements for the recognition of contingent assets, which is how the recovery of the amount due has been accounted for. As discussions with the insurers and the claim against Talent are still in progress, at this early stage of pursuing recovery the Group is not able to demonstrate sufficient certainty to be able to recognise a cash receivable at the year end. See note 2.2 for further details.

Contingent liabilities
The Group has initiated legal proceedings against the minority owners of Gurney Productions LLC for alleged breaches of contracts and their fiduciary duties, as well as self-dealing and fraudulent concealment. The minority owners dispute the allegations and they have counter-claimed for damages of at least $150 million. The action is ongoing and, having taken legal advice, the Directors believe this counter-claim is completely without merit.

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.

Notes to the Financial Statements
Section 5: Other Notes continued

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 Companies Act s479A.

Company number	Company name	Company number	Company name
10058419	Back Productions Limited	10171346	BGSS Limited
10404493	Big Talk Bliss Limited	10496857	Big Talk Cold Feet Limited
10528766	Big Talk Diana Limited	11081338	Big Talk Guilty Limited
10528952	Big Talk Living the Dream Limited	11109753	Big Talk NEWCO 1 Limited
11109865	Big Talk NEWCO 2 Limited	11109572	Big Talk NEWCO 3 Limited
11109596	Big Talk NEWCO 4 Limited	01891539	Broad Street Films Limited
02285229	Campania Limited	05078683	Carbon Media Limited
04159249	Carlton Content Holdings Limited	00301188	Carlton Film Distributors Limited
01692483	Carlton Finance Limited	03984490	Carlton Food Network Limited
03053908	Carlton Programmes Development Limited	03210452	Carlton Screen Advertising (Holdings) Limited
03307790	Carltonco 103	02625225	Carltonco Forty Investments
03210363	Carltonco Ninety-Six	02280048	Castlefield Properties Limited
04257248	Channel Television Holdings Limited	02852812	Cosgrove Hall Films Limited
03209058	DTV Limited	00913659	Granada Film Limited
00290076	Granada Group Limited	03962410	Granada Limited
03106798	Granada Media Limited	05344772	Granada Screen (2005) Limited
00733063	Granada Television Overseas Limited	06914987	ITV (HC) Limited
10384774	ITV Bancroft Limited	04206924	ITV Beowulf Limited
01127149	ITV Breathless Limited	04209918	ITV Cilla Limited
04206900	ITV Cradle Limited	10602705	ITV CS Limited
10058008	ITV Dark Heart Limited	10494684	ITV Enterprises Limited
10671435	ITV HG Limited	04159210	ITV Holdings Limited
04207680	ITV Home Fires Limited	04206925	ITV Investments Limited
04206912	ITV J&H Limited	04206871	ITV Jericho Limited
04206927	ITV JR Limited	11107681	ITV Leila Limited
08723446	ITV Lewis Limited	10031419	ITV Little Boy Blue Limited
10058180	ITV Loch Ness Limited	08534385	ITV Lucan Limited
04206935	ITV Moorside Limited	04033106	ITV Mr Selfridge Limited
03799828	ITV Play Limited	01565625	ITV Properties (Developments) Limited
08554937	ITV Shetland Limited	04206897	ITV Spirit Limited
11107990	ITV Studios NEWCO 11	11108813	ITV Studios NEWCO 12
10031818	ITV T&B Limited	09499040	ITV Tennison Limited
08516153	ITV Text Santa Limited	11107934	ITV The Bay Limited
08586211	ITV Thunderbirds Limited	09498177	ITV Top Class Limited
10384819	ITV Trauma Limited	09499012	ITV Tut Limited
11107431	ITV Vera Limited	05518785	Juice Music UK Limited
00920028	Link Electronics Limited	11108285	Mammoth Screen (ABC) Limited
10528851	Mammoth Screen (City) Limited	10528827	Mammoth Screen (END5) Limited
11109917	Mammoth Screen (END6) Limited	11062257	Mammoth Screen (NC) Limited
11108327	Mammoth Screen (DESIRE) Limited	10491117	Mammoth Screen (NOK) Limited
10062923	Mammoth Screen (NW) Limited	10646873	Mammoth Screen (OBI) Limited
09660486	Mammoth Screen (POL2) Limited	10031005	Mammoth Screen (POL3) Limited
10528763	Mammoth Screen (POL4) Limited	11108289	Mammoth Screen (POL5) Limited
09646520	Mammoth Screen (QV) Limited	10528702	Mammoth Screen (VF) Limited
11108322	Mammoth Screen (VIC3) Limited	10043079	Mammoth Screen (WFTP) Limited
11108320	Mammoth Screen (WOF) Limited	10973979	Mammoth Screen (WOTW) Limited
04201477	Morning TV Limited	04206913	SOM (ITV) Limited
06469484	VOD Member (ITV A) Limited	06469482	VOD Member (ITV B) Limited
10796122	WP (BodyGuard) Limited	11109287	WP (NEWCO 1) Limited
11109744	WP (NEWCO 2) Limited	11109437	WP (NEWCO 3) Limited
11109929	WP (NEWCO 4) Limited		

ITV plc Company Financial Statements

Company Balance Sheet

As at 31 December	Note	2017 £m	2017 £m	2016 £m	2016 £m
Non-current assets					
Investments in subsidiary undertakings	iii		**2,191**		1,861
Derivative financial instruments	vi		**11**		4
Deferred tax asset			**1**		2
			2,203		1,867
Current assets					
Amounts owed by subsidiary undertakings	iv	**4,230**		4,066	
Derivative financial instruments	vi	**7**		10	
Other receivables		**5**		19	
Cash and cash equivalents		**17**		438	
		4,259		4,533	
Current liabilities					
Borrowings	v	**(60)**		(161)	
Amounts owed to subsidiary undertakings	iv	**(3,237)**		(2,856)	
Accruals and deferred income		**(8)**		(22)	
Current tax liabilities		**(2)**		–	
Derivative financial instruments	vi	**(7)**		(10)	
		(3,314)		(3,049)	
Net current assets			**945**		1,484
Total assets less current liabilities			**3,148**		3,351
Non-current liabilities					
Borrowings	v	**(973)**		(1,035)	
Derivative financial instruments	vi	**(1)**		(9)	
		(974)		(1,044)	
Net assets			**2,174**		2,307
Capital and reserves					
Share capital	vii		**403**		403
Share premium	viii		**174**		174
Other reserves	viii		**26**		28
Retained earnings	viii		**1,571**		1,702
Total equity			**2,174**		2,307

The accounts were approved by the Board of Directors on 28 February 2018 and were signed on its behalf by:

Ian Griffiths
Director

ITV plc Company Financial Statements continued

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 2017		403	174	28	1,702	2,307
Total comprehensive income for the year						
Profit		–	–	–	351	351
Net loss on cash flow hedges		–	–	(2)	–	(2)
Total comprehensive income for the year		**–**	**–**	**(2)**	**351**	**349**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Equity dividends		–	–	–	(494)	(494)
Movements due to share-based compensation		–	–	–	12	12
Total transactions with owners		–	–	–	(482)	(482)
Balance at 31 December 2017	vii/viii	**403**	**174**	**26**	**1,571**	**2,174**

	Note	Share Capital £m	Share Premium £m	Other Reserves £m	Retained Earnings £m	Total £m
Balance at 1 January 2016		403	174	36	880	1,493
Total comprehensive income for the year						
Profit		–	–	–	1,475	1,475
Net loss on cash flow hedges		–	–	(8)	–	(8)
Total comprehensive income for the year		–	–	(8)	1,475	1,467
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Equity dividends		–	–	–	(663)	(663)
Movements due to share-based compensation		–	–	–	10	10
Total transactions with owners		–	–	–	(653)	(653)
Balance at 31 December 2016	vii/viii	403	174	28	1,702	2,307

Notes to the ITV plc Company Financial Statements

Note i Accounting policies

In this section

This section sets out the notes to the ITV plc Company only financial statements. Those statements form the basis of the dividend decisions made by the Directors, as explained in detail in note viii below. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 statements.

Exemptions applied

The Company is taking advantage of the following disclosure exemptions under FRS 101:

- Presentation of a Statement of Cash Flows;
- Disclosure of key management personnel compensation;
- 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'; and
- 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.

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 recharged to 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 statements.

Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

Note ii Employees and share-based payments

Two (2016: two) Directors of ITV plc were employees of the Company during the year, one of whom remains 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 44.87p (2016: 55.33p). The options outstanding at the year end have an exercise price in the range of nil to 206.83p (2016: nil to 206.83p) and a weighted average contractual life of two years (2016: one year) for all the schemes in place for the Group.

Note iii Investments in subsidiary undertakings

The principal subsidiary undertakings are listed on page 184 of the Annual Report. The carrying value at 31 December 2017 was £2,191 million (2016: £1,861 million).

In 2017, the Company increased investment in subsidiaries by £330 million mainly due to subscribing to preference shares in a newly formed subsidiary in Ireland, North America Studio Investments Designated Activity Company.

Note iv Amounts owed (to)/from subsidiary undertakings

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 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.

Note v Borrowings

Keeping it simple

The Directors manage the Group's capital structure as disclosed in section 4 to the consolidated financial statements. Borrowings, cash and derivative financial instruments are mainly held by ITV plc and disclosed in these Company financial statements.

Loans and facilities due within one year

At various periods during the year, the Group drew down on the Revolving Credit Facility ('RCF') to meet short-term funding requirements. At 31 December 2017, the Group had drawings of £60 million under the RCF (2016: £nil). The maximum draw down of the RCF during the year was £390 million (2016: £500 million).

The Group also had an unsecured £161 million Eurobond that matured in January 2017 and had a coupon of 6.125%.

Loans and loan notes due after one year

The Group had a £100 million bilateral loan facility, which was repaid in full in June 2017.

The Group has issued the following Eurobonds:

- A seven-year €600 million Eurobond at a fixed coupon of 2.125%, which matures in September 2022; and
- A seven-year €500 million Eurobond at a fixed coupon of 2.0%, which will mature in December 2023. The bond issued in December 2016 has been swapped back to sterling using a cross currency interest swap. The resulting fixed rate payable is c. 3.5%.

Notes to the ITV plc Company Financial Statements continued

Note vi Managing market risks: derivative financial instruments

What is the value of our derivative financial instruments?

	Assets 2017 £m	Liabilities 2017 £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	**5**	**(5)**
Foreign exchange forward contracts and swaps – fair value through profit or loss	**2**	**(2)**
Non-current		
Cross-currency interest swaps – cash flow hedges	**10**	**–**
Foreign exchange forward contracts and swaps – cash flow hedges	**1**	**(1)**
	18	**(8)**

	Assets 2016 £m	Liabilities 2016 £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	7	(7)
Foreign exchange forward contracts and swaps – fair value through profit or loss	3	(3)
Non-current		
Cross-currency interest swaps – cash flow hedges	–	(6)
Foreign exchange forward contracts and swaps – cash flow hedges	4	(3)
	14	(19)

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.

Cash flow hedges

The Group applies hedge accounting for certain foreign currency firm commitments and highly probably cash flows where the underlying cash flows are payable within the next two to seven years. In order to fix the sterling cash inflows and 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 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 no (2016: less than £1 million) ineffectiveness taken to the income statement and £17 million cumulative gain (2016: £2 million) recycled to the income statement in the year.

Cross-currency interest rate swaps

On issuing the 2023 Eurobond, the Group entered into a portfolio of cross-currency interest rate swaps, which swapped the euro principal and fixed rate coupons into sterling. As a result, the Group makes sterling interest payments at a fixed rate.

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 2017	**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	**6**	**206**	148	58	–	–
Outflow	**(6)**	**(204)**	(146)	(58)	–	–
Cross-currency swaps – cash flow hedges						
Inflow	**10**	**557**	11	11	32	503
Outflow	**–**	**(513)**	(15)	(15)	(44)	(439)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	**2**	**119**	107	7	5	–
Outflow	**(2)**	**(118)**	(106)	(7)	(5)	–
	10	**47**	(1)	(4)	(12)	64

At 31 December 2016	**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	11	393	237	156	–	–
Outflow	(10)	(392)	(237)	(155)	–	–
Cross-currency swaps – cash flow hedges						
Inflow	–	497	10	10	30	447
Outflow	(6)	(542)	(17)	(17)	(51)	(457)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	412	412	402	10	–	–
Outflow	(412)	(412)	(402)	(10)	–	–
Interest rate swaps – fair value through profit or loss						
Inflow	–	13	13	–	–	–
Outflow	–	(6)	(6)	–	–	–
	(5)	(37)	–	(6)	(21)	(10)

Notes to the ITV plc Company Financial Statements continued

Note vii Share capital

		Authorised 2017 & 2016 £m	Allotted, issued and fully paid 2017 & 2016 £m
Authorised ordinary shares of 10 pence each	8,000,000,000	800	
Allotted, issued and fully paid ordinary shares of 10 pence each	4,025,409,194		403
Total		**800**	**403**

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 Group'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 on pages 37 to 43 that could have a negative impact on the performance of the Group.

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, 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 statements); and
- Future cash commitments and investment plans, in line with Group's strategic plan.

Equity

The retained earnings reserve includes profit after tax for the year of £351 million (2016: £1,475 million), which includes dividends of £426 million from subsidiaries in 2017 (2016: £1,500 million). Other reserves of £26 million (2016: £28 million) relate to share buy-backs in prior periods and foreign currency translation net of cash flow hedging.

Dividends

The Directors of the Company propose a final dividend of 5.28p per share, which equates to a full year dividend of 7.8p per share.

Distributable reserves

The distributable reserves of ITV plc approximate to the balance of the retained earnings reserve of £1,571 million (2016: £1,702 million) as at 31 December 2017.

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 2017 of £45 million (31 December 2016: £47 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.

There are no capital commitments at 31 December 2017 (2016: 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 statements 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:

	2017 £m	2016 £m
Short-term employee benefits	**4**	3
Share-based compensation	**–**	2
	4	5

Total emoluments and gains on share options received by key management personnel in the year were:

	2017 £m	2016 £m
Emoluments	**2**	3
Gains on exercise of share options	**1**	2
Gains on release of restricted share awards	**2**	2
	5	7