

ITV Broadcasting Limited

Strategic Report for the Year Ended 31 December 2020

The Directors present their Strategic Report for the year ended 31 December 2020.

Principal activity

The Company's principal activity during the period was the provision of the regional ITV television service under the Channel 3 (as defined in the Broadcasting Act 1990, the Broadcasting Act 1996 and the Communications Act 2003 (together "the Acts")) licences granted by Ofcom. The Company is the principal operating subsidiary of the Group's UK television business, selling commercial airtime and sponsorship, producing broadcasting schedules and operating a full range of broadcaster functions for itself, ITV Rights Limited and in some cases for non-ITV controlled Channel 3 licensees.

The Company's regional Channel 3 licences were renewed by Ofcom in February 2014 for a further period of ten years to December 2024.

Fair review of the business

The company has revenue for the year of £1,102,577,000 (2019: £1,275,112,000). The results for the Company show a profit before tax for the year of £65,884,000 (2019: £239,024,000). At the statement of financial position date the Company had net assets of £448,194,000 (2019: £393,171,000).

Key factors behind the movement in profit include a £172,535,000 reduction in revenue, especially around advertising with the economic uncertainty caused by the Covid-19 pandemic, and a £164,921,000 decrease in dividend income received by the Company. The Company also carried out a review of its satellite transponder capacity relating to the carriage of its channels which resulted in an exceptional cost in the year of £19,545,000 due to a provision being made for onerous commitments for excess capacity. This has been partly offset by a £174,035,000 saving in other expenses as the Company has looked to mitigate the loss of revenue by reducing expenditure, particularly in relation to programme schedule costs.

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KPIs

In October 2020, the Group announced a restructure of its Broadcast segment to better reflect and serve the changing viewing habits. As part of the restructure, which came into effect from 1 April 2021, Broadcast has been renamed Media & Entertainment ('M&E') with two business streams. These are Broadcast, which includes the ITV linear channels and Streaming, which focuses on digital products such as the ITV Hub+, Britbox and other direct to consumer revenues.

The Directors of the ITV plc Group manage the Group's operations on a divisional basis with this Company being included within the Broadcast (M&E) division. For this reason, the Company's Directors use the ITV plc Group Broadcast (M&E) division's operating and performance review in managing and understanding the development, performance and position of the Company. The operating and performance review is included on pages 28 to 41 of ITV plc's 2020 annual report.

Further to the divisional key performance indicators, the Directors would consider the key financial performance indicators of the Company during the year to include;

- Revenues which were down 13.5% in the year to £1,102,577,000 (2019: £1,275,112,000). Total advertising revenue (TAR) of £984,774,000 (2019: £1,137,321,000) was down 13.4% in the year with the decline reflecting the challenging market caused by Covid-19 and changing viewing habits. Other revenue of £113,027,000 (2019: £129,435,000) was down 12.7% in the year, with the impact of Covid-19 leading to the cancellation of sport events and resulting in lower revenues from programme production.

- Share of viewing of 15.66% for the ITV main channel was down 0.12 percentage points compared with the previous year (2019: 15.78%) reflecting a decline in the overall market. On-screen viewing in 2020 benefited from lockdown restrictions in the UK, with more people at home watching linear television. Coronation Street and Emmerdale maintained their position as the UK's two largest soaps, with Coronation Street increasing its audience year-on-year. We successfully aired a range of new programmes, including four of the top five most-watched new dramas such as Des - ITV's biggest new drama ever, White House Farm and Van Der Valk; new entertainment shows, including The Masked Singer and Beat The Chasers - the two biggest new entertainment series launches in 13 years; and successful factual entertainment, including; Bradley Walsh & Son: Breaking Dad, Gordon, Gino and Fred: Road Trip, and Long Lost Family: Born Without A Trace. We continue to drive significant audiences with our returning brands such as The Voice, Britain's Got Talent, and I'm A Celebrity...Get Me Out Of Here! - which was the most watched entertainment series of the year. Our news programming performed well, viewing was however impacted by the decision to cancel or postpone the majority of sporting tournaments and live entertainment shows including the European Football Championships and horse racing. The delay in delivery of a number of programmes, particularly scripted, arising from the pause in production in ITV Studios and other indies also had an impact on viewing.

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Section 172 (1) Statement - Directors Statement in performance of their duties under section 172(1)

The Board of ITV plc are responsible for governance and oversight across the ITV Group and the duties under Section 172(1) of the Companies Act 2006 ('s172') in respect of ITV plc. As ITV Broadcasting Limited (the 'Company') is part of the ITV Group, its directors (the "Directors") believe that certain matters they are responsible for under s172 in respect of the Company have been considered to an appropriate extent by the Board of ITV plc in relation both to the ITV Group and the Company and reference to this is made below.

The Directors are all members of the Broadcast Divisional board (now the Media and Entertainment Board) that met five times during the year to consider and approve matters that relate directly to the Company and its subsidiaries. During 2020 the challenges arising from the COVID-19 pandemic required the Directors to act swiftly and approve measures to increase the resilience of the Company and its subsidiaries, and protect the interest of all stakeholders. To the extent necessary for an understanding of the development, performance and position of the Company, an explanation of how the Directors have specifically considered the matters set out in s172 is set out below:

- **The long term:** The Directors are fully cognisant of the evolving competitor and viewer landscape in which the Company operates. The long-term strategy is to transform the Broadcast business to ensure ITV can address the opportunities and challenges of this structural change by building more strategic and creative partnerships with its advertisers and continue to drive the mass audiences that remain highly valuable to them. In light of the challenges created by COVID-19 it was concluded that the strategy remained the right one although the business would increase the pace of execution. Consequently the Broadcast business was restructured to create the Media and Entertainment division with two business units - Broadcast and On-Demand - to better reflect and serve changes in viewer habits. The Broadcast business is focused on the linear channels, whilst On-Demand is focussed on the AVOD and SVOD businesses. This will ensure the business can better address the opportunities and challenges of structural change and provide a strong, branded and data rich relationship with the viewers and advertisers. Additionally, the Directors keep both the expiry of the Public Service Broadcasting licence in 2024, and the impact of the Government's proposed HFSS food and drink advertising restrictions under close review. The Company has continued to have open dialogue with both the regulator Ofcom and the Government on both issues.

- **Employees:** The Directors know that the workforce are key to the Company's success and are dedicated to nurturing an inclusive working environment where everyone can reach their full potential and thrive. As the Company is embedded within the ITV Group governance structure it is fully aligned with ITV on workforce engagement and through the divisional board meetings the Directors are consulted on and approve the HR related policies and initiatives that affect their employees. The Directors recognised the economic uncertainty caused by COVID-19 and the impact this had on the Company's employees in respect of financial security, mental and physical wellbeing. Extra measures were taken to ensure there were regular communications and access to programmes that support the wellbeing of employees, especially when working from home. An explanation of how ITV plc have engaged with the workforce and taken them into consideration through its discussions and decision-making is set out on page 102 of ITV plc's 2020 annual report. Further information on ITV's commitment to its workforce is set out on pages 50 to 51 of ITV plc's 2020 annual report, which does not form part of this report.

- **Business relationships - suppliers, customers:** The Directors are committed to fostering good working business relationships with their key stakeholders which include viewers, advertisers and citizens, legislators and regulators. The Directors recognise that an understanding of the issues relating to these stakeholders is fundamental to building and maintaining the successful relationships, enabling the Company to take advantage of the strong and mutually beneficial opportunities needed to ensure the success of the Company. As the Company is fully embedded within the ITV Group governance structure, the Directors seek to align themselves with ITV plc's engagement mechanisms and an explanation of how the Directors of ITV plc have had regard to the need to foster the Company's business relationships in the context of the significant financial and economic uncertainty caused by COVID-19 and Brexit are set out on page 97 to 102 of ITV plc's 2020 annual report which does not form a part of this report, with detail on viewers set out on page 97, advertisers on page 98, citizens on page 99, legislators and regulators on page 100.

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• **Community & environment:** Directors have regard to role the Company's platforms play in driving change by reflecting and shaping culture onscreen. During the year better mental and physical health were the focus for major behaviour change campaigns. Through the Broadcast and now the Media and Entertainment boards the directors regularly review progress against environmental targets (quarterly) and against diversity targets (bi-annually). The Directors also consider that as a result of being embedded within the ITV Group governance structure, the Directors of ITV plc have taken the lead in carrying out the duties in respect of the community, wider environmental issues and diversity and inclusion targets. Further information on ITV's Social Purpose strategy and 2020 initiatives that were influenced by the COVID-19 pandemic - structured around better health, diversity and inclusion, environment and giving back targets - is set out on page 99 and pages 42 to 49 of ITV plc's 2020 annual report, which does not form a part of this report.

• **High standards of business conduct:** The Directors' intention is to ensure that the Company and its subsidiaries operate in an ethical and responsible way. As a part of the ITV Group, they recognise that a healthy corporate culture is the cornerstone to ensuring high standards of business conduct and governance that also pervade business dealings with stakeholders outside of the organisation. The Directors consider that as a result of being embedded within the ITV Group governance structure, the Directors of ITV plc have taken the lead in promoting these facets and details on how it monitored and assessed culture during the year is set out on page 105 in ITV plc's 2020 annual report, which does not form a part of this report. ITV's commitment to high standards of business conduct is also enshrined in the Code of Ethics and Conduct available on the ITV plc website. ITV's culture also pervades its business dealings with stakeholders outside of the organisation, as exemplified by its work with suppliers in relation to modern slavery and membership of the Prompt Payment Code.

Principal risks and uncertainties

The key business risks and uncertainties that affected the Company are considered to relate to the erosion of television's share of advertising, the historic trend of decline in audience as competition from other commercial channels increases, the impact of the contract rights renewals remedy and the retention of key staff. Further discussion of these risks and uncertainties, in the context of the group as whole, is provided on pages 72 to 87 of the Group's 2021 annual report.

A comprehensive strategic review of the Company's strategy, outlining the development, performance and position of the Company's business can be found in the Strategic Report of the group in the ITV plc Annual Report. The Annual Report of ITV plc is available to the public and may be obtained from www.itvplc.com or the Company Secretary, 2 Waterhouse Square, 140 Holborn, London, EC1N 2AE.

Approved by the Board on 28/03/2022 and signed on its behalf by:



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Sarah Clarke
Director