

Registration number: 3101815

ITV Digital Channels Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2022

ITV Digital Channels Limited

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ITV Digital Channels Limited

Strategic Report for the Year Ended 31 December 2022

The Directors present their Strategic Report for the year ended 31 December 2022.

Principal activities

ITV Digital Channels Limited (the "Company") is licensed by Ofcom to broadcast digital programme services in the United Kingdom. The company holds the broadcast licences for the ITV3 and CITV channels.

Fair review of the business

The results for ITV Digital Channels Limited ("the Company") show a profit before tax for the year of £54,589,000 (2021: £53,650,000) At the statement of financial position date, the Company had net assets of £71,331,000 (2021: £243,113,000).

KPIs

The Directors of the ITV plc Group manage the Group's operations on a divisional basis with this Company being included within Media and Entertainment division. For this reason, the Company's Directors use the ITV plc Media and Entertainment division's Operating and Performance Review in managing and understanding the development, performance and position of the Company. The KPI's is included on pages 24 to 27 of ITV plc's 2022 Annual Report.

Future developments

On 10th March 2023, ITV Plc announced the closure of CITV to take place in the autumn of 2023. The directors do not expect this to have a significant impact on the overall business of ITV Digital Channels Limited.

ITV Digital Channels Limited

Strategic Report for the Year Ended 31 December 2022

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 Digital Channels 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 consider and approve relevant matters during the year. 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 and the main focus during the year has been helping to drive ITV's Group strategy to transform the Broadcast business over the longer term. They have considered how to address both the opportunities and challenges of wider structural change on the Company's digital channels and how to continue to drive mass audiences that remain highly valuable to advertisers.

- **Employees:** The Company does not have any employees.

- **Business relationships - suppliers, customers:** The Directors are committed to fostering good working business relationships with their key stakeholders which include viewers, suppliers, advertisers, platform owners, 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 are set out on page 105 - 110 of ITV plc's 2022 annual report which does not form a part of this report, with detail on viewers on page 105, advertisers, suppliers and platform owners on page 106, legislators and regulators on page 108.

- **Community & environment:** The Directors have regard to the impact of the Company's operations on the environment and 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 2022 initiatives - structured around better health, giving back, climate action and diversity and inclusion, environment and giving back targets - is set out on pages 44 to 53 of ITV plc's 2022 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 operates 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 114 in ITV plc's 2022 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.

ITV Digital Channels Limited

Strategic Report for the Year Ended 31 December 2022

Principal risks and uncertainties

The key business risks and uncertainties affecting the Company are considered to relate to the erosion of television's share of advertising, decline in audience as competition from other commercial channels increases and the retention of key staff.

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, ITV White City, 201 Wood Lane, London, W12 7RU.

Approved by the Board on 31/08/2023 and signed on its behalf by:



.....
Sarah Clarke
Director

ITV Digital Channels Limited

Directors' Report for the Year Ended 31 December 2022

The Directors present their report and the audited financial statements for the year ended 31 December 2022.

As permitted by Section 414C (11) of the Companies Act 2006, some matters required to be included in the Directors' Report have instead been included in the Strategic Report as the directors consider they are of strategic importance to the Company.

Directors of the company

The directors, who held office during the year, were as follows:

Kevin Lygo

Sarah Clarke

Directors' liabilities

The Directors benefit from third party insurance provisions in place during the financial year and at the date of this report.

Dividends

The Directors recommend a final dividend payment of £Nil be made in respect of the financial year ended 31 December 2022. During the year the Company paid an interim dividend of £216,000,000 (2021: £Nil).

Going concern

ITV plc has indicated that for at least twelve months from the date of approval of these financial statements, it intends to continue to make available such funds as are needed by the Company for the period covered by the going concern assessment.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operation for at least twelve months from the date of this report. Accordingly, the Company continues to adopt the going concern basis in preparing its financial statements (see note 1).

ITV Digital Channels Limited

Directors' Report for the Year Ended 31 December 2022

Statement of Directors' Responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law).

Under company law, 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 company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Disclosure of information to the auditor

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

Re-appointment of auditor

The external auditor for the 2022 financial year was PricewaterhouseCoopers LLP. The Independent Auditor's Report starting on page 7 sets out the information contained in the Annual Report which has been audited by the external auditor.

The Directors considered the performance and audit fees from the external auditor, and the level of non-audit work undertaken. PricewaterhouseCoopers LLP are deemed to be reappointed as external auditors for a further year.

ITV Digital Channels Limited

Directors' Report for the Year Ended 31 December 2022

Approved by the Board on 31/08/2023 and signed on its behalf by:



.....
Sarah Clarke
Director

Registered office
ITV White City
201 Wood Lane
London
W12 7RU

ITV Digital Channels Limited

Independent auditors' report to the members of ITV Digital Channels Limited

Opinion

In our opinion, ITV Digital Channels Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: Statement of Financial Position as at 31 December 2022; the Income Statement and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

ITV Digital Channels Limited

Independent auditors' report to the members of ITV Digital Channels Limited

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for 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.

In preparing the financial statements, the directors are responsible for assessing the 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

ITV Digital Channels Limited

Independent auditors' report to the members of ITV Digital Channels Limited

Auditors' responsibilities for the audit of the financial statements

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 error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006 and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to specifically the posting of inappropriate journal entries to manipulate financial statements. Audit procedures performed by the engagement team included:

- Enquiry of management around actual and potential fraud and non-compliance with laws and regulations
- Reviewing journal entries posted to identify any unusual account combinations
- Reviewing financial statement disclosures and testing to supporting documentation

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

ITV Digital Channels Limited

Independent auditors' report to the members of ITV Digital Channels Limited

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Other matter

The financial statements for the year ended 31 December 2021, forming the corresponding figures of the financial statements for the year ended 31 December 2022, are unaudited.



Jonathan Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
31 August 2023

ITV Digital Channels Limited

Income Statement for the Year Ended 31 December 2022

	Note	2022 £ 000	2021 £ 000
Revenue	3	86,656	91,794
Other expenses	4	<u>(36,099)</u>	<u>(39,427)</u>
Operating profit		50,557	52,367
Finance income	8	<u>4,032</u>	<u>1,283</u>
Profit before tax		54,589	53,650
Taxation	9	<u>(10,371)</u>	<u>(10,187)</u>
Profit for the financial year		<u>44,218</u>	<u>43,463</u>

The above results were derived from continuing operations.

The Company has no other comprehensive income in the current or previous year.

ITV Digital Channels Limited

(Registration number: 3101815) Statement of Financial Position as at 31 December 2022

	Note	2022 £ 000	2021 £ 000
Non-current assets			
Deferred tax assets	10	32	37
Current assets			
Inventories	11	15,659	20,714
Trade and other receivables	12	85,725	267,546
Contract assets	13	-	24
Cash and cash equivalents	14	-	979
		101,384	289,263
Current liabilities			
Trade and other payables	15	(28,827)	(44,225)
Contract liabilities	13	(353)	(667)
Provisions for liabilities	16	(430)	(390)
		(29,610)	(45,282)
Net current assets		71,774	243,981
Non-current liabilities			
Provisions for liabilities	16	(475)	(905)
Net assets		71,331	243,113
Equity			
Share capital	17	16,237	16,237
Retained earnings		55,094	226,876
Total equity		71,331	243,113

The financial statements on pages 11 to 31 were authorised for issue by the Board of Directors on 31/08/2023 and signed on its behalf by:



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Sarah Clarke
Director

ITV Digital Channels Limited

Statement of Changes in Equity for the Year Ended 31 December 2022

	Share capital £ 000	Retained earnings £ 000	Total equity £ 000
Balance at 1 January 2022	16,237	226,876	243,113
Profit for the year	-	44,218	44,218
Dividends (Note 18)	-	(216,000)	(216,000)
Balance at 31 December 2022	<u>16,237</u>	<u>55,094</u>	<u>71,331</u>

	Share capital £ 000	Retained earnings £ 000	Total equity £ 000
Balance at 1 January 2021	16,237	183,413	199,650
Profit for the year	-	43,463	43,463
Balance at 31 December 2021	<u>16,237</u>	<u>226,876</u>	<u>243,113</u>

The notes on pages 14 to 31 form an integral part of these financial statements.

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

1 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

ITV Digital Channels Limited (the “Company”) is a private company limited by shares incorporated, domiciled and registered in England in the UK. The registered number is 3101815 and the registered address is ITV White City, 201 Wood Lane, London, W12 7RU.

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.

The financial statements have been prepared in accordance with Financial Reporting Standard 101, ‘Reduced Disclosure Framework’ (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

1 Accounting policies (continued)

Summary of disclosure exemptions

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' - comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
 - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 111 (statement of cash flows information); and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

As the consolidated financial statements of ITV plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to apply the reduced disclosure framework of FRS 101 in its next financial statements.

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

1 Accounting policies (continued)

Changes in accounting policy

New standards, interpretations and amendments effective

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2022 that have a material impact on the company's financial statements.

Going Concern

The financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate for the following reasons.

The Company participates in the ITV plc intra-group cash pool arrangement. 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. The Company is therefore dependent on ITV plc for its working capital. The Directors of the Company have no reason to believe that this financial support will not be forthcoming in the event that it is required.

The Directors have prepared a going concern assessment covering a period of 12 months from the date of approval of the financial statements, which indicates that, although current economic conditions continue to create uncertainty, the Company will have sufficient funds through funding from its ultimate parent company, ITV plc, to meet its liabilities as they fall due for that period.

ITV plc has indicated that for at least twelve months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company.

On this basis, and on their assessment of the Company's financial position, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of this report. Accordingly, the Company continues to adopt the going concern basis in preparing its financial statements.

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

1 Accounting policies (continued)

Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when performance obligations have been satisfied and for the Company this is when the goods or services have transferred to the customer and the customer has control of these. The Company's activities are described in detail below. The company bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue, which arises wholly in the United Kingdom, is stated net of VAT.

Customer contracts can have a wide variety of performance obligations, but consist mainly of Net Advertising Revenue (NAR), Sponsorship of programmes and pay TV. For each contract, the performance obligation/(s) are identified and evaluated. The performance obligations under IFRS 15 for each revenue stream are detailed below:

Segment	Major classes of revenue	Payment terms
Total advertising revenue	Net Advertising Revenue (NAR) is generated from selling spot airtime and is recognised at the point of transmission	Received in the month after transmission
Total advertising revenue	Revenue from the sponsorship of programmes across ITV linear channels and online is recognised over the period of transmission	Received prior to transmission
Direct to consumer	Revenue from direct to consumer is generated from subscription channels and is recognised over the term of the contract or per subscriber	Received over the term of the contract
Other revenue	Revenue from 'pay' is generated from the provision of HD channels, and is recognised either over the term of the contract or per subscriber	Received over the term of the contract

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

1 Accounting policies (continued)

Foreign currency transactions and balances

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. All other foreign exchange gains and losses are presented in the income statement within 'Other (expenses)/income'.

Finance income and costs

Finance income and costs comprise interest income on funds invested and interest expense on borrowings. Interest income and expense is recognised as it accrues in profit or loss, using the effective interest method.

Tax

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 transaction. The tax charge comprises both current and deferred tax. The calculation of the Company'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 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 and judgement of the additional taxes that are likely to become due. 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.

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

1 Accounting policies (continued)

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 statement of financial position 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 Company has the right of set-off.

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 Company'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 Company's operating cycle and those liabilities due within one year from the reporting date. All other liabilities are classified as non-current liabilities.

Contract assets and liabilities

Contract assets (accrued income) primarily relate to the Company's right to consideration for work completed but not billed at the reporting date. Production work in progress is treated as a contract asset until the point the programme is completed.

Contract liabilities (deferred income) primarily relate to the consideration received from customers in advance of transferring a good or service.

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

1 Accounting policies (continued)

Inventory

Inventories are stated at the lower of cost and net realisable value. Acquired programme rights (which include films) and sports rights are purchased for the primary purpose of broadcasting on the channels. These are recognised within current assets the earlier of when payments are made or when the rights are ready for exploitation. The Company 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 Company 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 (excluding sports 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 net realisable value is assessed on a portfolio basis unless specific indicators of impairment are identified.

The net realisable value assessment for sports rights is based on the estimated airtime value on the transmission date of the sporting event.

Trade receivables

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 Company provides goods and services to substantially all of its customers on credit terms.

The credit risk management practices of the Company include internal review and reporting of the ageing of trade and other receivables by days past due. The Company applies the IFRS 9 simplified approach in measuring expected credit losses, which use a lifetime expected credit loss allowance for all trade receivables.

To measure expected credit losses, trade receivables are grouped by shared credit risk characteristics and days past due. In addition to the expected credit losses, the Company may make additional provisions for the receivables of particular customers if the deterioration of financial position was observed.

Amounts due (to) / from group undertakings

The Company participates in the intra-group cash pool arrangement with other 100% owned UK subsidiaries of the ITV Group. 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 statement of financial position.

Cash and cash equivalents

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

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

1 Accounting policies (continued)

Trade and other payables

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.

Provisions

A provision is recognised in the statement of financial position when the Company 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.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends

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

Financial risk management

The Directors have carried out a robust assessment of the principal and emerging risks facing the Company, including in relation to its business model, future performance, solvency and liquidity. The Company's maximum exposure to credit risk is represented by the carrying amount of trade receivables and cash and cash equivalents.

The Company's exposure to credit risk for trade and other receivables is influenced mainly by the individual characteristics of each customer. The Company reviews significant receivables and will seek to take out credit insurance on an individual basis where appropriate.

The ITV 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.

Rounding

All amounts in the financial statements and notes have been rounded off to the nearest thousand Sterling Pound, unless otherwise stated.

Contingent assets and liabilities

A contingent asset or liability is a liability or assets that is not sufficiently certain to qualify for recognition as an asset or provision where uncertainty may exist regarding the outcome of future events.

Income from shares in group undertakings

Dividend income is recognised when the right to receive payment is established.

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

1 Accounting policies (continued)

Exceptional items

Exceptional items are excluded from management's assessment of profit. They are typically gains or losses arising from events that are not considered part of the core operations of the business. These items are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis.

2 Accounting judgements and estimates

The preparation of the financial statements requires management to exercise judgement in applying the Company'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.

For the current year, there were no significant judgements that require disclosure.

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.

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

3 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2022	2021
	£ 000	£ 000
Total advertising revenue (TAR)	82,906	87,421
Other revenue	3,750	4,373
	<u>86,656</u>	<u>91,794</u>

Revenue, which arises wholly in the United Kingdom, is stated net of VAT.

4 Other expenses

Other expenses of £36,099,000 (2021: £39,427,000) includes amounts relating to programming budget costs, transmission costs and other administrative expenses.

5 Staff costs

There were no employees and hence no staff costs during the year (2021: £nil).

Staff recharges of £1,350,000 (2021: £1,345,000) have been made from another group company during the year.

6 Directors' remuneration

In the year to 31 December 2022, 2 Directors (2021: 2) were remunerated by other ITV plc Group companies. These Directors received no remuneration in respect of their qualifying services to the Company (2021: £Nil).

7 Auditor's remuneration

The Company's auditor in 2022 is PwC LLP. The auditor's remuneration for the year of £38,000 (2021: £Nil due to exemption) was borne by ITV Services Limited.

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent ITV plc

8 Finance income

	2022	2021
	£ 000	£ 000
Interest receivable	<u>4,032</u>	<u>1,283</u>

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

9 Taxation

Tax charged in the income statement

	2022	2021
	£ 000	£ 000
Current taxation		
Group relief payable	10,366	10,187
Total current tax	10,366	10,187
Deferred taxation		
Arising from origination and reversal of temporary differences	6	7
Arising from changes in tax rates and laws	(1)	(7)
Total deferred taxation	5	-
Tax expense in the income statement	10,371	10,187

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2021: lower than the standard rate of corporation tax in the UK) of 19% (2021: 19%).

The differences are reconciled below:

	2022	2021
	£ 000	£ 000
Profit before tax	54,589	53,650
Corporation tax at standard rate of 19% (2021: 19%)	10,372	10,194
Group relief claimed	(10,366)	(10,187)
Deferred tax credit relating to changes in tax rates or laws	(1)	(7)
Payment for group relief	10,366	10,187
Total tax charge	10,371	10,187

Factors Impacting Future Tax Charges

An increase in the UK corporation tax rate from 19% to 25% which is effective from 1 April 2023 will increase the Company's future current tax charge and the impact on deferred tax for this entity in the current year is forecast to be a £1,000 (2021: £7,000) credit through the income statement.

In October 2021, the Organisation for Economic Co-operation and Development (OECD) agreed a two-pillar solution to address the tax challenges arising from the digitalisation of the economy. We are working through the implications of this and the financial impact it might have on ITV.

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

10 Deferred tax assets

Deferred tax

Deferred tax assets and liabilities

	Asset £ 000
2022	
Accelerated tax depreciation	32
	32
	32
2021	
Accelerated tax depreciation	37
	37
	37

Deferred tax movement during the year:

	At 1 January 2022 £ 000	Recognised in income £ 000	At 31 December 2022 £ 000
Accelerated tax depreciation	37	(5)	32
	37	(5)	32

Deferred tax movement during the prior year:

	At 1 January 2021 £ 000	At 31 December 2021 £ 000
Accelerated tax depreciation	37	37
	37	37

11 Inventories

	2022 £ 000	2021 £ 000
Commissions	93	100
Acquired programme rights	15,566	20,614
	15,659	20,714

During the year, a total of £15,614,000 (2021: £14,945,000) of inventories was included in the income statement as an expense. This includes an amount of £153,592 (2021: £53,580) resulting from write-down of inventories following an assessment by management of the net realisable value.

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

12 Trade and other receivables

	2022	2021
Current	£ 000	£ 000
Trade Receivables	6,560	8,743
Amounts due from group undertakings	78,985	258,626
Amounts due from related parties	146	148
Prepayments	34	29
	85,725	267,546

Included in amounts due from group undertakings are amounts of £62,857,000 (2021: £248,765,000) which relate to balances associated with the ITV plc group treasury pooling arrangements. This balance is repayable on demand and attracts interest of 0.5% (2021: 0.5%) above base rate per annum.

Included in amounts due from group undertakings is an amount of £16,128,000 (2021: £9,861,000) which represents intercompany trading, has no associated interest and is repayable on demand.

The carrying value of trade receivables is considered to approximate fair value.

13 Contract assets and liabilities

The following table provides information about contract assets and contract liabilities from contracts with customers.

	2022		2021	
	Contract	Contract	Contract	Contract
	assets	liabilities	assets	liabilities
	£ 000	£ 000	£ 000	£ 000
Balance at 31 December	-	(353)	24	(667)

The amount of revenue recognised in the current year that was included in the contract liability balance at the beginning of the year was £667,000 (2021: £1,405,000).

14 Cash and cash equivalents

	2022	2021
	£ 000	£ 000
Cash at bank	-	979

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

15 Trade and other payables

	2022	2021
	£ 000	£ 000
Trade payables	6	-
Accrued expenses	270	174
Amounts due to group undertakings	7,997	24,553
Group relief payable	20,553	19,498
Other payables	1	-
	28,827	44,225

Included in amounts due to group undertakings is an amount of £7,997,000 (2021: £24,553,000) which represents intercompany trading, has no associated interest and is repayable on demand.

The carrying value of trade payables is considered to approximate fair value.

16 Provisions for liabilities

	Contract provisions
	£ 000
At 1 January 2022	1,295
Decrease in existing provisions	(390)
At 31 December 2022	905
Non-current liabilities	475
Current liabilities	430

Contract provisions comprise onerous commitments on infrastructure related services that are not expected to be utilised over the remaining contract period. This follows a decision taken to close the ITV Encore linear channel on Sky from 1 May 2018. Management have applied judgement in their assessment that the individual element of the contract is separable from the remaining elements of the contract which are not considered onerous. The playout services are no longer used by the Company and is therefore not generating revenues. The contracted future commitment has therefore been recognised as a provision as there are no future economic benefits expected.

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

17 Share capital

Allotted, called up and fully paid	2022		2021	
	No.	£	No.	£
200 Ordinary A shares (2021: 200) of £1 each	200	200	200	200
16,236,800 Ordinary B shares (2021: 16,236,800) of £1 each	16,236,800	16,236,800	16,236,800	16,236,800
	16,237,000	16,237,000	16,237,000	16,237,000

Rights, preferences and restrictions

Ordinary Shares have the following rights, preferences and restrictions:

All shares rank pari passu

18 Dividends

	2022 £ 000	2021 £ 000
Interim dividend of £13.30 (2021: £nil) per ordinary share	216,000	-
	216,000	-

The Directors are proposing a final dividend of £Nil (2021: £Nil) per share totalling £Nil (2021: £Nil).

19 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £5,133,000 (2021: £25,230,000).

These are operating commitments in respect of programming 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. These are internal commitments to other entities within the ITV plc group.

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

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

19 Commitments (continued)

	31 December 2022 £ 000	31 December 2021 £ 000
Within one year	2,271	23,757
Between two and five years	2,862	1,473
Over five years	-	-
	<u>5,133</u>	<u>25,230</u>

20 Contingent liabilities

Under a Group registration the Company is jointly and severally liable for VAT at 31 December 2022 of £35 million (2021: £53 million).

21 Related party transactions

Summary of transactions with subsidiaries

	2022 £ 000	2021 £ 000
Sales to Britbox SVOD Limited	312	399

Sales to Britbox SVOD Limited primarily relate to advertising services. Britbox SVOD Limited is a fellow subsidiary of ITV plc, the ultimate parent of the Company.

All transactions with Britbox SVOD Limited are in the normal course of business on an arms length basis. None of these balances are secured.

Summary of transactions with joint ventures

	2022 £ 000	2021 £ 000
Purchases from Digital 3 and 4 Limited	3,514	3,658

Purchases from Digital 3 and 4 Limited relate to transmission infrastructure. Digital 3 and 4 Limited is a joint venture undertaking of ITV plc, the ultimate parent of the Company.

All transactions with Digital 3 and 4 Limited are in the normal course of business on an arms length basis. None of these balances are secured.

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

21 Related party transactions (continued)

	2022	2021
	£ 000	£ 000
Sales to Freesat Limited	-	31
Purchases from Freesat Limited	-	118

Sales to Freesat Limited relate to airtime. Purchases from Freesat Limited relate to EPG slots. Freesat Limited is a joint venture undertaking of ITV plc Limited, the ultimate parent of the Company.

All transactions with Freesat Limited are in the normal course of business on an arms length basis. None of these balances are secured.

Summary of transactions with associates

	2022	2021
	£ 000	£ 000
Sales to What3Words Limited	-	59

Sales to What3Words Limited relate to airtime. What3Words Limited is an associate of ITV plc, the ultimate parent of the Company.

All transactions with What3Words Limited are in the normal course of business on an arms length basis. None of these balances are secured.

	2022	2021
	£ 000	£ 000
Sales to DTV Services Limited	686	638
Balance due from DTV Services Limited	146	148

Sales to DTV Services Limited relate to airtime. DTV Services Limited is an associate of ITV plc, the ultimate parent of the Company.

All transactions with DTV Services Limited are in the normal course of business on an arms length basis. None of these balances are secured.

	2022	2021
	£ 000	£ 000
Sales to Carwow	208	-

Sales to Carwow relate to airtime. Carwow is an associate of ITV plc, the ultimate parent of the Company.

All transactions with Carwow are in the normal course of business on an arms length basis. None of these balances are secured..

ITV Digital Channels Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

22 Parent of group in whose consolidated financial statements the Company is consolidated

The smallest and largest group in whose consolidated financial statements the Company's financial statements are consolidated is ITV plc.

These financial statements are available upon request from ITV White City, 201 Wood Lane, London, W12 7RU.

23 Parent and ultimate parent undertaking

The Company's immediate parent is ITV Broadcasting Limited.

The ultimate parent is ITV plc. ITV plc is incorporated in the UK.

The most senior parent entity producing publicly available financial statements is ITV plc. These financial statements are available upon request from ITV White City, 201 Wood Lane, London, W12 7RU.

The ultimate controlling party is ITV plc.