

ITV Broadcasting Limited

Strategic Report for the Year Ended 31 December 2019

The Directors present their strategic report for the year ended 31 December 2019.

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 results for the Company show a profit before tax for the year of £239,024,000 (2018: £319,861,000). At the statement of financial position date the Company had net assets of £393,171,000 (2018: £425,459,000).

Key factors behind the movement in profit include a £39,572,000 reduction in revenue, particularly around advertising with economic uncertainty impacting on spend and an increase of £31,085,000 in programme costs, which included the Rugby World Cup and additional spend on new commissions. A cost provision of £16,400,000 has been recognised in relation to committed sports rights where a revised assessment of the net realisable value from these sports events has been made (see note 21).

KPIs

The Directors of the ITV plc Group manage the Group's operations on a divisional basis with this Company being included within the Broadcast & Online division. For this reason, the Company's Directors use the ITV plc Group Broadcast & Online division's operating and performance in managing and understanding the development, performance and position of the Company. The operating and performance review is included on pages 37 to 43 of ITV plc's 2019 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 3.0% in the year to £1,275,112,000 (2018: £1,314,684,000). The decreases in revenue in the year were due to lower advertising revenues caused by the decline in the spot advertising market. This was partly offset by non-advertising revenues, including direct to consumer and other revenues, which were up by £10,519,000 in 2019. Improved performance in non-advertising included additional amounts from merchandising and licencing associated with ITV shows and extra revenues associated with pay TV.

- Share of viewing of 15.78% for the ITV main channel was down 0.19 percentage points compared with the previous year (2018: 15.97%) reflecting a decline in the overall market. Many daytime shows grew their audiences year-on-year, including: Loose Women, Tenable and The Chase. Our soaps, Coronation Street and Emmerdale, maintained their position as the UK's two largest soaps, although their viewing was marginally down year-on-year against big storylines in 2018. We successfully aired a range of new programmes, including five of the top six most watched new dramas such as Manhunt, A Confession and The Bay; new entertainment shows, including In For A Penny; and successful factual entertainment, including; Ant and Dec's DNA Journey, Bradley Walsh & Son: Breaking Dad and Harry's Heroes. We continue to drive significant audiences with our returning brands such as Vera - which had its most successful series to date, Cold Feet, I'm A Celebrity...Get Me Out Of Here! - which was the most watched entertainment programme in the year, Britain's Got Talent and The Voice UK. Our news programming continues to perform well, as does our sporting schedule with the Rugby World Cup - the final of which was the most watched sporting programme in the year, horse racing and the Six Nations Rugby Championships. While overall our schedule is performing strongly, not all of our programmes will return, including Sanditon and Wild Bill, and The Jeremy Kyle Show has been discontinued.

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Future developments

The Company's operational and financial performance in the first half of 2020 has been impacted by the COVID-19 pandemic. While the future is still uncertain due to the pandemic, we are seeing some signs of improvement in advertising demand. The actions we have taken in response to the pandemic, along with the resilience of our colleagues and strength of our business has all helped to mitigate some of the impact of COVID-19, and puts us in a good position to continue to invest in our strategy.

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

The Directors of ITV plc are responsible for the governance of, and oversight over, the ITV Group as a whole and have their respective duties under Section 172(1) of the Companies Act 2006 ('s172') in respect of ITV plc. As the Company is part of the ITV Group, 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 Directors of ITV plc in relation both to the ITV Group and the Company and reference to this is made below as appropriate.

The Directors are all members of the Broadcast Divisional board that met eight times during the year to consider and approve matters that relate directly to the Company and its subsidiaries. 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 continuing to drive mass audiences that remain highly valuable to them. During the year, the ITV Group launched Planet-V - its addressable advertising platform as part of the longer-term investment opportunities for the division. Consideration was also given to changing viewer behaviour, reviewing in-depth qualitative and quantitative research commissioned on current and future viewing behaviour amongst different demographics, and ITV's positioning and strategy with regard to programming and distribution. The results of this research have been considered and will form a part of the ongoing long-term strategy of the Company. 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 HR related policies and initiatives that affect their employees. An explanation of how the Directors of ITV plc have engaged and taken its workforce into consideration in its discussions and decision making is set out on page 92 of ITV plc's 2019 annual report, which does not form part of this report. For more information on ITV's commitment to its workforce is set out on pages 50 to 51 of ITV plc's 2019 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 is set out in ITV plc's 2019 annual report which does not form a part of this report, with detail on viewers set out on page 90, advertisers and citizens on page 91, and legislators and regulators on page 92.

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• **Community and environment:** The Directors are constantly striving to reduce the environmental impact of the Company's activities which is regularly reviewed. In particular the impact of outside broadcasting was reduced though the expansion of Hybrid Electric Vehicles across the regional news divisions. The Directors further consider that the ITV Group have given due consideration to the community, wider environmental issues and diversity and inclusion targets. Further information on ITV's Social Purpose strategy - structured around better health, diversity and inclusion, environment and giving back targets - is set out on page 62 and pages 44 to 49 of ITV plc's 2019 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 94 ITV plc's 2019 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 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 66 to 79 of the Group's 2019 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 22/12/2020 and signed on its behalf by:



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Christy Swords
Director