

# ITV Digital Channels 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

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, CITV, ITV Encore, and ITV Box Office channels. A decision was taken to close the ITV Encore linear channel on Sky from 1 May 2018.

### Fair review of the business

The results for ITV Digital Channels Limited ("the Company") show a profit for the year of £50,161,000 (2018: profit of £65,932,000) and sales of £94,708,000 (2018: £111,261,000). At the statement of financial position date, the Company had net assets of £160,004,000 (2018: net assets £174,843,000).

### 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 review 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 to include:

- Total revenue was down 14.9% in the year to £94,708,000 (2018: £111,261,000). Total Advertising Revenue dropped by 7.3% to £86,154,000 (2018: £92,925,000) off the back of a NAR market declining 3.6% and the loss of advertising revenue once ITV Encore ceased transmission in 2018. The closure of Encore also contributed to a significant drop of £3,800,000 in other revenues as a result of the loss of Sky subscribers to the channel. Direct to Consumer revenue decreased 38.0% to £3,960,000 (2018: £6,390,000) due to the World Boxing Super Series event in 2018 not re-occurring in the 2019 activity in Pay Per View boxing on ITV Box Office.

- Share of viewing (SOV)

	2019	2018	Pts increase / (decrease)
ITV3	2.33%	2.19%	0.14
ITV Encore	0.00%	0.04%	(0.04)
CITV	0.22%	0.19%	0.03

ITV3's viewing performance improved in the year due to the return to the channel of some premium titles which had previously been transmitted on ITV Encore (Vera, Poirot).

### 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 consider and approve matters that relate to the Company. To the extent necessary for an understanding of the development, performance and position of the Company, an explanation of how the Directors have 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.

- **Business relationships - suppliers, customers:** The Directors are committed to fostering good working business relationships with their key stakeholders which include viewers, suppliers, advertisers, legislators and regulators. The Directors recognise that an understanding of issues relating to these stakeholders is fundamental to building and maintaining the successful relationships that enable 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. Detail on viewers is set out on page 90; suppliers and advertisers on page 91; and detail on legislators and regulators is set out page 92 of that report.

- **Community and environment:** The Directors have regard to the impact of the Company's operations on the environment and consider that as part of the ITV Group, due consideration is given to the community and wider environmental issues. 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.

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

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#### 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. Further discussion of these risks and uncertainties, in the context of the Group as a 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](http://www.itvplc.com) or the Company Secretary, 2 Waterhouse Square, 140 Holborn, London, EC1N 2AE.

Approved by the Board on 11/12/2020 and signed on its behalf by:



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Christopher Swords  
Director