ITV delivers another year of strong growth

Full year results for the year ended 31 December 2013

Strong revenue growth driven by Non-NAR

- Total external revenues up 9% to £2,389m (2012: £2,196m)
- Non-NAR revenues up £175m to £1,211m as we continue to rebalance
- Broadcast & Online revenues up 3% driven by 16% growth in Online, Pay & Interactive and 2% growth in NAR
- ITV Studios revenues up 20% with good organic growth and acquisitions coming through as planned

Double digit profit growth for the 4th year in a row

- EBITA before exceptional items up £107m or 21% to £620m
  - Broadcast & Online EBITA up 20% at £487m
  - ITV Studios EBITA up 24% at £133m
- Adjusted PBT up 27% at £581m
- Adjusted EPS up 23% at 11.2p
- Basic EPS up 26% at 8.3p

Investing in content is driving progress across ITV

- Best year on year on-screen performance for 10 years with ITV main channel up 3% and ITV Family SOV up 4%
- Long form video requests up 16% driven by mobile and tablets
- ITV Studios completed four acquisitions in UK and the US

Focus remains on cash and costs

- Delivered £28m of cost savings in 2013 and targeting a further £10m in 2014
- Profit to cash conversion remains strong at 97%
- Net cash of £164m
- Continued to improve efficiency of the balance sheet through debt buybacks and redemption of the convertible bond

Delivering increased shareholder returns

- The Board has proposed an ordinary dividend of 2.4p to give a full year dividend of 3.5p up 35% and a special dividend of 4.0p in line with last year

Strong 2013 creates a solid platform for 2014

- ITV Family NAR expected to be up 5% to 6% in the 4 months to end April 2014
- Online, Pay & Interactive should again deliver double digit growth in 2014 helped by the launch of ITV Encore
- Expect good growth in ITV Studios and we will continue to look at potential acquisitions

Adam Crozier, ITV plc Chief Executive, said:

ITV has taken another significant step forward with 9% revenue growth and for the fourth year in a row we delivered double digit profit growth. All parts of the business are progressing well as we continue to rebalance ITV. Total non-advertising revenues again grew strongly up £175m driven by good performances in ITV Studios and Online, Pay & Interactive.

The investment we have made in content has driven significant revenue and profit growth in ITV Studios - up 20% and 24% respectively - both organically and through the selective acquisitions we have made in the UK and the US.

Broadcast & Online performed well. We delivered further strong growth in Online, Pay & Interactive up 16% as we again improved the quality and availability of ITV Player and ITV Family NAR was up 2% as the TV advertising market returned to growth.

Onscreen we've had our best year on year performance for ten years with share of viewing for ITV Family up 4% driven by our continued investment in our high quality schedules.

We remain focused on cash and costs. We delivered £28m of cost savings, our group margin has increased by three percentage points and our profit to cash conversion remains high. The strength of our underlying cash flow means that, even after significant investment across the business and increasing returns to our shareholders, we ended the year with £164m of net cash, a similar level to 2012.

The Board is proposing a final dividend of 2.4p to give a full year dividend of 3.5p, up 35% and a special dividend of 4.0p (£161m) in line with last year. This reflects the board's confidence in the ongoing growth and cash generation of the business and balances the need to invest in the business for future growth with increasing returns to shareholders.

ITV is now demonstrably a much stronger company both operationally and financially. Over the last four years we've grown our revenues and delivered double digit profit growth every year, our adjusted earnings per share has increased six fold to 11.2p and our cash conversion has been consistently strong. While we've made good progress to date there is still much to do. We remain committed to our strategy for rebalancing the business, with growth increasingly coming from Online, Pay & Interactive and from ITV Studios internationally.

In 2014 we again expect all parts of the business to see further growth. In ITV Studios we anticipate good growth, primarily driven by the acquisitions we have made in the UK and internationally. In Broadcast we have started the year with the announcement of two new channels – ITV Encore and ITVBe - and we expect to see double digit growth from Online, Pay & Interactive. The television advertising market continues to show signs of improvement, with ITV Family NAR expected to be up 5% to 6% over the four months to the end of April, and we expect to outperform our estimate of the television advertising market over the full year.

Full year results

Twelve months ended 31 December (£ million)	**2013**	2012*	Change £m	Change %
Broadcast & Online revenue	1,896	1,834	62	3
ITV Studios revenue	857	712	145	20
Total revenues	**2,753**	**2,546**	**207**	**8**
Internal supply	(364)	(350)	(14)	(4)
Group External revenues	**2,389**	**2,196**	**193**	**9**
Broadcast & Online EBITA	487	406	81	20
ITV Studios EBITA	133	107	26	24
EBITA before exceptional items	**620**	**513**	**107**	**21**
EBITA margin	**26%**	**23%**		
Adjusted profit before tax	**581**	**457**	**124**	**27**
Adjusted earning per share (EPS)	**11.2p**	**9.1p**	**2.1p**	**23**
Dividend	**3.5p**	**2.6p**	**0.9p**	**35**

* Following revisions to IAS 19, we have restated our prior period results which have resulted in a £7 million decrease in EBITA before exceptional items, a £7million decrease in adjusted profit before tax and a 0.1p decrease in adjusted EPS for 2012.

Adjusted profit before tax and adjusted EPS remove the effect of exceptional items which include acquisition related costs (professional fees, primarily due diligence, and performance based employment linked contingent payments), impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments and other tax adjustments.

The profit before tax and EPS from the Consolidated Income Statement are as follows:

Twelve months ended 31 December (£ million)	**2013**	2012*	Change £m	Change %
Profit before tax	**435**	**334**	**101**	**30**
Earnings per share (EPS)	**8.3p**	**6.6p**	**1.7p**	**26**
Diluted earnings per share	**8.1p**	**6.4p**	**1.7p**	**27**

* Following revisions to IAS 19, we have restated our prior period results which have resulted in a £14 million decrease in profit before tax and a 0.3p decrease in EPS for 2012.

Financial performance

We have again delivered a strong set of results with revenue growth and double digit adjusted EPS growth. There was good growth from all parts of the business, our acquisitions are making a material contribution and the relentless focus on costs and cash is evident in our financial results.

External revenues were up 9%. Total non-NAR revenues grew £175m (17%) and ITV Family NAR returned to growth up 2%. This combined with our £28m cost savings and our higher margin new revenue streams, saw us deliver 21% growth in EBITA to £620m and 23% in adjusted EPS to 11.2p. Group margins improved three percentage points to 26%.

We again maintained our tight focus on working capital management and delivered 97% profit to cash conversion. We finished the year with net cash of £164m even after significant investment across the business and increasing returns to shareholders.

Broadcast & Online

Broadcast & Online delivered a strong performance with 3% increase in revenues driven by 16% growth in Online, Pay & Interactive and 2% growth in ITV Family NAR as the television advertising market returned to growth. This combined with our tight control of costs saw us deliver a 20% increase in EBITA. Schedule costs were down year on year as a result of the savings we secured on our FA Cup and Champions League rights and lower sports costs due to absence of a large one-off sporting event.

On-screen we delivered our best year on year viewing performance for 10 years, with ITV Family SOV up 4% and looking ahead we will launch our new free to air lifestyle and reality channel, ITVBe, in 2014.

The television advertising market again showed significant fluctuations across the year, often driven by the timing of sports events and programmes delivering large audiences. ITV Family NAR was down 3% in the first half of the year due to the absence of a large one-off sporting event but this recovered over the second half. Over the full year ITV Family NAR was just behind our estimate of the television advertising market up 3% but it is getting increasingly difficult to measure the market as all broadcasters have differing definitions and therefore include sources of revenue other than pure spot advertising. Over the full year in 2014 we expect to outperform the television advertising market. Our robust on-screen performance in 2013, the strong schedule for 2014 including the FIFA World Cup, and the advertising deals we have done to date, puts us in a good position to achieve this.

Online, Pay & Interactive continued to grow strongly as we improved the quality and distribution of our content. This has driven long form video requests up 16% and our content is now available on 19 platforms. We have further developed our pay services with the renegotiation of our deals with Virgin, BT and Sky and in 2014 we will be launching our first pay drama channel, ITV Encore, on Sky.

ITV Studios

In 2013 we again delivered strong revenue growth up 20%. Through this revenue growth and our continued focus on costs, we have delivered 24% growth in EBITA.

All parts of the business performed well, with significant growth coming from International Productions both organically and through the acquisitions we have made. Total organic growth across the business was 7% and acquisitions contributed £97m of growth as we expected.

In 2013 we have completed four acquisitions in the UK and US against strict strategic and financial criteria, as we build an increasingly global production business. In the UK we acquired The Garden and Big Talk, to enhance our capability in creating factual entertainment and comedy formats and to increase our strength in delivering commissions off-ITV. In the US we acquired Thinkfactory Media and High Noon Entertainment to continue to build our strength and scale.

The initial consideration for the four acquisitions we have completed was £66m, with future consideration payable depending on the performance of the companies. The current expected total consideration for these acquisitions is £130m (undiscounted and including the initial cash consideration) and is payable only on the delivery of continued strong growth.

On 19 February 2014 we agreed to acquire a 51% controlling interest in DiGa Vision, the US independent producer of reality and scripted programming. There is a put and call option to buy the remainder of the company over 3 to 6 years, with the total amount payable linked to the performance of the company over that period.

The good growth in our UK and international production businesses is starting to feed our global distribution business but this is a process that does take time.

Adjusted EPS

Adjusted EPS was up 23% at 11.2p (2012: 9.1p). Adjusted financing costs were down £19m at £25m as a result of the debt bought back in 2012 and 2013. Diluted adjusted EPS was up 24% to 10.8p.

The adjusted effective tax rate of 23% is largely in line with the statutory rate of UK corporation tax.

Basic EPS

EPS is 8.3p (2012: 6.6p) up 26%. The main differences between EPS and adjusted EPS are exceptional items including acquisition related costs, impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments and other tax adjustments.

Balance sheet and net cash/debt

Net cash at the end of December 2013 was £164m compared to net debt at the end of June 2013 of £52m and net cash at the end of December 2012 of £206m. We also look at an adjusted net debt figure which was £792m at the end of the year (31 Dec 2012: £899m) which includes our other financial commitments - expected contingent payments on acquisitions, IAS19 pension deficit and operating leases.

One of the key strengths of our business is our strong cash generation but it is weighted to the second half of the year as we make a number of significant payments both regular and one-off in the first half of the year, including acquisitions, dividends, the pension deficit funding contribution, debt buybacks and the purchase of our London headquarters. Over the full year we increased our free cash flow by over £100m (32%) to £433m.

We have again improved the efficiency of our balance sheet having bought back £211m (nominal) of debt in the year. We bought back £138m (nominal) of the £200m 2019 loan and £73m (nominal) of the £135m convertible bond. In September we exercised our right to redeem the outstanding principle amount of the convertible bond. The redemption and conversion process was completed in October.

We improved our financial flexibility by extending the maturity of the committed £250m revolving credit facility (RCF) by a further year to July 2016. The facility remains undrawn.

Pension

The aggregate IAS 19 deficit of the defined benefit schemes at 31 December 2013 reduced to £445m (31 December 2012: £551m). This was partly as a result of the £80m annual deficit funding contribution. Total liabilities have also reduced as a result of an increase in the implied discount rate used to value liabilities. This was largely offset by an increase in the rate of market implied inflation. A review of the mortality assumption produced a further increase in liabilities, reflecting an increased allowance for longer life expectancy. A change in accounting standards has also resulted in a significant actuarial gain on the value of the longevity swap, as the new standard requires the swap to be valued based on market fair values, rather than best estimates.

The 10 to 15 year funding plan that we have agreed following the actuarial valuations as at 1 January 2011 remains in place. It is a mixture of fixed and performance related contributions. The next actuarial valuation will be undertaken as at 1 January 2014 with the outcome expected by 2015.

Post balance sheet events

On 16 January 2014 we agreed to repay the remaining £62m of the 2019 bilateral loan. The repayment will save around £44m in adjusted financing costs over the remainder of the loan – around £8m on an annualised basis, and will lead to an exceptional loss of £30m for 2014. The repayment was satisfied by a one-off cash payment of £95m.

2014 Planning assumptions

- Total NPB is expected to be around £1,010m excluding the two new channels
- Cost savings of £10m as we maintain our focus on cash and costs
- Investment of £15-£20m, including the launch of two new channels
- Adjusted interest is expected to be £10-£12m as a result of the impact of debt buybacks
- Effective tax rate is expected to be 22-24%
- Capex reduces to around £40-£45m after significant investment in MediaCity in previous years
- Pension deficit contribution of £89m to reflect 2013 profit

Outlook for 2014

We expect all parts of the business to see further growth. In ITV Studios we anticipate good growth, primarily driven by the acquisitions we have made in the UK and internationally and we expect to see continued double digit growth from Online, Pay & Interactive. ITV Family NAR is expected to be up 2% in Q1 despite being adversely impacted by the timing of Easter and the unwind of 2013's benefit from the timing of other broadcasters agency deals. We expect ITV Family NAR to be up 15–20% in April and we expect to outperform our estimate of the television advertising market over the full year.

Notes to editors

1. Unless otherwise stated, all financial figures refer to the twelve month period ended 31 December 2013, with growth compared to the same period in 2012.

2.

Twelve months ended 31 December (£ million)	2013	2012	%
ITV Family NAR	**1,542**	1,510	2
Non-NAR Revenue	**1,211**	1,036	17
Internal Supply	**(364)**	(350)	(4)
Group External revenues	**2,389**	2,196	9

3. ITV Family NAR was up 5% in January and up 5% in February. We expect it to be down 4% in March and up 15-20% in April. We expect Q1 to be up 2% and the four months to end of April to be up 5% to 6%. These revenues are pure NAR, excluding the benefit of sponsorship revenue.

   Figures for ITV plc and TV market NAR are based on ITV estimates and current forecasts.

4. Operational summary

   Broadcast & Online performance indicators

Twelve months ended 31 December	2013	2012	%
ITV Family SOV	**23.1%**	22.3%	4
ITV SOV	**16.2%**	15.7%	3
ITV Family SOCI	**38.3%**	38.3%	–
ITV SOCI	**26.5%**	26.3%	1
ITV adult impacts	**240m**	236m	2
Total long form video requests (all platforms)	**577m**	496m	16

   Share of viewing data based on BARB/AdvantEdge data and share of commercial impact (SOCI) data based on BARB/DDS data. Share of viewing data is for individuals and SOCI data is for adults. ITV Family includes: ITV, ITV2, ITV3, ITV4, CITV, ITV Breakfast, CITV Breakfast and associated "HD" and "+1" channels. Total long form video requests across all platforms are based on data from ComScore Digital Analytix, Virgin, BT, iTunes, Lovefilm, Netflix, Sky, 3UK and Hospedia and include simulcast.

5. Dividend payment date is 30 May 2014, ex dividend date is 30 April 2014 and dividend record date is 2 May 2014.

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, and (iv) the loss or failure of transmission facilities or core systems and (v) a significant change in demand for global content.

   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 publicly revise 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 Review

ITV delivers another year of strong growth

Adam Crozier

2013 was another strong year for ITV, both operationally and financially, as we continue to make progress with our strategy of growing and rebalancing the business. External revenues were up 9%, with non-NAR revenues up £175 million (17%), and for the fourth year in a row we delivered double digit profit growth.

2013's performance builds on the consistently strong results we have delivered since we announced our strategy. Since 2009 we have increased Group external revenues by 27%, EBITA before exceptional items (EBITA) by 207%, adjusted earnings per share (EPS) by 522% and improved our cash position by over £750 million, even after returns to shareholders and investment in the business.

Our Broadcast business remains in good shape. In 2013 we had the best year-on-year viewing performance for ten years with ITV Family SOV up 4%, and the television advertising market returned to growth. Online, Pay & Interactive revenues continue to grow strongly and are now a material part of the business. ITV Studios, which again delivered significant revenue growth, is becoming an increasingly international business as it grows both organically and through selective acquisitions.

Our vision remains to create world-class content, which we can make famous on our channels, before exploiting its value across multiple platforms, both free and pay, in the UK and internationally. While there is still much to do and good potential for growth, the progress we are making is clearly evident in our results.

2013 operating and financial performance

ITV's financial results reflect a good performance across the business. ITV NAR grew 2% and, in line with our strategy, non-NAR revenues grew £175 million or 17% to £1,211 million.

Good revenue growth, together with our tight cost control, has led to 21% growth in EBITA before exceptional items (EBITA) to £620 million, 27% growth in adjusted profit before tax (PBT) to £581 million and 23% growth in adjusted EPS to 11.2p. Group margins have improved by three percentage points to 26% and we delivered £28 million of cost savings, £8 million ahead of our original target.

Broadcast & Online revenues grew by 3% to £1,896 million (2012: £1,834 million) and EBITA increased by 20% to £487 million (2012: £406 million). This was driven by 2% growth in ITV Family NAR and 16% growth in Online, Pay & Interactive as we have increased the quality and distribution of ITV Player and further developed our pay opportunities.

On-screen we have had a very strong year with ITV share of viewing (SOV) up 3% and ITV Family SOV up 4% as we have continued to increase the quality and variety of the schedule.

ITV Studios delivered 20% growth in total revenue to £857 million (2012: £712 million) and 24% growth in EBITA to £133 million (2012: £107 million). This was driven by the international studios business, with growth coming both organically and from the acquisitions we have made in the UK and internationally.

Our continued focus on cash and costs and our strong profit to cash conversion, saw us grow our free cash flow by over £100 million. We generated £433 million of free cash before investment and shareholder returns to end the year with net cash of £164 million. We have taken further steps to improve the efficiency of the balance sheet with additional debt buybacks and the redemption of the convertible bond.

The Board has proposed a final dividend of 2.4p (2012: 1.8p) giving a full year dividend of 3.5p (2012: 2.6p) – an increase of 35%. The Board is committed to a progressive dividend, taking into account the outlook for the business, while balancing the need to invest for growth and to maintain a robust financial position.

In addition to the final dividend, the Board is proposing a special dividend of 4.0p per share (£161 million). The cash distribution reflects the Board's confidence in the ongoing growth and cash generation of the business. Going forward we will continue to show capital discipline and balance the need to invest for future growth with increasing returns to shareholders.

Chief Executive's Review

continued

Our strategy and the changing media environment

We are now four years into our five year Transformation Plan which is based on our four key priorities. We remain committed to this strategy as the progress we have made over the last four years shows it is the right strategy for ITV.

The demand from viewers for quality content is strong not just in the UK but globally. Linear viewing remains healthy and we must ensure that our Broadcast business continues to be strong, generating significant profits and cash. However, we must not be complacent and we must adapt to the challenges and opportunities of the dynamic media environment in which we operate.

While on demand is still a relatively small part of total viewing, we must make sure that our digital offerings are high quality, competitive and widely available so we can keep up with changing consumer behaviour and demands. We continue to experiment with new free and pay offerings to explore how viewers want to consume our content.

In such a rapidly evolving market, creating and owning high quality content is more important than ever, so we will continue to invest in a quality creative pipeline and exploit our advantage as an integrated producer broadcaster.

2014 and beyond

The television advertising market continues to show signs of improvement with ITV Family NAR expected to be up 5% to 6% in the four months to the end of April. We expect to outperform our estimate of the television advertising market over the full year. Our good on-screen performance in 2013, the strong 2014 schedule including the FIFA World Cup in June and the advertising deals we have done to date, puts us in a good position to achieve this.

Online, Pay & Interactive should deliver another year of good revenue growth as we continue to exploit opportunities in digital media and drive new revenue streams. Our new pay channel, ITV Encore, which will launch on Sky in 2014, will contribute towards this.

We anticipate good revenue growth in ITV Studios, primarily driven by the recent acquisitions we have made in the UK and internationally. Key to our success is creative content and therefore we will continue to invest in the pipeline of ideas and look at potential acquisitions and partnerships.

We remain committed to our strategy of rebalancing ITV and expect all parts of the business to see further growth in 2014. While a healthy broadcast business remains at the core of ITV, going forward we expect growth to increasingly come from Online, Pay & Interactive and from ITV Studios internationally.

Performance Dashboard

1 Create a lean, creatively dynamic and fit-for-purpose organisation

Milestones achieved

- Record employee engagement at 91%
- Rolled out ITV rebrand across all of ITV
- £28 million of cost savings – £118 million since 2009
- Fourth year of double digit profit growth
- Improved group margin by 3% points to 26%
- Net cash of £164 million after increase in shareholder returns
- Cash conversion again over the 90% three year rolling target

Focus for 2014

- Maintain high levels of employee engagement in ITV
- Further simplify our operating structures as we grow in scale and geography
- £10 million cost savings target
- Relentless focus on cash
- Maintain a robust, efficient and flexible balance sheet

KPIs

- Employee Engagement

2 Maximise audience and revenue share from our existing free-to-air broadcast business

Milestones achieved

- Best ITV Family SOV year-on-year performance for ten years
- Increased variety and quality of schedule
- ITV2 and 3 largest digital channels
- ITV NAR grew 2% as TV ad market returned to growth
- Innovative sponsorship and brand extension partnerships with advertisers
- Sales team were awarded 'Sales Team of the Year' in 2013 at the Media Week Awards
- Won six National Television Awards

Focus for 2014

- Maintain strong on-screen viewing performance
- Launch new free to air channel ITVBe
- Expect to outperform our estimate of the TV ad market
- Drive further value from 30 second spot and related revenues
- Implement new ten year licence

KPIs

- ITV Family Share of Viewing (SOV)
- ITV Family Share of Commercial Impacts (SOCI)
- ITV Family Share of Broadcast (SOB)

Performance Dashboard
continued

3 Drive new revenue streams by exploiting our content across multiple platforms, free and pay

Milestones achieved
- Further improved quality of ITV Player
- ITV content available on 19 platforms
- Long form video requests up 16%
- 11.7 million downloads of ITV Player app
- Renegotiated deals with BT and Virgin and extended Virgin deal to include ITV2, 3, 4 HD channels
- Trialling direct to consumer pay opportunities
- 3.5 million registered users of ITV Player

Focus for 2014
- Continue to improve quality of ITV Player
- Increase distribution of ITV Player
- Launch new pay channel, ITV Encore
- Implement new deal with Sky which was renegotiated at the start of 2014
- Develop further innovative and targeted advertising opportunities
- Launch advertising on catch up on Sky and Virgin

KPIs
- Total long form video requests

4 Build a strong international content business

Milestones achieved
- 20% growth in total revenue driven particularly by international
- 24% growth in EBITA
- ITV Studios' share of ITV output increased to 59%
- Investing in creative pipeline – 121 new commissions
- Creating programmes that return and travel
- Eight programmes that are produced in three or more countries
- Completed four acquisitions in UK and US

Focus for 2014
- Invest in creative talent and pilots to maintain a healthy pipeline
- Focus on long running returnable series
- Exploit programmes that travel
- Further strengthen global production capabilities as we become an increasingly international business
- Continue to look at potential acquisitions
- Scale international distribution business

KPIs
- Number of new commissions for ITV Studios
- Percentage of ITV output from ITV Studios

KPIs across all four priorities
- EBITA before exceptional items
- Adjusted earnings per share
- Profit to cash' conversion
- Non-NAR revenues

Strategy and Operations

Strategic Priority 1
Create a lean, creatively dynamic and fit-for-purpose organisation

In 2013 we have again made significant progress in making ITV lean, creatively dynamic and fit-for-purpose.

We continue to make ITV a better business both creatively and commercially, through driving out complexity, developing our people, driving cultural change throughout the organisation, investing in our core systems and technologies, and in our brand.

As well as operating efficiently it is vital that we also operate responsibly. Our behaviour impacts our employees, our shareholders, our viewers, the wider community and the environment. Our Corporate Responsibility strategy, which is aligned to our four key priorities, aims to help grow our business by strengthening stakeholder pride and loyalty in ITV, as well as mitigating the risks to the business. Ensuring the welfare and human rights of our employees is a key consideration in our day-to-day activity, both in the UK and internationally, and we use United Nations human rights frameworks as guiding principles.

This report highlights issues which are material to our business strategy. However, our commitment goes beyond the business plan and regulatory requirements. As a responsible industry leader we undertake a number of initiatives that demonstrate our commitment to behaving responsibly and to a sustainable future for our industry, which can be found on our website.

Our people

Our people are key to the success of ITV. It is essential that we develop and support them so that we can attract and retain the best talent. We measure our employee engagement annually and we are pleased to see it has again improved to 91% (2012: 88%), which compares to a benchmark for comparable company surveys of 77%. Employee participation has also increased to 88% (2012: 80%), which compares to a benchmark of 69%.

We have continued to simplify the way we operate and to increasingly work as One ITV. This makes it easier for people to do their jobs and to help deliver value from our integrated producer broadcaster model and to drive future growth. However, there is still more we can do.

ITV at the heart of popular culture

At the start of 2013 we successfully rolled out the ITV rebrand with the emphasis on putting ITV at the heart of popular culture. This was one of the most extensive media rebrands ever undertaken and was developed in-house by ITV Creative. We rolled out a new identity for our five channels, our entire online estate, and our production and distribution businesses in the UK and internationally, all on the same day. The rebrand has significantly improved ITV's brand health as measured by YouGov and has helped make ITV the 'most loved' commercial network in 2013.

Relentless focus on cash and costs

In 2013 we delivered £28 million of cost savings, £8 million ahead of the original target. These savings are largely not employee related. Since 2009 we have taken £118 million of costs out of the business. These savings have funded our investment in our creative and commercial capabilities, specifically in our creative pipeline, in technology and online.

Our focus on costs and cash has enabled us to significantly strengthen and improve the efficiency of our balance sheet. Our cash generation remains strong with free cash flow up over £100 million year-on-year. Profit to cash conversion was 97% and we have ended the year with net cash of £164 million even after significant investment in acquisitions, property and returns to shareholders. We have also continued to improve the efficiency of the balance sheet with £211 million of debt buybacks (nominal) and the redemption of the convertible bond, both of which deliver significant interest cost savings for 2014 and beyond.

The steps we have taken on the balance sheet along with another period of double digit profit growth has led the Board to propose a final dividend of 2.4p (2012: 1.8p) giving a full year dividend of 3.5p (2012: 2.6p) – an increase of 35%. The Board is committed to a progressive dividend, taking into account the outlook for the business, while balancing the need to invest for growth and to maintain a robust financial position.

In addition to the final dividend, the Board is proposing a special dividend of 4.0p per share (£161 million). The cash distribution reflects the Board's confidence in the ongoing growth and cash generation of the business. Going forward we will continue to show capital discipline and balance the need to invest for future growth with increasing returns to shareholders.

Strategy and Operations
continued

2014 and beyond

We have made great strides in creating a better business and we will continue to make further improvements across the organisation in 2014.

We will maintain our focus on costs but, given the savings we have made to date, further significant savings are getting harder to achieve. For 2014 we have identified a further £10 million of non-network programme budget cost savings.

It is essential that while we remain operationally and financially fit-for-purpose, we must balance cost and cash discipline with the need to invest in the business. The balance sheet we now have gives us the flexibility to invest where appropriate to drive future growth and improve shareholder returns.

Strategic Priority 2
Maximise audience and revenue share from our existing free-to-air broadcast business

A strong broadcast business is central to our strategy. As a business it generates significant profits and cash and its content can be repackaged to drive new revenues. As an integrated producer broadcaster, our family of broadcast channels provides a platform on which to make ITV Studios content famous before exploiting it internationally.

ITV Family NAR grown by 2%

In 2013, ITV Family NAR grew by 2% based on pure spot advertising. This is slightly behind our estimate of the television advertising market, up 3%. However, it is getting increasingly difficult to measure the market as all broadcasters have differing definitions and therefore include sources of revenue other than pure spot advertising.

Since 2009 we have grown our Share of Broadcast (SOB) from 44.7% to 45.4% in 2013. We have achieved this through the quality of our schedule and the unrivalled reach that ITV offers. ITV is the UK's strongest marketing platform, delivering the mass audiences which are so much in demand from advertisers. In 2013 ITV delivered 99.9% of all commercial audiences over five million viewers and 100% of audiences over six million.

Our digital channels, ITV2, 3 and 4, provide more targeted demographics, which together with ITV main channel, ensures that we deliver both mass and targeted reach.

Our broadcast performance has helped to drive 3% growth in Broadcast & Online revenues to £1,896 million.

Strong on-screen performance

The improved quality and variety of the schedule has driven a consistently strong on-screen performance throughout 2013. ITV Family SOV was up 4% over the full year – the best year-on-year performance for over ten years. ITV main channel SOV was up 3%, ITV main channel SOCI was up 1% and ITV Family SOCI was flat. ITV digital channels performed broadly in line with last year.

ITV had many on-screen successes in the year with both new and returning programmes. Based on the series average, ITV broadcast the highest rating drama with Downton Abbey, the highest rating new drama launch with Broadchurch and highest rating entertainment programme with I'm A Celebrity Get Me Out of Here! Other notable successes include Lewis, Poirot, Mr Selfridge, Doc Martin, Ant & Dec's Saturday Night Takeaway, The Chase, Tipping Point, Paul O'Grady: For the Love of Dogs, and Her Majesty's Prison: Aylesbury. Our sports programming again delivered good audiences, in particular the Champions' League and England international friendlies.

The strong on-screen performance is not just due to the success of these new and returning series. Much of our core schedule, in particular Coronation Street, Emmerdale and our News programmes, have all performed strongly in 2013. Coronation Street was the highest rating soap, and for the first time Emmerdale had a higher average share of viewers than Eastenders over the year. Both our national and regional news programmes have grown their audience share as we remain committed to providing high quality, impartial news.

The improved quality of ITV channels has again been recognised publicly in 2013 with ITV winning Channel of the Year at the Edinburgh Television Festival and ITV2 winning digital channel of the year at the Broadcast Digital Awards. ITV also won six National Television Awards including most popular serial drama for Coronation Street and most popular entertainment programme for I'm a Celebrity Get Me Out Of Here!

ITV2 and ITV3 remain the two largest digital channels in the UK and our digital channels again aired successful new and returning programmes, including Tricked, The Big Reunion, Duck Dynasty, Plebs, Celebrity Juice, The Only Way is Essex, The Tour de France and The French Open.

Our viewing performance is clearly healthy but there remain areas we would like to improve. While overall the digital channels performed well, ITV4's performance was slightly disappointing and the early daytime schedule on ITV has not performed as well as we had hoped. We will continue to rejuvenate some of our programmes and trial new ideas across our channels. We aim to increase our success rate in launching new programmes through research, viewer panels and pilots.

Our advertising is sold based upon the on-screen performance in the previous year and therefore our strong viewing performance in 2013 puts us in good stead for 2014.

During 2013 we experienced a number of transmission outages on our channels. High quality transmission is an absolute priority for ITV and we have a number of projects ongoing to ensure our transmission and distribution technologies are fit-for-purpose.

Maximising the value of our airtime

We compete with broadcasters and other media for our share of television advertising and advertising revenues in general. We aim to maximise the value of our 30 second spot and drive related revenue streams through sponsorship, interactivity and brand extensions. For example, the successful sponsorship campaigns and off-air endorsements including Morrisons with Ant & Dec's Saturday Night Takeaway, Tesco Finest with Downton Abbey, and Boots and This Morning. Following the successful broadcast of The Big Reunion on ITV2 in 2013 we also launched the live Big Reunion Tour and recommissioned the programme.

Traditional broadcast model remains robust

While the media environment is developing rapidly, the traditional television broadcast model remains structurally robust. On demand viewing is growing fast, but it remains around 3% of total viewing and people continue to watch around four hours of television a day.

We must ensure that even though our Broadcast business is strong we continue to make our digital offerings more widely available and competitive.

Renewal of licence

In February 2014, ITV's Public Service Broadcasting licences were renewed for a full ten years which gives us the certainty we require to continue to invest for the long term in our broadcast business and high quality content.

2014 and ahead

As we look into 2014 and beyond we must continue to focus on delivering a strong on-screen performance by offering a rich and varied schedule, including our new free to air lifestyle and reality channel ITVBe. There will be both challenges and opportunities. From the second half of 2015 we will no longer hold the live rights for the Champions' League but this will potentially open up parts of the schedule which will give us an opportunity to invest more in ITV Studios content.

The television advertising market continues to show signs of improvement with ITV Family NAR expected to be up 5% to 6% in the four months to the end of April. Over the full year we expect to outperform our estimate of the television advertising market. Our on-screen performance in 2013 and our strong schedule for 2014, including the FIFA World Cup and the advertising deals we have done, puts us in a good position to achieve this.

Strategic Priority 3

Drive new revenue streams by exploiting our content across multiple platforms, free and pay

Online, Pay & Interactive are fast growing new revenue streams which we are driving from distributing our content across a range of platforms, both free and pay. This is either by selling advertising around our content online or pay revenues through licensing our content to third party platform owners or, to a lesser extent, through transactions directly with the consumer through ITV Player.

Strategy and Operations

continued

In 2013 we have continued to increase the quality and the availability of ITV Player and further developed our pay services. This, combined with the continued growing demand for watching our content via non-traditional channels as well as linear channels, has seen us again deliver strong growth, with revenues up 16% to £118 million.

Online advertising

Over the last few years we have invested to improve the quality of our online offering and ITV Player is now fit to compete with the best in the digital market. In 2013 we continued to enhance our online offering with improvements to the ITV Sports and ITV News sites.

We have also been working to increase the distribution of ITV content digitally so that it is available when and how people want to watch it. Our content is now available on 19 platforms.

The rapid increase in video on demand (VOD) is adding to a huge demand for quality content, both free and pay, and as an integrated producer broadcaster we are in a unique position to create value from this. Mobile and tablet viewing is driving VOD and there have now been over 11.7 million downloads of the ITV Player app since it was launched.

The increased quality and distribution of the ITV Player has led to continued good growth in long form video requests, which were up 16% in 2013. Advertiser demand continues to be strong for ITV's VOD and we must manage our advertising load to meet that demand while maintaining a good user experience.

Pay services

As consumer viewing behaviour evolves, we continue to explore, experiment and develop our pay services – both direct-to-consumer and to broadcasters and platform owners. We have trialled pay opportunities on the ITV Player with episode premieres of programmes such as Scott & Bailey for ITV and Plebs for ITV2, and have offered box sets to download to rent. We have also launched an ad free subscription model on iOS – the first broadcaster to do so.

During the year we renegotiated a number of our current deals with platform owners and also agreed a number of new deals to make our content available on more platforms.

We renewed our deals with BT and Lovefilm and we have renegotiated our Virgin deal to include HD versions of ITV2, 3 and 4 and to enable us to deliver adverts in our catch up content in the future. We have agreed deals with Amazon for transactional VOD, simulcast channels with Everything Everywhere and a catch up service on Virgin Atlantic. We have also launched ITV Essentials, an international catch up service for our Soaps.

In January 2014 we announced that we will be launching our first pay channel, ITV Encore, on Sky. As part of the wider deal with Sky, ITV content will also be made available through Sky's range of connected platforms including Sky Go, Now TV and Sky Store.

Interactivity

We are further deepening our relationship with our viewers and ITV Player now has 3.5 million registered users. We are increasing our interaction and consumer engagement through competitions, voting, second screens and through social media to drive more value from our brands for ITV and for our advertisers.

2014 and beyond

We expect to again deliver double digit revenue growth in Online, Pay & Interactive in 2014. Our online revenues will grow through the increased distribution of ITV Player and through increased consumer demand. In 2014 we will start to deliver stitched advertising in our catch up services on Sky and Virgin. We continue to develop our pay services and during 2014 we will launch ITV Encore.

Strategic Priority 4
Build a strong international content business

A strong international content business lies at the heart of our strategy to create and own more of our own content, make it famous in the UK on our channels and distribute it across multiple platforms in the UK and internationally. As an integrated producer broadcaster we are in a unique position to do this.

The high demand globally for quality content from broadcasters and platform owners provides a significant opportunity for us. We are building real momentum as we continue to invest in a strong and healthy creative pipeline in the key creative markets and specifically in genres that return and travel – drama, entertainment and factual entertainment, good examples of which are Mr Selfridge, Come Dine With Me and The Chase.

In 2013 we delivered a 20% increase in total ITV Studios revenue with good performances across the business – particularly driven by international production – and 24% growth in EBITA. We delivered good organic growth and are building on this with the acquisitions we have made both in the UK and internationally. Our portfolio of acquisitions are performing in line with our expectations and we will continue to look at further acquisitions which fit with our strict strategic and financial criteria.

The strong performance in 2013 builds upon the significant progress we have made over the last few years. While there is still a great deal to do, ITV is now an international studios business – we are the number one commercial producer in the UK, a top five independent producer in the US and the third largest European distributor of television content.

UK Production

In the UK we have increased our production revenues by 12%. Growth has come in particular from drama, entertainment and factual, with original hours commissioned in these genres up 55%, 16% and 49% respectively, including the benefit of our acquisitions. Growth also came both on and off ITV. We have again increased ITV Studios' share of ITV output, which increased to 59%, up from 50% in 2009.

On ITV we have delivered new commissions including Lucan, Big Star's Little Star and Tricked. As we focus on programmes that return and travel, our recommissions are very important. We are building a track record for producing programmes that return, including Mr Selfridge, Ant & Dec's Saturday Night Takeaway and Surprise Surprise, which all have international appeal.

Off ITV our new commissions include Pressure Pad for the BBC and Kingfishers for Discovery while our recommissions include Graham Norton, Shetland and University Challenge for the BBC, and 24 Hours in A&E, Friday Night Dinner and Come Dine with Me for Channel 4.

International Production

Our international production business continues to grow very strongly, with revenues up 56%, driven by the US.

Our US businesses have secured a number of new commissions such as The Chase, which was originally commissioned in the UK, and many recommissions of programmes which demonstrate their longevity and their international appeal. These included Hell's Kitchen which broadcast its 11th series in 2013, Kitchen Nightmares which broadcast its 5th series, Cake Boss which broadcast its 6th series and is developing spin-off shows, and Duck Dynasty which has broken cable viewing records in the US and is now also on ITV4. A number of these shows have already been recommissioned which will be reflected in the 2014/5 results.

Our other international production bases in Australia, Germany, France and the Nordics also produce their own original formats and versions of UK formats. Their original formats include Der Letzte Bulle in Germany, Mad As Hell in Australia and Night Patrol in Norway. UK formats produced locally include I'm a Celebrity Get Me Out Of Here! and The Audience in Germany, Four Weddings in France and Hell's Kitchen in the Nordics. They have also secured a number of new commissions for 2014 including UK formats, such as Hell's Kitchen in Germany.

Global Entertainment

The growth in the UK and international production businesses is starting to feed our international distribution arm, whose revenues were up 2% to £135 million.

Global Entertainment's successes in the year include Mr Selfridge, Poirot, Marple, Lewis and Hell's Kitchen US, which have all now been sold to over 150 countries. We also continue to sell formats successfully, for example Come Dine with Me, Four Weddings and The Chase, and we now have eight programmes sold in three or more countries. As well as distributing ITV's own content we are adding to our catalogue through the distribution of third party content, such as Rectify for AMC and River Monsters for Icon Films. We are seeing strong growth in sales to digital platforms which is more than offsetting the decline in DVD sales.

We have delivered revenue growth in the period, but it takes time for the creative pipeline to flow through and the market for third party rights remains very competitive.

Strategy and Operations

continued

Acquisitions

Our acquisitions focus to date is on the two key markets which have a track record for creating and owning intellectual property, namely the UK and US. We are looking for companies that have a good creative pipeline and produce in genres that have the potential to travel.

In the UK we are seeking to enhance our skills in key genres. In 2013 we acquired UK producers The Garden and Big Talk to increase our capability in creating factual entertainment and comedy formats that travel and in delivering commissions for other broadcasters.

In the US we continued to build strength and scale with the most recent acquisitions of High Noon and Thinkfactory who produce reality, entertainment and drama programmes, such as Cake Boss and R&B Divas. These complement our existing business, including Gurney Productions which we acquired at the end of 2012.

2014 and beyond

In 2014 we again anticipate good growth, primarily driven by the acquisitions we have made in the UK and internationally. As ever ITV's revenue growth will not be a straight line because of the phasing of the delivery schedule required by our network and cable customers. A challenge for the UK business is that ITV main channel will be spending less on original commissions given the World Cup cost in the first half of 2014.

We will continue to invest in our creative pipeline to develop programmes that return and travel and we will also look at potential acquisitions in the key creative markets. Our international production business will remain a key focus as the demand for quality content globally continues to grow and will increasingly be the main driver for ITV Studios growth.

On 19 February 2014 we acquired a 51% controlling interest in DiGa Vision, a US independent producer of reality and scripted programming. There is a put and call option to buy the remainder of the company over three to six years.

Finance and Performance Review

Delivering revenue growth in all parts of the business

Ian Griffiths

We have again delivered a strong set of results with good revenue growth and double digit profit growth. There was growth from all parts of the business, our acquisitions are making a material contribution and the relentless focus on costs and cash is evident in our healthy financial position. We ended the year with £164 million of net cash even after significant investment across the business and increased returns to shareholders.

Twelve months to 31 December	**2013 £m**	2012 (restated) £m	Change £m	Change %
Net Advertising Revenue ('NAR')	**1,542**	1,510	32	2
Total non-NAR revenue	**1,211**	1,036	175	17
Total revenue	**2,753**	2,546	207	8
Internal supply	**(364)**	(350)	(14)	(4)
Total external supply	**2,389**	2,196	193	9
EBITA before exceptional items	**620**	513	107	21
Group EBITA Margin	**26%**	23%		
Adjusted earnings per share	**11.2p**	9.1p	2.1p	23
Adjusted diluted earnings per share	**10.8p**	8.7p	2.1p	24
Dividend per share	**3.5p**	2.6p	0.9p	35
Special dividend	**4.0p**	4.0p	–	–
Net cash as at 31 December	**164**	206	(42)	

The profit before tax (PBT) and earnings per share (EPS) from the Consolidated Income Statement are as follows:

Twelve months to 31 December	**2013 £m**	2012 (restated) £m	Change £m	Change %
Profit before tax	**435**	334	101	30
Earnings per share (EPS)	**8.3p**	6.6p	1.7p	26
Diluted earnings per share	**8.1p**	6.4p	1.7p	27

External revenues were up 9%. Total non-NAR revenues grew £175 million (17%) and ITV Family NAR was up 2%.

This revenue growth, combined with our tight cost management and our higher margin new revenue streams, saw us deliver 21% growth in EBITA to £620 million and 23% growth in adjusted EPS to 11.2p. Group margins improved by three percentage points to 26%

We again maintained our focus on cash and costs. We delivered £28 million of cost savings, £8 million ahead of our original target and our tight working capital management has delivered a strong profit to cash ratio at 97%, again above our 90% rolling three year target. We have continued to take steps to improve the efficiency of the balance sheet having bought back £211 million of gross debt and exercised our right to redeem the convertible bond. Together, these actions have reduced our level of total debt to £354 million and further reduced our financing costs.

The Financial and Performance Review focuses on the adjusted results, which in management's view shows our business performance in a more meaningful and consistent manner and reflects how the business is managed and measured on a daily basis. A reconciliation to the reported results is set out in the earnings per share section that follows.

Adjusted profit before tax and adjusted EPS remove the effect of exceptional items which include acquisition related costs (professional fees, primarily due diligence, and performance based employment linked contingent payments), impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments and other tax adjustments.

Finance and Performance Review

Following revisions to IAS 19, we are required to restate our prior period results which have resulted in the following:

	2012 as originally reported	**2012 (restated)**	Income statement impact
Net Financing Costs	(99)	**(106)**	(7)
Broadcast & Online EBITA	413	**406**	(7)
Group EBITA	520	**513**	(7)
Tax Charge	(80)	**(77)**	3
PBT	348	**334**	(14)
PAT (excl. NCI)	267	**256**	(11)
Adjusted PBT	464	**457**	(7)
Adjusted Tax Charge	(105)	**(104)**	1
Adjusted PAT (excl NCI)	358	**352**	(6)
EPS	6.9	**6.6**	(0.3)
Diluted EPS	6.7	**6.4**	(0.3)
Adjusted EPS	9.2	**9.1**	(0.1)
Diluted Adjusted EPS	8.9	**8.7**	(0.2)

Broadcast & Online

Twelve months to 31 December	**2013 £m**	2012 (restated) £m	Change £m	Change %
Net Advertising Revenue ('NAR')	**1,542**	1,510	32	2
SDN external revenues	71	62	9	15
Online, Pay & Interactive	118	102	16	16
Other commercial income	165	160	5	3
Broadcast & Online non-NAR revenue	**354**	324	30	9
Total Broadcast & Online revenue	**1,896**	1,834	62	3
Total schedule costs	(983)	(996)	13	1
Other costs	(426)	(432)	6	1
Total Broadcast & Online EBITA before exceptional items	**487**	406	81	20
Broadcast & Online EBITA margin	**26%**	22%		

Broadcast & Online delivered a strong performance. Revenues were up £62 million (3%) and with tight control of costs and growth in new higher margin revenues, we delivered an £81 million (20%) increase in EBITA.

Revenue growth was driven by a 16% increase in Online, Pay & Interactive revenues and 2% growth in ITV Family NAR as the television advertising market returned to growth. The television advertising market again showed significant fluctuations across the year, often driven by the timing of sporting events or programmes delivering large audiences. ITV Family NAR was down 3% in the first half of the year as there were tough comparatives in Q2 caused by the absence of a big sporting event but this recovered over the second half which was up 8%. In 2014 with the FIFA World Cup in Q2 we expect again to see significant variations by quarter.

There also continues to be volatility by sector. In 2013 we continued to see strong demand from advertising sectors driven by technology and highly competitive industries. Good growth was seen in entertainment & leisure, telecommunications, cars, publishing & broadcasting, airlines & holidays and household stores. While retail as a whole did not show significant growth as the high street subsector remained weak, supermarkets did spend more. Finance declined year-on-year driven by banks and building societies. Food was weak due to the margin pressure being experienced within the sector.

Over the full year, ITV NAR based on pure spot advertising was up 2% which is slightly behind our estimate of the television advertising market up 3%. However, it is getting increasingly difficult to measure the market as all broadcasters have differing definitions and therefore include sources of revenue other than pure spot advertising.

In 2014 we expect to outperform the television advertising market. Our on-screen performance in 2013, the strong schedule for 2014 including the FIFA World Cup, and the advertising deals we have done, puts us in a good position to achieve this.

SDN revenues increased 15% benefiting from the launch of the 12th and 13th video streams in the year. No similar one-off benefit is expected in 2014.

Online, Pay & Interactive revenues grew strongly, up 16% to £118 million. Within this, online advertising revenues increased as long form video requests grew 16%, which has been helped by our continued improvement in the quality and distribution and the enhanced offerings of itv.com and ITV Player. Our pay revenues have also grown as we have renegotiated deals with Virgin, BT and Lovefilm. These pay revenues are mainly from platform owners paying us for our channels. Our content is now available on 19 platforms. Our interactive revenues, which include competitions and voting, have been broadly flat year-on-year but we continue to drive engagement and interaction with our content.

Other commercial income includes sponsorship, minority revenues, media sales and other income. In total these are up 3%, with growth coming from sponsorship and brand extensions as we have broadened our commercial relationship with our advertisers, for example with Morrisons sponsoring Ant & Dec's Saturday Night Takeaway which included a full brand endorsement of Morrisons and Ant & Dec TV adverts.

Schedule costs were down as a result of the savings we have secured on our FA Cup and Champions League rights and lower overall sports costs as there has been no large one-off sporting event. This has enabled us to invest in more hours of drama and entertainment, including programmes from ITV Studios. Other costs were flat as we manage our overheads tightly which has mitigated inflationary pressures and funded our investment in the business.

ITV Studios

Twelve months to 31 December	**2013 £m**	2012 £m	Change £m	Change %
UK Productions	**456**	408	48	12
International Productions	**266**	171	95	56
Global Entertainment	**135**	133	2	2
Total Studios revenue	**857**	712	145	20
Total Studios costs	**(724)**	(605)	(119)	(20)
Total Studios EBITA before exceptional items	**133**	107	26	24
Studios EBITA margin	**16%**	15%		
Sales from ITV Studios to Broadcasting & Online	**364**	350	14	4
External revenue	**493**	362	131	36
Total Studios revenue	**857**	712	145	20

In 2013 we again delivered strong revenue growth, up 20%. All parts of the business performed well, with significant growth coming from International Productions both organically and through the acquisitions we have made.

Through this strong revenue growth, our continued focus on costs and changes in our revenue mix, we delivered 24% growth in EBITA.

Organic revenue growth was 7% and acquisitions delivered just under £100 million of revenue growth and £15 million of EBITA in line with our expectations.

UK Productions grew on and off ITV, with total revenue up 12%. This has been driven by drama, entertainment and factual with programmes such as Mr Selfridge, Lewis, Vera, Ant & Dec's Saturday Night Takeaway and The Chase for ITV as the demand for high quality content has grown. Off ITV we have produced Graham Norton and Shetland for the BBC, 24 Hours in A&E for Channel 4 and Four Weddings for Sky Living.

Finance and Performance Review

International Productions grew very strongly, up 56%. This was driven particularly by America for a number of reasons. Firstly they delivered good organic growth with additional volumes of programmes such as Hell's Kitchen. Secondly 2013 was the first full year of owning Gurney Productions, who produce the hugely popular show Duck Dynasty. Finally our other acquisitions also performed well with programmes such as Cake Boss produced by High Noon. We also had a good year in Germany and France with I'm A Celebrity Get Me Out Of Here! and Come Dine With Me in Germany and Four Weddings in France.

The strong growth in our UK and international production businesses is starting to feed our global distribution business, with programmes such as Mr Selfridge, Poirot, Marple, Lewis and Hell's Kitchen US selling to over 150 countries. In addition, eight of our formats have been sold in three or more countries this year, including I'm a Celebrity Get Me Out Of Here!, Dancing on Ice, Coach Trip and The Audience. However, this is a process that does take time. We are seeing strong growth in sales to digital platforms which is more than offsetting the decline in DVD sales.

The majority of costs incurred in ITV Studios vary directly with levels of activity. However, we continue to maintain our focus on costs and to drive efficiencies in the production process.

Acquisitions

In 2012 and 2013 we acquired a number of content businesses in the UK, the US and the Nordics. These have been made against strict strategic and financial criteria. Financially we look at ownership of intellectual property, return on capital employed and discounted cash flow. Strategically we look at the talent, creative pipeline and type of content to ensure it has the potential to return and travel. We have structured the deals, with earnouts or put and call options, to base a significant part of the consideration, which is capped, on future performance and therefore align incentives and lock in creative talent. To date our portfolio of acquisitions is performing in line with our expectations.

In 2012 we acquired Gurney Productions in the US, So TV in the UK, Mediacircus in Norway and Tarinatalo in Finland.

In April 2013 we acquired 100% of the UK independent producer The Garden to enhance our capability in creating factual entertainment formats that travel and to increase our strength in delivering commissions off ITV. We made an upfront payment of £18 million with a further capped cash payment contingent on The Garden's future performance. In July 2013 we acquired 100% of Big Talk Productions and associated companies (Big Talk) to strengthen our comedy and light entertainment capability. We paid an initial cash consideration of £13 million and there are further capped cash payments contingent on Big Talk's future performance.

In May 2013 in the US we acquired 60% of High Noon Entertainment for an upfront cash consideration of $26 million (£16 million) and in June we acquired 65% of Thinkfactory Media for an upfront cash consideration of $30 million (£19 million), to further build our strength and scale. There are put and call arrangements in place to buy the remaining minority stakes.

The total initial payment for 2012 and 2013 acquisitions is £108 million with a further expected £97 million (undiscounted) payable which is based upon our current view of their performance over the payment period. The total maximum consideration of £293 million (undiscounted contingent consideration of £185 million and initial consideration of £108 million) for all these acquisitions is payable only if the businesses deliver 20–30% compound average annual growth rate in earnings.

On 19 February 2014 we acquired a 51% controlling interest in DiGa Vision, the US independent producer of reality and scripted programming. There is a put and call option to buy the remainder of the company over three to six years.

Company	Geography	Genre	Initial consideration (£m)	Total expected consideration* (£m)	Total maximum consideration* (£m)	Expected payment period
2013						
The Garden	UK	Factual Entertainment	18	35	46	2018
High Noon	US	Reality, Entertainment	16	34	61	2015–2021
Thinkfactory	US	Reality, Entertainment & Scripted	19	31	61	2017–2019
Big Talk	UK	Comedy & Scripted	13	30	30	2015–2018
Total for 2013			**66**	**130**	**198**	
Total for 2012			42	75	95	
Total			**108**	**205**	**293**	

* Undiscounted and including the initial cash consideration. All payments are performance related.

Net financing costs

Net adjusted financing costs of £25 million were £19 million lower than last year as a result of the full year benefit of the debt bought back in 2012 and part year benefit of the debt buyback and the redemption of the convertible bond in 2013.

The £61 million of losses on buybacks relate to the exceptional loss on the £211 million (nominal) of debt we bought back in the year. The partial repayment of the 2019 bilateral loan in March of £138 million (nominal) resulted in an exceptional loss of £38 million and will save £48 million of future interest costs.

The £73 million convertible bond buyback, together with the early redemption of the remaining balance for equity, resulted in an exceptional loss of £23 million and will save £16 million of future interest costs as well avoiding the dilution of our shareholders.

In 2012 losses were incurred on the buyback of certain bonds.

In January 2014 we bought back the remaining tranche of the 2019 bilateral loan for £95 million.

Twelve months to 31 December	**2013 £m**	2012 (restated) £m
Financing costs directly attributable to loans and bonds	**(18)**	(38)
Cash-related net financing (costs)/income	**(2)**	3
Cash-related financing costs	**(20)**	(35)
Amortisation of bonds	**(5)**	(9)
Adjusted financing costs	**(25)**	(44)
Mark-to-market on swaps and foreign exchange	**(9)**	(11)
Imputed pension interest	**(20)**	(16)
Losses on buybacks	**(61)**	(36)
Other net financial costs	**–**	1
Net financing costs	**(115)**	(106)

Tax

The effective tax rate on adjusted profit before tax of £581 million is 23% which is comparable to the standard tax rate of 23.25% (2012: the effective tax rate on adjusted profits of 23% was lower than the standard rate of 24.5% due to the adjustments made for prior periods and the recognition of overseas deferred tax credits). The total tax charge is £105 million (2012: £77 million).

Cash tax paid of £67 million (2012: £62 million) arises as a result of making payments for taxable profits partially offset by the use of losses and the tax treatment of allowable pension contributions. The majority of cash tax is paid in the UK.

Twelve months to 31 December	**2013 £m**	2012 (restated) £m
Profit before tax	**435**	334
Exceptional items (net)	**2**	12
Amortisation and impairment of intangible assets*	**54**	49
Adjustments to net financing costs	**90**	62
Adjusted profit before tax	**581**	457

* In respect of intangible assets arising from business combinations.

Finance and Performance Review

Twelve months to 31 December	2013 £m	2012 (restated) £m
Tax charge	**(105)**	(77)
Charge for exceptional items	**(1)**	(2)
Charge in respect of amortisation and impairment of intangible assets*	**(12)**	(12)
Charge in respect of adjustments to net financing costs	**(21)**	(15)
Other tax adjustments	**3**	2
Adjusted tax charge	**(136)**	(104)
Effective tax rate on adjusted profits	**23%**	23%

* In respect of intangible assets arising from business combinations.

Dividend

The Board has proposed a final dividend of 2.4p (2012: 1.8p) giving a full year dividend of 3.5p (2012: 2.6p) – an increase of 35% on 2012. The Board is committed to a progressive dividend, taking into account the outlook for the business, while balancing the need to invest for growth and to maintain a robust financial position.

In addition to the final dividend, the Board is proposing a special dividend of 4.0p per share or £161 million (2012: 4p per share special dividend). The cash distribution reflects the Board's confidence in the ongoing growth and cash generation of the business. Going forward we will continue to show capital discipline and balance the need to invest for future growth with increasing returns to shareholders.

Earnings per share

Adjusted earnings per share is 11.2p (2012: 9.1p). Earnings per share is 8.3p (2012: 6.6p).

The main differences between reported and adjusted earnings per share are exceptional items which include acquisition related costs (professional fees, primarily due diligence, and performance based employment linked contingent payments), impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments and other tax adjustments.

The adjustments shown below remove the impact of those items that in management's view do not show the performance of the business in a consistent manner and do not reflect how the business is managed and measured on a day-to-day basis.

Twelve months to 31 December 2013	Reported £m	Adjustments £m	Adjusted £m
EBITA before exceptional items	620		620
Exceptional items (operating)	(8)	8	–
Amortisation and impairment of intangible assets	(66)	54	(12)
Net financing costs	(115)	90	(25)
Share of losses of JVs and Associates	(2)	–	(2)
Gain on sale and impairment of subsidiaries and investments (non-operating exceptional items)	6	(6)	–
Profit before tax	**435**	**146**	**581**
Tax	(105)	(31)	(136)
Profit after tax	330		445
Non-controlling interests	(4)		(4)
Earnings	**326**		**441**
Shares (million), weighted average	3,929		3,929
Earnings per share (pence)	**8.3p**		**11.2p**

Amortisation and impairment of intangible assets acquired through business combinations is not included within adjusted earnings. Amortisation of software licences and development is included as management considers these assets to be core to supporting the day-to-day operation of the business.

Operating exceptional items are mainly acquisition related expenses, including professional fees, primarily due diligence, and performance based employment linked contingent payments. There are no restructuring costs in 2013.

Non-operating exceptional items largely relate to the profit on disposal of STV shares in the year resulting in a gain of £6 million.

Cash flow, working capital and free cash flow

Cash flow and working capital management

Twelve months to 31 December	2013 £m	2012 (restated) £m
EBITA before exceptional items ('profit')	**620**	513
(Increase)/decrease in programme rights and other inventory distribution rights	**(42)**	29
(Increase)/decrease in receivables	**(15)**	17
Increase/(decrease) in payables	**42**	(45)
Working capital movement	**(15)**	1
Depreciation	**24**	27
Share-based compensation and pension service costs	**20**	16
Cash flow generated from operations before exceptional items	**649**	557
Acquisition of property, plant and equipment and intangible assets	**(45)**	(61)
Adjusted cash flow	**604**	496
'Profit to cash' ratio	**97%**	97%*

* Previously reported profit to cash ratio for 2012 was 95%. This has increased to 97% because of the restatement of EBITA.

Our focus on cash remains a priority and we generated £604 million of cash from £620 million of EBITA before exceptional items. This performance is largely due to the continued management of working capital balances. Our profit to cash ratio of 97% has been maintained at a strong level and continues to be ahead of our KPI target of 90% on a three year rolling basis.

This calculation includes £45 million of capital expenditure, which largely relates to the new state-of-the-art Coronation Street set. However, it excludes the acquisition of the Company's London headquarters for £58 million as management considers it to be a material one-off capital expenditure and not a day-to-day operational investment.

Free cash flow

Twelve months to 31 December	2013 £m	2012 (restated) £m
Adjusted cash flow	**604**	496
Net interest paid	**(24)**	(33)
Cash tax	**(67)**	(62)
Pension funding	**(80)**	(72)
Free cash flow	**433**	329

Except where disclosed, management views the acquisition of operating property, plant and equipment and intangibles as necessary ongoing investment in the business.

Free cash flow reflects our underlying cash generation and our strong free cash flow generation gives us flexibility to invest in the business and reward our shareholders. This is a key strength of ITV today.

Free cash flow before dividends, acquisitions and debt repayments remains very strong and is up over £100 million (32%) year-on-year, in line with the growth in profits.

Net cash, liquidity risk and funding

Net cash at the year end was £164 million, compared to net debt of £52 million at 30 June 2013 and £206 million net cash at the end of 2012.

One of the key strengths of our business is our strong cash generation but it is weighted to the second half of the year as we make a number of significant payments both regular and one-off in the first half of 2013, including acquisitions, dividends, the pension deficit funding contribution, debt buybacks and the purchase of our London headquarters. In spite of this investment and shareholder returns we ended the year with a similar cash position to 2012.

Finance and Performance Review

Adjusted net debt

Twelve months to 31 December	**2013 £m**	2012 £m
Net cash	**164**	206
Expected contingent payments on acquisitions	**(97)**	(36)
Pension deficit (IAS 19R)	**(445)**	(551)
Operating leases	**(414)**	(518)
Adjusted net debt	**(792)**	(899)
Adjusted net debt to EBITDA	**1.2**	1.7

Net debt/net cash is one measure of the strength of our financial position. However, we believe it is appropriate to look at all our financial commitments and have developed an adjusted net debt measure, similar to how credit rating agencies could look at our balance sheet. The ratio of adjusted net debt to EBITDA before exceptional items is 1.2. This level of indebtedness is slightly lower than previous years and reflects the improved profitability and strong cash generation of the business as well as reduced lease commitments and a lower pension deficit as measured by IAS 19.

As can be seen from the table, adjusted net debt includes the undiscounted estimate of the contingent payments in relation to all the acquisitions we have made in 2012 and 2013, the pension deficit on an IAS 19 basis, and our operating lease commitments (undiscounted) which are mainly for broadcast transmission contracts and property. Lease commitments have reduced year on year as a result of the acquisition of our London headquarters.

Debt structure and liquidity
We continued to strengthen our balance sheet and maintain access to liquidity with our strong underlying cash generation, the £125 million invoice discounting facility and our £250 million Revolving Credit Facility (RCF). In June 2013 we extended the maturity of the RCF by a further year to July 2016. The facility remains undrawn and, subject to agreement by the banks, is extendable by a further year. The facility contains leverage and interest cover financial covenants as is normal for a facility of this nature.

We have bought back over £1.1 billion of debt (including the £73 million of convertible we bought back) since October 2009 and we now have a much more efficient balance sheet. After the year end we bought back the remaining £62 million (nominal) of the March 2019 bank loan (see post balance sheet events). Given what we have bought back over the last few years we do not expect to be able to make any further material changes in the efficiency of our balance sheet.

The debt buybacks in the year were as follows:

- In March 2013 we repaid £138 million (nominal) of the £200 million covenant free bilateral loan with a maturity of March 2019. This was satisfied by £30 million of cash and by gilts secured against the loan and resulted in an exceptional charge of £38 million. This repayment will save £48 million in future interest costs.
- During the year we repurchased £73 million (nominal) of the £135 million convertible bond with a maturity date of November 2016 for a cash cost of £169 million. In September we exercised our right to redeem the outstanding principal amount of the convertible bond. This redemption and conversion process was completed on 21 October and resulted in 95 million new shares being issued. Settling the convertible has resulted in £16 million of interest cost savings over the remaining period of the bond. Partly buying back the debt has avoided the full dilution which would have occurred if the entire convertible had been redeemed. Settling the convertible has also resulted in an exceptional charge of £23 million shown in financing costs and in a net £74 million loss attributable to equity, which has been reflected directly in retained earnings.

The actions we have taken will improve our adjusted financing costs going forward. In 2014 we expect adjusted financing costs to be about £10–£12 million, a saving of around £15 million after the repurchase of the remaining 2019 loan.

Financing

We are financed using debt instruments with a range of maturities. Following the buyback of the 2019 loan in January 2014, the remaining debt, other than the finance leases, is publicly traded Eurobond debt. Borrowings at 31 December 2013 (net of currency hedges) are repayable as follows:

Amount repayable	£m	Maturity
€50 million Eurobond*	15	June 2014
£78 million Eurobond	78	Oct 2015
£161 million Eurobond	161	Jan 2017
£62 million Bank loan†	62	Mar 2019
Finance leases	38	Various
Total debt repayable on maturity	354	

* Net of cross currency swaps.
† Bought back in full in January 2014

There are no financial covenants on any of our debt instruments, other than the RCF which remains undrawn.

The recent debt buyback of the 2019 loan removes the last of the high coupon debt taken out in 2008/9.

Ratings

Our credit ratings have improved during 2013 with all three ratings agencies upgrading their long-term credit ratings. In March and April respectively, Standard & Poor's and Fitch upgraded our long-term credit rating to investment grade BBB- (Stable outlook). In August Moody's Investors Service also upgraded their long-term credit rating to investment grade Baa3 (Stable outlook).

The factors that are taken into account in assessing our credit rating include our degree of operational gearing, exposure to the economic cycle, and business and geographical diversity. Continuing to execute our strategy will strengthen our position against all these metrics.

Pensions

IAS 19

The aggregate IAS 19 deficit of the defined benefit schemes at 31 December 2013 was £445 million (31 December 2012: £551 million). This was partly as a result of the £80 million annual deficit funding contribution. Total liabilities have also reduced as a result of an increase in the implied discount rate used to value liabilities. This was largely offset by an increase in the rate of market-implied inflation. A review of the mortality assumption produced a further increase in the liabilities, reflecting an increased allowance for longer life expectancy.

In 2011 the Group entered into a longevity swap to protect against further increases in life expectancy. Changes in accounting standards mean that the assumptions used to value this swap are now based on market fair values, rather than best estimates. These changes have resulted in a significant actuarial gain in 2013 with the book value of the swap decreasing from a £118 million liability in 2012 to a £23 million liability in 2013.

Pensions continue to be paid from the Scheme based on actual requirements.

Actuarial valuations

Full actuarial valuations are carried out every three years with the latest completed actuarial valuations of all three sections of the main defined benefit scheme carried out as at 1 January 2011 and, on the bases adopted by the Trustee, the combined funding deficits amounted to £587 million.

The Trustee of the Scheme will undertake actuarial valuations as at 1 January 2014 with the outcome expected by 2015.

Deficit funding contributions

Following completion of actuarial valuations as at 1 January 2011 the Group has agreed with the Trustee that the level of contributions to the main section of the ITV Pension Scheme will be a combination of fixed and performance related payments.

Finance and Performance Review

The fixed payments will be as follows:

2013 – 2014
£35 million per annum plus an additional £5 million if there are no initiatives in the previous year which materially reduce the deficit. This has not changed from the previous funding plan.

2015 – 2019
£48 million per annum in 2015 increasing by £0.5 million per annum to £50 million per annum in 2019.

2020 – 2025
£50 million per annum, but may be reduced by the impact of additional profit-related contributions set out below.

The performance related contributions will be calculated as follows:

2012 – 2020
If the Group's reported EBITA pre exceptional items exceeds £300 million, the Group will increase the fixed contributions by an amount representing 10% of EBITA pre exceptional items over the threshold level, subject to an annual cap which averages to £70 million per annum over the period 2015 – 2020. If the additional profit-related contributions are paid at the expected rate then the £50 million per annum fixed contributions scheduled to be paid between 2021 and 2025 (inclusive) should not be required.

In addition to the agreed deficit funding contributions, the SDN partnership established in 2010 provides an annual distribution of £11 million to this section of the Scheme for 12 years from 2011.

For Sections B and C of the Scheme the Group has agreed with the Trustee that it will make deficit funding contributions of £5.5 million per annum in order to eliminate the deficits in these sections by 31 March 2021.

In 2014 we expect to make a total deficit funding contribution of £89 million, which is £9 million higher than 2013 reflecting the increase in EBITA year-on-year.

Post balance sheet events

On 16 January 2014 we agreed to repay the remaining £62 million of the 2019 bilateral loan. This repayment will save around £44 million in adjusted financing costs over the remainder of the loan – around £8 million on an annualised basis, and will lead to an exceptional loss of £30 million for 2014. The repayment was satisfied by a one-off cash payment of £95 million.

Ian Griffiths
Finance Director

Introduction and Table of Contents

In this section . . .

The financial statements have been presented in a style which attempts to make them less complex and more relevant to shareholders. We have grouped the note disclosures into five sections: 'Basis of Preparation', 'Results for the Year', 'Operating Assets and Liabilities', 'Capital Structure and Financing Costs' and 'Other Notes'. Each section sets out the accounting policies applied in producing the relevant notes, along with details of any key judgements and estimates used. The purpose of this format is to provide readers with a clearer understanding of what drives financial performance of the Group. The aim of the text in boxes is to provide commentary on each section, or note, in plain English.

Keeping it simple . . .

Notes to the financial statements provide information required by statute, accounting standards or Listing Rules to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the annual report and the financial statements.

Contents

Consolidated Income Statement

For the year ended 31 December	Note	2013 £m	2012 (restated) £m
Revenue	2.1	**2,389**	2,196
Operating costs		**(1,843)**	(1,750)
Operating profit		**546**	446
Presented as:			
Earnings before interest, tax, amortisation (EBITA) before exceptional items	2.1	**620**	513
Operating exceptional items	2.2	**(8)**	(7)
Amortisation and impairment of intangible assets	3.3	**(66)**	(60)
Operating profit		**546**	446
Financing income	4.4	**10**	20
Financing costs	4.4	**(125)**	(126)
Net financing costs	4.4	**(115)**	(106)
Share of losses of joint ventures and associated undertakings	2.1	**(2)**	(1)
Loss on sale and impairment of non-current assets (exceptional items)	2.2	**–**	(6)
Gain on sale and impairment of subsidiaries and investments (exceptional items)	2.2	**6**	1
Profit before tax		**435**	334
Taxation	2.3	**(105)**	(77)
Profit for the year		**330**	257
Profit attributable to:			
Owners of the Company		**326**	256
Non-controlling interests		**4**	1
Profit for the year		**330**	257
Earnings per share			
Basic earnings per share	2.4	**8.3p**	6.6p
Diluted earnings per share	2.4	**8.1p**	6.4p

Consolidated Statement of Comprehensive Income

For the year ended 31 December	2013 £m	2012 (restated) £m
Profit for the year	**330**	257
Other comprehensive income:		
Items that are or may be reclassified to profit or loss		
Revaluation of available for sale financial assets	**(3)**	(1)
Exchange differences on translation of foreign operations	**(6)**	(1)
Items that will never be reclassified to profit or loss		
Remeasurement gains/(losses) on defined benefit pension schemes	**48**	(213)
Income tax (charge)/credit on items that will never be reclassified	**(13)**	50
Other comprehensive income/(cost) for the year, net of income tax	**26**	(165)
Total comprehensive income for the year	**356**	92
Total comprehensive income attributable to:		
Owners of the Company	**352**	91
Non-controlling interests	**4**	1
Total comprehensive income for the year	**356**	92

Consolidated Statement of Financial Position

As at 31 December	Note	2013 £m	2012 (restated) £m
Non-current assets			
Property, plant and equipment	3.2	**259**	156
Intangible assets	3.3	**954**	938
Investments in joint ventures and associated undertakings		**4**	6
Available for sale financial assets		**–**	3
Held to maturity investments	4.1	**–**	145
Derivative financial instruments	4.3	**41**	99
Distribution rights	3.1.1	**10**	17
Net deferred tax asset	2.3	**52**	93
		1,320	1,457
Current assets			
Programme rights and other inventory	3.1.2	**322**	252
Trade and other receivables due within one year	3.1.4	388	366
Trade and other receivables due after more than one year	3.1.4	14	14
Trade and other receivables		**402**	380
Derivative financial instruments	4.3	**32**	–
Cash and cash equivalents	4.1	**518**	690
		1,274	1,322
Assets held for sale	3.5	**–**	25
		1,274	1,347
Current liabilities			
Borrowings	4.2	**(62)**	(7)
Derivative financial instruments	4.3	**(6)**	(1)
Trade and other payables due within one year	3.1.5	(702)	(622)
Trade payables due after more than one year	3.1.6	(42)	(31)
Trade and other payables		**(744)**	(653)
Current tax liabilities		**(36)**	(29)
Provisions	3.6	**(19)**	(25)
		(867)	(715)
Net current assets		**407**	632
Non-current liabilities			
Borrowings	4.2	**(318)**	(632)
Derivative financial instruments	4.3	**(27)**	(48)
Defined benefit pension deficit	3.7	**(445)**	(551)
Other payables		**(40)**	(14)
Provisions	3.6	**(8)**	(12)
		(838)	(1,257)
Net assets		**889**	832
Attributable to equity shareholders of the parent company			
Share capital	4.7.1	**403**	391
Share premium	4.7.1	**174**	122
Merger and other reserves	4.7.2	**248**	283
Translation reserve		**7**	13
Available for sale reserve		**4**	7
Retained earnings		**22**	1
Total equity attributable to equity shareholders of the parent company		**858**	817
Non-controlling interests		**31**	15
Total equity		**889**	832

Ian Griffiths
Group Finance Director

Consolidated Statement of Changes in Equity

	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
		Attributable to equity shareholders of the parent company			Items that may be reclassified to profit or loss					
Balance at 1 January 2013		**391**	**122**	**283**	**13**	**7**	**1**	**817**	**15**	**832**
Total comprehensive income for the year										
Profit		–	–	–	–	–	326	326	4	**330**
Other comprehensive income/(cost)										
Revaluation of available for sale financial assets		–	–	–	–	(3)	–	(3)	–	**(3)**
Exchange differences on translation of foreign operations		–	–	–	(6)	–	–	(6)	–	**(6)**
Remeasurement gains on defined benefit pension schemes	3.7	–	–	–	–	–	48	48	–	**48**
Income tax on other comprehensive income	2.3	–	–	–	–	–	(13)	(13)	–	**(13)**
Total other comprehensive income		–	–	–	(6)	(3)	35	26	–	**26**
Total comprehensive income for the year		**–**	**–**	**–**	**(6)**	**(3)**	**361**	**352**	**4**	**356**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	(271)	(271)	(1)	**(272)**
Equity portion of the convertible bond	4.1	10	52	(22)	–	–	(70)	(30)	–	**(30)**
Movements due to share-based compensation	4.7.7	–	–	–	–	–	14	14	–	**14**
Purchase of own shares via employees' benefit trust	4.7.7	–	–	–	–	–	(13)	(13)	–	**(13)**
Issue of new shares	4.7.1	2	–	–	–	–	–	2	–	**2**
Total contributions by and distributions to owners		12	52	(22)	–	–	(340)	(298)	(1)	**(299)**
Total transactions with owners		**12**	**52**	**(22)**	**–**	**–**	**(340)**	**(298)**	**(1)**	**(299)**
Changes in non-controlling interests[a]	3.4	–	–	(13)	–	–	–	(13)	13	**–**
Balance at 31 December 2013	**4.7**	**403**	**174**	**248**	**7**	**4**	**22**	**858**	**31**	**889**

(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

	Note	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available for sale reserve £m	Retained earnings (restated) £m	Total £m	Non-controlling interests £m	Total equity £m
		Attributable to equity shareholders of the parent company			Items that may be reclassified to profit or loss					
Balance at 1 January 2012		**389**	**120**	**300**	**14**	**8**	**(25)**	**806**	**3**	**809**
Total comprehensive income for the year										
Profit		–	–	–	–	–	256	256	1	**257**
Other comprehensive income/(cost)										
Revaluation of available for sale financial assets		–	–	–	–	(1)	–	(1)	–	**(1)**
Exchange differences on translation of foreign operations		–	–	–	(1)	–	–	(1)	–	**(1)**
Remeasurement losses on defined benefit pension schemes	3.7	–	–	–	–	–	(213)	(213)	–	**(213)**
Income tax on other comprehensive income	2.3	–	–	–	–	–	50	50	–	**50**
Total other comprehensive cost		–	–	–	(1)	(1)	(163)	(165)	–	**(165)**
Total comprehensive income for the year		**–**	**–**	**–**	**(1)**	**(1)**	**93**	**91**	**1**	**92**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	(78)	(78)	(1)	**(79)**
Equity portion of the convertible bond	4.1	–	–	(5)	–	–	5	–	–	–
Movements due to share-based compensation	4.7.7	–	–	–	–	–	9	9	–	**9**
Purchase of own shares via employees' benefit trust	4.7.7	–	–	–	–	–	(3)	(3)	–	**(3)**
Issue of new shares	4.7.1	2	2	–	–	–	–	4	–	**4**
Total contributions by and distributions to owners		2	2	(5)	–	–	(67)	(68)	(1)	**(69)**
Total transactions with owners		**2**	**2**	**(5)**	**–**	**–**	**(67)**	**(68)**	**(1)**	**(69)**
Changes in non-controlling interests[(a)]	3.4	–	–	(12)	–	–	–	(12)	12	–
Balance at 31 December 2012	4.7	**391**	**122**	**283**	**13**	**7**	**1**	**817**	**15**	**832**

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

The Consolidated Statement of Changes in Equity has been restated to reflect the impact of amendments to IAS 19R. See section 1 for details.

Consolidated Statement of Cash Flows

For the year ended 31 December	Note	2013 £m	2013 £m	2012 (restated) £m	2012 (restated) £m
Cash flows from operating activities					
Profit before tax		**435**		334	
Gain on sale and impairment of subsidiaries and investments (exceptional items)	2.2	**(6)**		(1)	
Loss on sale and impairment of non-current assets (exceptional items)	2.2	**–**		6	
Share of losses of joint ventures and associated undertakings	2.1	**2**		1	
Net financing costs	4.4	**115**		106	
Operating exceptional items	2.2	**8**		7	
Depreciation of property, plant and equipment	3.2	**24**		27	
Amortisation and impairment of intangible assets	3.3	**66**		60	
Share-based compensation and pension service costs	3.7/4.7.7	**20**		16	
(Increase)/decrease in programme rights and other inventory, and distribution rights		(42)		29	
(Increase)/decrease in receivables		(15)		17	
Increase/(decrease) in payables		42		(45)	
Movement in working capital	3.1.7	**(15)**		1	
Cash generated from operations before exceptional items			**649**		557
Cash flow relating to operating exceptional items:					
Net operating loss	2.2	**(5)**		(7)	
Increase/(decrease) in payables and provisions		**(6)**		5	
Cash outflow from exceptional items			**(11)**		(2)
Cash generated from operations			**638**		555
Defined benefit pension deficit funding		**(80)**		(72)	
Interest received		**38**		42	
Interest paid on bank and other loans		**(60)**		(72)	
Interest paid on finance leases		**(2)**		(3)	
Net taxation paid		**(67)**		(62)	
			(171)		(167)
Net cash inflow from operating activities			**467**		388
Cash flows from investing activities					
Redemption of gilts	4.1	**165**		–	
Acquisition of subsidiary undertakings	3.4	**(66)**		(38)	
Cash balances of subsidiaries acquired in period	3.4	**10**		–	
Proceeds from sale of property, plant and equipment		**4**		–	
Acquisition of property, plant and equipment		**(101)**		(50)	
Acquisition of intangible assets		**(2)**		(11)	
Loans granted to associates and joint ventures		**(4)**		(9)	
Loans repaid by associates and joint ventures		**–**		3	
Proceeds from sale of subsidiaries and joint ventures		**–**		4	
Proceeds from sale of available for sale investments		**8**		–	
Net cash inflow/(outflow) from investing activities			**14**		(101)
Cash flows from financing activities					
Bank and other loans – amounts repaid		**(365)**		(309)	
Capital element of finance lease payments		**(8)**		(8)	
Issue of share capital		**2**		4	
Equity dividends paid		**(271)**		(78)	
Dividend paid to minority interest		**(1)**		(1)	
Purchase of own shares via employees' benefit trust		**(13)**		(3)	
Net cash outflow from financing activities			**(656)**		(395)
Net decrease in cash and cash equivalents			**(175)**		(108)
Cash and cash equivalents at 1 January	4.1		**690**		801
Effects of exchange rate changes and fair value movements			**3**		(3)
Cash and cash equivalents at 31 December	4.1		**518**		690

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 2013 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 include the Group's interests in associates and jointly controlled entities. The Company is domiciled in the United Kingdom.

As required by EU law (IAS Regulation EC 1606/2002) the Group's accounts 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 2012 consolidated income statement and consolidated statement of comprehensive income have been restated for the retrospective application of IAS 19 Revised (see note 3.7). In addition, the consolidated statement of financial position has been restated for fair value adjustments to the net assets acquired with acquisitions in 2012 (see note 3.4).

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP.

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 2013. 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

As a result of the Group's continued generation of significant free cash flows the Group maintained its positive net cash position while paying a special dividend. The Group has also sought to gain further efficiencies in the balance sheet by repurchasing further debt where it is economically beneficial to do so (see section 4 for details on capital structure and financing).

The Group continues to review 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 funding.

The Group also continues to focus on development of the non-advertising business, and evaluates the impact of further investment in acquisitions against the strategy and cash headroom of the business.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

Subsidiaries, joint ventures, associates and special purpose entities

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 an entity 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.

A special purpose entity (SPE) is a legal entity which the Group may establish to fulfil a specific trading and investment purpose. Judgement is required when determining if an SPE should be consolidated and involves the evaluation of the substance of its relationships with the Group and the SPE's risks and rewards. Those SPEs controlled by the Group are established under terms that impose strict limitations on the decision-making powers of their management and that result in the Group receiving the majority of the benefits related to their operations and net assets, being exposed to the majority of risks incidental to their activities and receiving the majority of the residual or ownership risks related to the SPEs or their assets.

SPEs are used in limited circumstances by the Group. The only significant SPE is the pension funding partnership that was established in 2010 between the Group and the Trustee of the ITV Pension Scheme as a way of establishing payment streams to the pension scheme. The partnership, which is a Scottish Limited Partnership, is controlled and consolidated by the Group.

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 (excluding gilts over which unfunded pension commitments have a charge) and trade and other receivables;
- 'Available for sale financial assets' – measured at fair value through other comprehensive income. Includes gilts over which unfunded pension commitments have a charge and equity securities that do not meet the definition of subsidiaries, joint ventures or associates;
- 'Held to maturity investments';
- 'Financial assets/liabilities at fair value through profit or loss' – separately disclosed as derivative financial instruments in assets/liabilities and included in non-current 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.

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, cash held to meet certain finance lease commitments and gilts over which unfunded pension commitments have a charge. The carrying value of cash and cash equivalents is considered to approximate fair value.

Section 1: Basis of Preparation

Foreign currencies

The primary economic environment in which the Group operates is the UK. The consolidated financial statements are therefore 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 that day. 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 may arise. Any such differences are recognised in 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 revenues 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 equity and other comprehensive income.

Exchange differences arising on the translation of the Group's interests in joint ventures and associates are recognised in the translation reserve within equity and other comprehensive income.

On disposal of 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 judgement or complexity are set out below and in more detail in the related notes:

- Revenue recognition (note 2.1)
- Classification of financial instruments (included in this note)
- Business combinations (note 3.3 and note 3.4)

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 schemes, including the related longevity swap (note 3.7)
- Taxation (note 2.3)
- Provisions (note 3.6)
- Business combinations (note 3.4)
- Impairment of assets (note 3.2 and note 3.3)
- Financial instruments (note 4.1)

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 2013:

Accounting Standard	Requirement	Impact on financial statements
IAS 19 Revised – Employee Benefits	The IASB issued numerous amendments to IAS 19, ranging from the concept of expected return on plan assets to simple clarifications and rewording of disclosures. The most significant amendment is the requirement to calculate net interest income or expense using the discount rate used to measure the defined benefit obligation, whereas the previous standard required a separate expected return on assets to be used. The amendment also clarifies that administrative costs should be recognised within operating costs, which differs from previous practice of including it as a deduction of assets. The revised standard has been implemented in the current year by the Group, with retrospective application.	The impact on the income statement has been reflected in the current year and has resulted in finance costs of £20 million (which is adjusted for in calculating adjusted profit), and operating costs of £13 million, which is included within EBITA. The 2012 comparative performance has been restated to reflect an increase in finance costs of £7 million to £16 million, and an additional £7 million in operating costs to £15 million. The impact on 2012 statutory EPS is a decrease from 6.9p to 6.6p. The above amendments have not had any impact on the 2013 and 2012 net asset position of the Group.
IAS 1 Financial Statement Presentation	The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to the income statement at a future point in time would be presented separately from items that will never be reclassified.	The statement of other comprehensive income has been amended to reflect the update in presentation but there is no impact on the Group's financial position or performance.
IFRS 13 Fair Value Measurements	IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The standard is effective for periods beginning on or after 1 January 2013. **Longevity swap** IFRS 13 has resulted in a change in the method of valuing a longevity swap (previously accounted for under IAS 19R). Under the new method the Group will be applying market-based assumptions to the measurement process (previously the best estimate was taken).	**Longevity swap** The value of the longevity swap has increased from a negative asset of £118 million in 2012 under the old method to a negative asset of £23 million in 2013 under the new method. Had the old valuation method applied at 31 December 2013, the value of the longevity swap would have been negative £140 million. The impact of the new valuation method is an increase in the net assets position of £117 million, with the remaining £22 million offsetting movement being changes in market conditions over 2013. The movement has been reflected within the net remeasurement gain presented in the statement of other comprehensive income. The change in value of the swap has had no impact on the consolidated income statement of the Group. Further details are in note 3.7. There have been no other material impacts noted for the Group.

Section 1: Basis of Preparation

The Directors also considered the impact on the Group of other new and revised accounting standards, interpretations or amendments on the Group that are currently endorsed but not yet effective. Except where noted below, none are considered relevant to the Group's results and are effective for periods beginning on or after 1 January 2014.

Accounting Standard	Requirement	Impact on financial statements
IAS 32 Financial Instruments	The amendments clarify the offsetting criteria, such as when an entity has a legal right to offset and when gross settlement is equivalent to net settlement.	Based on the preliminary analyses performed, the amendments are not expected to have any impact on the Group.
IFRS 10	IFRS 10 replaces a portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27.	Based on the preliminary analyses performed, IFRS 10 is not expected to have any material impact on the currently held investments of the Group.
IFRS 11	IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly controlled entities – Non-monetary contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.	Based on the preliminary analyses performed, IFRS 11 is not expected to have any material impact on the currently held investments of the Group.
IFRS 12	IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.	Although a number of new disclosures will be required, there is no material impact expected on the Group's financial position or performance.

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.

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.

Earnings before interest, tax, amortisation (EBITA) and before exceptional items remains 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 EBITA.

Following revisions to IAS 19, we have restated our prior period results and the details of those restatements are included in note 3.7.

2.1 Profit before tax

Accounting policies

Revenue recognition

Revenue is stated exclusive of VAT and comprises the sale of products and services to third parties. Selecting the appropriate timing and amount of revenue recognised requires some judgement. Revenue from the sale of products is recognised when the Group has transferred both the significant risks and rewards of ownership and control of the products sold and the amount of revenue can be measured reliably. Revenue recognition criteria for the Group's key classes of revenue are recognised on the following bases:

Applicable segment	Class of revenue	Recognition criteria
Broadcast & Online	Advertising	on transmission or display
Broadcast & Online	Sponsorship	on transmission of the sponsored programme or series
Studios	Programme production	on delivery of episode and acceptance by the customer
Studios	Programme rights	when contracted and available for exploitation
Broadcast & Online	Participation revenues (interactive & 'red button' services)	as the service is provided
Studios	Digital revenue: Archive and Video on Demand – one-off and top-up content	on delivery of content (one-off) or over the contract period in a manner that reflects the flow of content delivered (top-up)
Broadcast & Online	Digital revenue: Catch up	an estimate is accrued in the month and trued up on receipt of third party reports showing revenue share calculation (showing subscribers and hours downloaded)

Segmental information

Operating segments, which have not been aggregated, are reported in a manner that is consistent with the internal reporting provided to the Board of Directors, regarded as the chief operating decision maker.

Section 2: Results for the Year

The Board of Directors considers the business primarily from a product or activity perspective. The reportable segments for the years ended 31 December 2013 and 31 December 2012 are therefore 'Broadcast & Online' and 'ITV Studios', the results of which are outlined in the following tables:

	Broadcast & Online 2013 £m	**ITV Studios 2013 £m**	**Consolidated 2013 £m**
Total segment revenue	**1,896**	**857**	**2,753**
Intersegment revenue	**–**	**(364)**	**(364)**
Revenue from external customers	**1,896**	**493**	**2,389**
EBITA before exceptional items	**487**	**133**	**620**
Share of losses of joint ventures and associated undertakings	**(2)**	**–**	**(2)**

	Broadcast & Online 2012 (restated) £m	ITV Studios 2012 £m	Consolidated 2012 (restated) £m
Total segment revenue	1,834	712	2,546
Intersegment revenue	–	(350)	(350)
Revenue from external customers	1,834	362	2,196
EBITA before exceptional items	406	107	513
Share of losses of joint ventures and associated undertakings	(1)	–	(1)

Intersegment revenue, which is carried out on arm's length terms, is generated from the supply of ITV Studios programmes to Broadcast & Online for transmission primarily on ITV. This revenue stream is a measure which forms part of the Group's strategic priority of building a strong international content business.

In preparing the segment information, centrally managed costs have been allocated between reportable segments on a methodology driven principally by revenue and headcount of each segment. This is consistent with the basis of reporting to the Board of Directors.

Broadcast & Online

This segment is responsible for commissioning and scheduling programmes on the ITV channels, marketing and programme publicity and online rights exploitation. Upon transmission of these programmes, Broadcast & Online generates revenue from the sale of audiences for advertising airtime and sponsorship. Other sources of revenue are from: participation revenue, digital revenue (including pay), online advertising, digital terrestrial multiplex SDN, brand extensions and licensing channels and content to pay operators.

ITV Studios

ITV Studios is an international productions business. It comprises ITV Studios UK, international production centres in the USA, Germany, France, Australia, Sweden, Norway and Finland and ITV Studios Global Entertainment, the distribution and exploitation business.

A significant portion of ITV Studios' UK revenue is generated when it creates ideas that are then produced and sold as programming to the 'Broadcast & Online' segment, primarily for ITV. This is shown in the intersegment revenue in the segmental analysis.

ITV Studios Global Entertainment sells programming, exploits merchandising and licensing worldwide, and is a distributor of DVD entertainment primarily in the United Kingdom, both for ITV Studios and third parties.

EBITA before exceptional items

The Directors assess the performance of the reportable segments based on a measure of EBITA before exceptional items. The Directors use this measurement basis as it excludes the effect of non-recurring income and expenditure. Amortisation, investment income and share of profit/(losses) of joint ventures and associates are also excluded to reflect more accurately how the business is managed and measured on a day-to-day basis. Net financing costs are not allocated to segments as this type of activity is managed by the central treasury function, which manages the cash position and funding of the Group.

A reconciliation from EBITA before exceptional items to profit before tax is provided as follows:

	2013 £m	2012 (restated) £m
EBITA before exceptional items	**620**	513
Operating exceptional items	**(8)**	(7)
Amortisation and impairment of intangible assets	**(66)**	(60)
Net financing costs	**(115)**	(106)
Share of losses of joint ventures and associated undertakings	**(2)**	(1)
Loss on sale and impairment of non-current assets (exceptional items)	**–**	(6)
Gain on sale and impairment of subsidiaries and investments (exceptional items)	**6**	1
Profit before tax	**435**	334

Whilst becoming more international, the Group's principal operations are in the United Kingdom. Its revenue from external customers in the United Kingdom is £1,982 million (2012: £1,895 million), and total revenue from external customers in other countries is £407 million (2012: £301 million).

There are three media buying agencies (2012: three) acting on behalf of a number of customers that represent the Group's major customers. These agencies are the only customers which individually represent over 10% of the Group's revenues. Revenues of approximately £527 million (2012: £486 million), £235 million (2012: £239 million) and £210 million (2012: £233 million) were derived from these customers. These revenues are attributable to the 'Broadcast & Online' segment.

Operating costs

Staff costs

Staff costs before exceptional items can be analysed as follows:

	2013 £m	2012 £m
Wages and salaries	**255**	236
Social security and other costs	**42**	35
Share-based compensation (see note 4.7.7)	**14**	9
Pension costs	**19**	20
	330	300

The number of full-time equivalent employees (excluding short-term contractors and freelancers), calculated on a weighted average basis, during the year was:

	2013	2012
Broadcast & Online	**2,049**	2,102
ITV Studios	**2,208**	1,957
	4,257	4,059

The increase in full-time equivalent employees in ITV Studios is primarily driven by the four acquisitions completed in 2013 as well as an increase in production from the core UK business. Broadcast & Online headcount reduction is driven by the regional news operations due to changes in Ofcom regulations combined with efficiency savings.

Details of Directors' emoluments, share options, pension entitlements and long-term incentive scheme interests are set out in the Remuneration Report.

Depreciation

Depreciation in the year was £24 million (2012: £27 million), of which £12 million (2012: £15 million) relates to 'Broadcast & Online' and £12 million (2012: £12 million) to 'ITV Studios'.

Section 2: Results for the Year

Operating leases

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

2013	**Transponders**	**Property**	**Total**
Within 1 year	**36**	**12**	**48**
Later than 1 year and not later than 5 years	**138**	**23**	**161**
Later than 5 years	**194**	**11**	**205**
	368	**46**	**414**

2012	Transponders	Property	Total
Within 1 year	29	12	41
Later than 1 year and not later than 5 years	137	29	166
Later than 5 years	220	91	311
	386	132	518

The Group's operating leases relate to transponder assets and office and studio properties. The Group holds transmission supply agreements that require the use of specific transponder assets for a period of up to 11 years with payments increasing over time, limited by specific RPI caps. These supply agreements are classified as operating leases, in accordance with the Group's policy on leases detailed in note 3.2.

Included in 2012 property commitments were future minimum lease payments of £82 million contracted on the London Television Centre, a property which the Group acquired in January 2013 (see note 3.2).

Property leases typically run for a period of up to ten years and may have an option to renew after that date (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 leases include contingent rentals.

The total future minimum sublease payments expected to be received under non-cancellable subleases at the year end are £2 million (2012: £4 million).

The total operating lease expenditure recognised during the year was £45 million (2012: £40 million) and total sublease payments received were £2 million (2012: £2 million).

Audit fees

The Group engages KPMG Audit Plc ('KPMG') on assignments additional to their statutory audit duties where their expertise and experience with the Group are important.

Fees paid to KPMG and its associates during the year are set out below:

	2013 £m	2012 £m
For the audit of the Group's annual accounts	**0.7**	0.8
For the audit of subsidiaries of the Group	**0.2**	0.1
Audit-related assurance services	**0.1**	0.1
Total Audit and Audit-Related assurance services	**1.0**	1.0
Taxation compliance services	**0.1**	0.1
Taxation advisory services	**0.2**	0.3
Other assurance services	**0.2**	–
Total Non-Audit Services	**0.5**	0.4
Total fees paid to KPMG	**1.5**	1.4

There were no fees payable in 2013 or 2012 to KPMG and associates for the auditing of accounts of any associate 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 material and non-recurring and are excluded from management's assessment of profit because by their 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 disclosed on the face of the income statement.

Subsequent revisions of estimates for items initially recognised as exceptional provisions 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.	**2013 £m**	2012 £m
Operating exceptional items:			
Reorganisation and restructuring costs	A	**–**	(5)
Acquisition related expenses	B	**(8)**	(2)
Total net operating exceptional items		**(8)**	(7)
Non-operating exceptional items:			
Loss on sale and impairment of non-current assets	C	**–**	(6)
Gain on sale and impairment of subsidiaries and investments	D	**6**	1
Total non-operating exceptional items		**6**	(5)
Total exceptional items before tax		**(2)**	(12)

A – Reorganisation and restructuring costs

In 2012 £5 million of costs were incurred relating to restructuring initiatives to drive cost efficiency in line with the strategy.

B – Acquisition related expenses

Acquisition related expenses of £8 million include professional fees (mainly financial and legal due diligence) incurred on the acquisitions completed during the year of £5 million (2012: £2 million; see also note 3.4), and expenses in the period with respect to performance based, employment linked contingent costs accrued to former owners of £3 million (2012: nil).

C – Loss on sale and impairment of non-current assets

In 2012 a £6 million loss on sale and impairment of non-current assets was incurred primarily as a result of an impairment on previous premises of £5 million.

D – Gain on sale and impairment of subsidiaries and investments

In 2013 the credit principally relates to the gain of £6 million recognised on disposal of STV shares. In 2012, the £1 million credit related to a £3 million gain on the sale of Screenvision US (Technicolor Cinema Advertisers LLC), offset by £2 million of impairment charges on investments in Freesat (UK) Limited and NoHo Film and Television Limited.

Section 2: Results for the Year

2.3 Taxation

Keeping it simple . . .

This section lays out the 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 and the movements in deferred tax assets and liabilities.

Following revisions to IAS 19, we have restated our prior period results and the details of those restatements are included in note 3.7.

Accounting policies

The tax charge for the period is recognised in the income statement and the statement of comprehensive income, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax. The calculation of the Group's total tax charge involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally 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 current tax charge is based on tax rates that are enacted or substantively enacted at the year end.

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 income tax and deferred tax provisions in the period in which such determination is made.

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. 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.

Taxation – Income statement

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

	2013 £m	2012 (restated) £m
Current tax:		
Current tax charge before exceptional items	**(78)**	(63)
Current tax charge on exceptional items	**(2)**	(2)
	(80)	(65)
Adjustments for prior periods	**3**	10
	(77)	(55)
Deferred tax:		
Origination and reversal of temporary differences	**(25)**	(27)
Adjustments for prior periods	**(3)**	5
	(28)	(22)
Total taxation charge in the income statement	**(105)**	(77)

In order to understand how, in the income statement, a tax charge of £105 million (2012: £77 million restated) arises on a profit before tax of £435 million (2012: £334 million restated), the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2013 £m	2012 (restated) £m
Profit before tax	**435**	334
Taxation charge at UK corporation tax rate of 23.25% (2012: 24.5%)	**(101)**	(82)
Non-taxable income/non-deductible expenses	**1**	(4)
Recognition of previously unrecognised temporary differences	**–**	8
Adjustments for prior periods	**–**	7
Impact of changes in tax rate	**(4)**	(3)
Other	**(1)**	(3)
Total taxation charge in the income statement	**(105)**	(77)

Non-deductible expenses are expenses that are not expected to be allowable for tax purposes. Similarly non-taxable income is income that will not be taxed.

A deferred tax asset of £10 million is recognised on overseas temporary differences in the USA. The deferred tax asset of £9 million in 2012 was on overseas temporary differences in the USA and Germany.

Adjustments for 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 effective tax rate is the tax charge on the face of the income statement expressed as a percentage of the profit before tax. In the year ended 31 December 2013, the effective tax rate is comparable to the standard rate of UK corporation tax. In the year ended 31 December 2012, the effective tax rate was lower than the standard rate of UK corporation tax primarily due to the reversal of over provisions for prior periods and recognition of overseas deferred tax assets. As explained in the Financial and Performance Review, the Group uses an adjusted tax rate to show the cash tax impact on its adjusted earnings.

Taxation – Other comprehensive income

Within other comprehensive income a tax charge totalling £13 million (2012: credit of £50 million) has been recognised representing deferred tax. An analysis of this is included in the deferred tax movement table.

Section 2: Results for the Year

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 2013 £m	Recognised in the income statement £m	Recognised in equity £m	**At 31 December 2013 £m**
Property, plant and equipment	(6)	–	–	**(6)**
Intangible assets	(34)	15	–	**(19)**
Programme rights	1	–	–	**1**
Pension scheme deficits	96	(27)	(13)	**56**
UK tax losses	17	(16)	–	**1**
Interest-bearing loans and borrowings, and derivatives	–	–	–	**–**
Share-based compensation	9	(1)	5	**13**
Overseas	9	1	–	**10**
Other	1	–	(5)	**(4)**
	93	(28)	(13)	**52**

	At 1 January 2012 £m	Recognised in the income statement (restated) £m	Recognised in equity (restated) £m	At 31 December 2012 £m
Property, plant and equipment	1	(7)	–	(6)
Intangible assets	(49)	15	–	(34)
Programme rights	1	–	–	1
Pension scheme deficits	71	(24)	49	96
UK tax losses	32	(15)	–	17
Interest-bearing loans and borrowings, and derivatives	(1)	1	–	–
Share-based compensation	8	–	1	9
Overseas	–	9	–	9
Other	2	(1)	–	1
	65	(22)	50	93

At 31 December 2013, total deferred tax assets are £81 million (2012: £133 million) and total deferred tax liabilities are £29 million (2012: £40 million).

The deferred tax balance relates to:

- property, plant and equipment temporary differences arising on assets qualifying for capital allowances;
- temporary differences on intangible assets arising on business combinations;
- programme rights temporary differences on intercompany profits on stock;
- pension scheme deficit temporary differences on the IAS 19 pension deficit, additional contributions resulting from funding through the SDN pension partnership (not recognised as contributions under IAS 19) and the spreading of tax relief on one-off large pension funding payments;
- UK tax loss temporary differences in receiving the benefit of the Group's tax losses;
- interest-bearing loans and borrowings and derivatives temporary differences on hedging instruments;
- share-based compensation temporary differences on share schemes;
- overseas temporary differences on intangible assets and net operating losses arising in the US and Germany; and
- other temporary differences on miscellaneous items.

Due to the change in the statutory tax rate, deferred tax is provided at 20% (2012: 23%), which is the rate that has been substantively enacted to apply on 2 July 2013. The impact of the change in the tax rate is £6 million (2012: £7 million), of which £4 million was recognised in the deferred tax charge and the remainder recognised in equity to reflect the movements in the pension deficit taken to equity.

The deferred tax balance associated with the pension deficit has been adjusted to reflect the current tax benefit obtained in the current year following the employer contributions of £91 million to the Group's defined benefit pension scheme. The adjustment in equity to the deferred tax balance primarily relates to the actuarial gains recognised in the period.

A deferred tax asset of £446 million (2012: £513 million) in respect of capital losses of £2,230 million (2012: £2,230 million) has not been recognised due to uncertainties as to the amount and whether a capital gain will arise in the appropriate form and relevant territory against which such losses could be utilised. For the same reasons, deferred tax assets in respect of overseas losses of £14 million (2012: £13 million) that time expire between 2017 and 2026 have not been recognised.

2.4 Earnings per share

Keeping it simple . . .

Earnings per share ('EPS') is the amount of post-tax profit attributable to each share.

Basic EPS is calculated on the Group profit for the year attributable to equity shareholders of £326 million (2012: £256 million) divided by 3,929 million (2012: 3,888 million) being the weighted average number of shares in issue during the year.

Diluted EPS reflects any commitments the Group has to issue shares in the future. In 2013, this comprised share options and the 2016 convertible bond. To calculate the impact it is assumed that all share options are exercised and that the 2016 convertible bond is converted into shares in its entirety.

When calculating the impact of the convertible bond, only ten months of dilution were suffered since the bond was settled in October (see note 4.1 for details).

Basic EPS is adjusted in order to more accurately 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 is adjusted for exceptional items which include acquisition related costs (professional fees, primarily due diligence, and performance based, employment linked contingent payments), impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments and prior period and other tax adjustments.

Following revisions to IAS 19, we have restated our prior period results and the details of those restatements are included in note 3.7.

The calculation of basic, diluted and adjusted EPS is set out below:

Earnings per share 2013

	Ref.	Basic £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc		326	331
Weighted average number of ordinary shares in issue – million		3,929	3,929
Dilution due to share options		–	46
Dilution due to convertible bond	A	–	136
Total weighted average number of ordinary shares in issue – million		3,929	4,111
Earnings per ordinary share		**8.3p**	**8.1p**

Section 2: Results for the Year

Adjusted earnings per share 2013

	Ref.	Adjusted £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc	A	**326**	**331**
Exceptional items	B	**1**	**1**
Profit for the year before exceptional items		**327**	**332**
Amortisation and impairment of acquired intangible assets	C	**42**	**42**
Adjustments to net financing costs	D	**69**	**69**
Other tax adjustments	E	**3**	**3**
Adjusted profit	F	**441**	**446**
Total weighted average number of ordinary shares in issue – million		**3,929**	**4,111**
Adjusted earnings per ordinary share		**11.2p**	**10.8p**

Earnings per share 2012 (restated)

	Ref.	Basic £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc		256	264
Weighted average number of ordinary shares in issue – million		3,888	3,888
Dilution due to share options		–	43
Dilution due to convertible bond	A	–	192
Total weighted average number of ordinary shares in issue – million		3,888	4,123
Earnings per ordinary share		6.6p	6.4p

Adjusted earnings per share 2012 (restated)

	Ref.	Adjusted £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc		256	264
Exceptional items	B	10	10
Profit for the year before exceptional items		266	274
Amortisation and impairment of acquired intangible assets	C	37	37
Adjustments to net financing costs	D	47	47
Other tax adjustments	E	2	2
Adjusted profit	F	352	360
Total weighted average number of ordinary shares in issue – million		3,888	4,123
Adjusted earnings per ordinary share		9.1p	8.7p

Details of the adjustments to earnings are as follows:

A. The Group dilutes EPS for the impact of any convertible instrument outstanding during the year. As detailed in note 4.1, in 2013 the Group partially settled the 2016 convertible Eurobond for equity. Consequently, diluted profit for the period attributable to equity shareholders of ITV plc includes an adjustment for interest and accretion recognised in the year on the convertible Eurobond which would not have been incurred if the bond had been converted to equity at the beginning of the period. There will equally be a dilutive impact on the weighted average number of shares for the period to settlement resulting in an additional 136 million shares (2012: 192 million shares for the full year).

B. Both operating and non-operating exceptional items (detailed in note 2.2) are adjusted to reflect profit for the year before exceptional items. A net tax credit of £1 million (2012: £2 million credit) is recognised on the total exceptional items charge of £2 million (2012: £12 million charge).

C. Amortisation and impairment of acquired intangible assets of £42 million (2012: £37 million) is calculated as total amortisation and impairment of £66 million (2012: £60 million), less amortisation of software licences and development of £12 million (2012: £11 million). A related tax credit of £12 million (2012: £12 million) is then recognised on the net amount.

D. Gross adjustments to net financing costs of £90 million (2012: £62 million restated) relate to mark-to-market movements on swaps and foreign exchange, losses on buybacks and imputed pension interest charges. This is reduced by a tax credit of £21 million (2012: £15 million restated) to give a net adjustment of £69 million (2012: £47 million restated).

E. Other tax adjustments primarily reflect the impact on the deferred tax charge resulting from a decrease in the statutory tax rate from 23% to 20% and to reflect the reversal of credit in respect of losses (2012: the rate at which we recognised deferred tax decreased from 25% to 23%).

F. Adjusted profit is defined as profit for the year before exceptional items which include acquisition related costs (professional fees, primarily due diligence, and performance based, employment linked contingent payments), impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing costs adjustments and other tax adjustments.

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. Liabilities relating to the Group's financing activities are addressed in Section 4. Deferred tax assets and liabilities are shown in note 2.3.

On the following pages there are notes covering working capital, non-current assets and liabilities, acquisitions and disposals, provisions and pensions.

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 other inventory, 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, 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%.

In the following section you will find further information regarding working capital management and analysis of the elements of working capital.

3.1.1 Distribution rights

Accounting policies

'Distribution rights' are programme rights the Group buys from producers to derive future revenues principally through licensing to 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 maximum five year period that is dependent on either cumulative sales and programme genre, or based on forecast future sales. Certain film rights are expensed over a period of up to ten years reflecting the estimated period over which these types of rights can be exploited. These estimates are based on historical experience with similar rights as well as anticipation of future events. 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.

Movements in distribution rights during the year are shown in the table below:

	2013 £m	2012 £m
Cost:		
At 1 January	**140**	125
Additions	**16**	15
At 31 December	**156**	140
Charged to income statement:		
At 1 January	**123**	114
Charge for the year	**23**	9
At 31 December	**146**	123
Net book value	**10**	17

3.1.2 Programme rights and other inventory

Accounting policies

Where programming, sports rights and film rights are acquired for the primary purpose of broadcasting, these are recognised within current assets.

Assets are recognised when the Group controls the respective assets and the risks and rewards associated with them.

For acquired programme rights, assets are recognised as payments are made and are recognised in full when the programme is available for transmission. Programmes produced internally, either for the purpose of broadcasting or to be sold in the normal course of the Group's operating cycle, are recognised within current assets at production cost.

Programme costs and rights, including those acquired under sale and leaseback arrangements, are generally expensed to operating costs in full on first transmission. Film rights, sports rights and certain acquired programmes are expensed over a number of transmissions reflecting the pattern in which the right is consumed.

Programme costs and rights not yet written off 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. For programme stock, sports rights and film rights, the net realisable value assessment 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.

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.

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

	2013 £m	2012 (restated) £m
Acquired programming	**110**	102
Production	**109**	97
Commissions	**46**	24
Sports rights	**57**	28
Other	**–**	1
	322	252

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. Commissions primarily comprise programmes purchased based on editorial specification, over which the Group has some control.

Programme rights and other inventory written down in the year were £1 million (2012: £3 million).

3.1.3 Programme commitments

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

	2013 £m	2012 £m
Within one year	**444**	439
Later than one year and not more than five years	**431**	474
More than five years	**3**	47
	878	960

Section 3: Operating Assets and Liabilities

3.1.4 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:

	2013 £m	2012 (restated) £m
Due within one year:		
Trade receivables	**295**	264
Other receivables	**40**	44
Prepayments and accrued income	**53**	58
	388	366
Due after more than one year:		
Trade receivables	**11**	14
Other receivables	**3**	–
Total trade and other receivables	**402**	380

£306 million (2012: £278 million) of total trade receivables that are not impaired are aged as follows:

	2013 £m	2012 £m
Current	**296**	274
Up to 30 days overdue	**8**	2
Between 30 and 90 days overdue	**2**	2
	306	278

The balance above is stated net of a provision of £7 million (2012: £7 million) for impairment of trade receivables. Of the provision total, £3 million relates to balances overdue by more than 90 days (2012: £4 million) and £4 million relates to current balances (2012: £3 million).

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

	2013 £m	2012 £m
At 1 January	**7**	11
Charged during the year	**1**	3
Receivables written off during the year as uncollectable (utilisation of provision)	**(1)**	(4)
Unused amounts reversed	**–**	(3)
At 31 December	**7**	7

3.1.5 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 trade payables is considered to approximate fair value.

Trade and other payables due within one year can be analysed as follows:

	2013 £m	2012 (restated) £m
Trade payables	**43**	34
Social security	**7**	7
Other payables	**216**	193
Accruals and deferred income	**436**	388
	702	622

3.1.6 Trade payables due after more than one year

Trade payables due after more than one year can be analysed as follows:

	2013 £m	2012 (restated) £m
Trade payables	**42**	31

This primarily relates to film creditors for which payment is due after more than one year.

3.1.7 Working capital management

Cash and working capital management continues to be a key focus. During the year the cash outflow from working capital was £15 million (2012: inflow of £1 million) derived as follows:

	2013 £m	2012 £m
(Increase)/decrease in programme rights and other inventory and distribution rights	**(42)**	29
(Increase)/decrease in receivables	**(15)**	17
Increase/(decrease) in payables	**42**	(45)
Working capital (outflow)/ inflow	**(15)**	1

The working capital outflow for the year excludes the impact of balances acquired on the purchase of new subsidiaries (see note 3.4).

The increase in programme rights and other inventory is largely driven by an increase in commissions and sports rights. The broadcast sports rights mainly represent payment for the FIFA World Cup and Rugby World Cup.

The increase in receivables has been driven by higher revenues, compared to December 2012, resulting in an increase in trade receivables.

The increase in payables primarily relates to trade payables, and an increase in the Group VAT liability.

Section 3: Operating Assets and Liabilities

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 one-off 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 which transfer substantially all the risks and rewards of ownership to the lessee. Certain service contracts involve the use of specific assets (e.g. transmission or studio equipment) and therefore contain an embedded lease.

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.

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[1]	3 to 20 years

1. Equipment includes studio production and technology assets.

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
		Long	Short	Owned	Finance leases	
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2012	51	59	18	205	14	347
Additions	–	18	–	33	2	53
Reclassification to intangible assets	–	–	–	(6)	–	(6)
Reclassification to assets held for sale	(37)	(1)	–	(8)	–	(46)
Disposals and retirements	–	–	(2)	(21)	–	(23)
At 31 December 2012	**14**	**76**	**16**	**203**	**16**	**325**
Additions	58	24	1	23	–	106
Reclassification of acquired property	32	(32)	–	–	–	–
Reclassification from assets held for sale (note 3.5)	33	1	–	8	–	42
Disposals and retirements	–	–	–	(13)	–	(13)
At 31 December 2013	**137**	**69**	**17**	**221**	**16**	**460**
Depreciation						
At 1 January 2012	9	15	15	130	11	180
Charge for the year	1	2	1	20	3	27
Impairment charge for the year (see note 2.2)	5	–	–	–	–	5
Reclassification to assets held for sale	(12)	(1)	–	(8)	–	(21)
Disposals and retirements	–	–	(1)	(21)	–	(22)
At 31 December 2012	**3**	**16**	**15**	**121**	**14**	**169**
Charge for the year	1	1	–	22	–	24
Reclassification of acquired property	7	(7)	–	–	–	–
Reclassification from assets held for sale (note 3.5)	12	1	–	8	–	21
Disposals and retirements	–	–	–	(13)	–	(13)
At 31 December 2013	**23**	**11**	**15**	**138**	**14**	**201**
Net book value						
At 31 December 2013	**114**	**58**	**2**	**83**	**2**	**259**
At 31 December 2012	11	60	1	82	2	156

There are no additions in 2013 relating to acquisitions made in the year (2012: £2 million).

Included within property, plant and equipment are assets in the course of construction of £66 million (2012: £38 million). Included within this are construction costs in relation to the new Coronation Street set, which was completed in early 2014.

During the year, the Group acquired the freehold and leasehold at its headquarters, the London Television Centre, for £56 million and stamp duty of £2 million.

Capital commitments

There are £3 million of capital commitments at 31 December 2013 (2012: £10 million) which primarily relate to the development at MediaCity, including the new location for Coronation Street, in Manchester.

Section 3: Operating Assets and Liabilities

3.3 Intangible assets

Keeping it simple . . .

The following section shows the non-physical assets used by the Group to generate revenues and profits.

These assets include 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 '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 to ensure they have not fallen below their amortised value. Should an asset's value fall below its amortised value an additional one-off 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.

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 non-controlling interests of the business being bought), less the fair value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. Any contingent consideration to be transferred 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 recognised in equity. 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 call option and 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.

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. Goodwill is stated at its recoverable amount being cost less any accumulated impairment losses and is allocated to cash-generating units.

Other intangible assets

Other intangible assets are those which are identifiable and can be sold separately or which arise from legal rights.

Within ITV there are two types of intangible assets: those acquired and those that have been internally generated (such as software licences and development).

Other intangible assets acquired directly by the Group are stated at cost less accumulated amortisation. Those separately identified intangible assets acquired as part of a business combination are shown at fair value at the date of acquisition less accumulated amortisation.

The main intangible assets the Group has valued are brands, licences, contractual arrangements, and customer contracts and relationships.

Each class of intangible asset's valuation method on initial recognition, amortisation method and estimated useful life is set out in the table below:

Class of intangible asset	Valuation method	Amortisation method	Estimated useful life
Brands	Applying a royalty rate to the expected future revenues over the life of the brand.	Straight-line	up to 11 years
Customer contracts and relationships	Expected future cash flows from those contracts and relationships 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.	Straight-line	up to 6 years for customer contracts 5 to 10 years for customer relationships
Contractual arrangements	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.	Straight-line	up to 10 years depending on the contract terms
Licences	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.	Straight-line	11 to 17 years depending on term of licence
Software licences and development	Initially at cost and subsequently at cost less accumulated amortisation.	Straight-line	1 to 5 years
Film libraries	Initially at cost and subsequently at cost less accumulated amortisation.	Sum of digits	20 years

Section 3: Operating Assets and Liabilities

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, expected changes to selling prices, 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 (or group of cash-generating units) related to the goodwill. Assets are grouped at the lowest levels for which there are separately identifiable cash flows ('cash-generating unit' or 'CGU').

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.

Growth assumptions derived from the strategy are not included in the estimated future cash flows used as the Group applies cautious assumptions for impairment testing.

Estimates are used in deriving these cash flows and the discount rate. 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. 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 are not 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	Brands £m	Customer contracts and relationships £m	Contractual arrangements £m	Licences £m	Software licences and development £m	Film libraries and other £m	Total £m
Cost								
At 1 January 2012	3,379	173	328	–	121	62	79	4,142
Additions (restated)	32	2	4	10	–	10	–	58
Reclassification from tangible assets	–	–	–	–	–	6	–	6
At 31 December 2012 (restated)	**3,411**	**175**	**332**	**10**	**121**	**78**	**79**	**4,206**
Additions	58	4	20	–	–	–	2	84
Foreign exchange	(2)	–	–	–	–	–	–	(2)
At 31 December 2013	**3,467**	**179**	**352**	**10**	**121**	**78**	**81**	**4,288**
Amortisation and impairment								
At 1 January 2012	2,654	127	287	–	65	37	38	3,208
Charge for the year	–	16	19	–	9	11	2	57
Impairments	–	–	–	–	–	–	3	3
At 31 December 2012	**2,654**	**143**	**306**	–	**74**	**48**	**43**	**3,268**
Charge for the year	–	16	20	2	9	12	7	66
At 31 December 2013	**2,654**	**159**	**326**	**2**	**83**	**60**	**50**	**3,334**
Net book value								
At 31 December 2013	**813**	**20**	**26**	**8**	**38**	**18**	**31**	**954**
At 31 December 2012 (restated)	757	32	26	10	47	30	36	938

All additions in the year are due to the acquisition of four production companies, as detailed in note 3.4 (2012: £48 million due to acquisitions).

2012 goodwill additions have been restated to reflect fair value adjustments of £6 million recognised upon finalisation of the purchase price allocation exercise.

Following an annual review of the amortisation periods and residual values of the intangible assets, the Group has adjusted its estimated residual value for the film libraries, resulting in an increased annual amortisation charge in the period.

Goodwill impairment tests

The following CGUs represent the carrying amounts of goodwill.

	2013 £m	2012 (restated) £m
Broadcast & Online	**342**	342
SDN	**76**	76
ITV Studios	**395**	339
	813	757

There has been no impairment charge for the year (2012: 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 long-term growth rate of 2% (2012: 1%–2.5%). The growth rate used is consistent with the long-term average growth rates for the industry 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.

Section 3: Operating Assets and Liabilities

Broadcast & Online

The goodwill in this CGU arose as a result of the acquisition of broadcasting businesses since 1999, the largest of which were the acquisition by Granada of United News and Media's broadcast businesses in 2000 and the merger of Carlton and Granada in 2004 to form ITV plc.

No impairment charge arose in the Broadcast & Online CGU during the course of 2013 (2012: nil).

The main assumptions on which the forecast cash flow projections for this CGU are based include: the 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. Current industry consensus for the advertising market is 3.5% for 2014. The impairment test also assumed that ITV renews its broadcasting licences, which occured in February 2014. No impairment was identified. Also as part of the review, a sensitivity of -5% was applied to 2014 for the purposes of the impairment test, again with no impairment identified.

A pre-tax market discount rate of 11.3% (2012: 12.3%) has been used in discounting the projected cash flows.

The Directors believe that currently no reasonably possible change in these assumptions would reduce the headroom in this CGU to zero.

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.

No impairment charge arose on the SDN goodwill during the course of 2013 (2012: nil).

The main assumptions on which the forecast cash flows are based are income to be earned from medium-term contracts, the market price of available multiplex video streams in the period up to and beyond digital switchover 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.

A pre-tax market discount rate of 13.1% (2012: 14.4%) has been used in discounting the projected cash flows.

The Directors believe that currently no reasonably possible change in the income and availability assumptions would reduce the headroom in this CGU to zero.

ITV Studios

The goodwill for ITV Studios arose as a result of the acquisition of production businesses since 1999, the largest of which were the acquisition by Granada of United News and Media's production businesses in 2000 and the merger of Carlton and Granada in 2004 to form ITV plc. ITV Studios goodwill also includes all of the goodwill arising from recent acquisitions in 2013 and 2012.

No impairment charge arose in the ITV Studios CGU during the course of 2013 (2012: nil).

The key assumptions on which the forecast cash flows were based include revenue (including international revenue and the ITV Studios share of ITV output, growth in commissions and hours produced), margin growth 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.

A pre-tax market discount rate of 12.2% (2012: 12.9%) has been used in discounting the projected cash flows.

The Directors believe that currently no reasonably possible change in the income and availability assumptions would reduce the headroom in this CGU to zero.

3.4 Acquisitions

Keeping it simple . . .

The following section outlines what the Group has acquired in the year.

All of the deals are structured so that a large part of the payment made to the sellers is determined based on future performance ('consideration'). Accounting standards require some of this consideration to be included in the purchase price used in determining goodwill ('contingent consideration'), while the rest is required to be recognised as a liability or expense outside of acquisition accounting (put option liabilities and performance based, employment-linked contingent payments known as 'earnout' payments).

Therefore, for each acquisition below, the distinction between the types of consideration has been explained in detail.

Acquisitions

During 2013 the Group completed four acquisitions, all of which have been included in the results of the Studios operating segment. Each of these businesses fits with the Group's strategy to create world class content for multiple platforms, free and pay, both in the UK and internationally. The following sections provide a summary of each acquisition.

Acquisitions in the United Kingdom

The Garden Productions

On 22 April 2013, the Group acquired 100% of The Garden Productions Limited ('The Garden'), a company that specialises in factual entertainment productions. Initial consideration of £18 million was paid in cash. Contingent consideration included a performance based payment due in 2014 of a maximum of £8 million which is no longer expected to be paid.

The Group also agreed to an earnout payment that will be based on the business meeting certain performance targets. The maximum payment is £28 million (undiscounted) and the expected payment is being accrued over the earnout period (five years), and will largely be reported within exceptional items relating to acquisitions in the income statement.

Intangibles, being the value placed on key contractual arrangements, of £8 million were identified. Goodwill, which represents the value placed on the opportunity to diversify and grow the content and formats produced by the Group, has been provisionally valued at £12 million. The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Big Talk Productions

On 26 July 2013, the Group acquired 100% of the share capital of Big Talk Productions Limited and associated companies ('Big Talk'), a business that specialises in scripted programmes. Initial consideration of £13 million was paid in cash. Contingent consideration includes a performance based payment due in 2015 of £1 million (maximum of £2 million undiscounted) and in 2018 of £2 million (maximum of £4 million undiscounted).

The Group also agreed to an earnout payment that will be based on the business meeting certain performance targets. The maximum payment is £11 million (undiscounted) and the expected payment is being accrued over the earnout period (five years), and will largely be reported within exceptional items relating to acquisitions in the income statement.

Intangibles, being the value placed on key contractual arrangements, of £3 million were identified. Goodwill, which represents the value placed on the opportunity to diversify and grow the content and formats produced by the Group, has been provisionally valued at £12 million. The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Acquisitions in the United States

On 10 May and 18 June 2013, the Group acquired 60% and 65% of the membership interests in High Noon Entertainment ('High Noon') and Thinkfactory Media ('Thinkfactory') respectively. The Group consolidates all of the earnings of both businesses and the vendors' remaining interest will be recognised as a non-controlling interest in equity.

Section 3: Operating Assets and Liabilities

High Noon specialises in reality and entertainment programmes, while Thinkfactory has a mixture of reality, entertainment and some scripted programming. It is the Group's view that the acquisitions will strengthen and complement ITV's existing position as a producer for major US television networks.

Goodwill represents the value placed on the opportunity to expand the Group's programme offering in the United States and exploiting that offering internationally. It also reflects the value of the assembled workforce of creative talent who will develop that content. It is expected to be deductible for US tax purposes.

Further details of each US acquisition is summarised below.

High Noon Entertainment

Initial consideration of £16 million ($26 million) for 60% was satisfied in cash and contingent consideration includes a performance based payment due in 2015 of £2 million ($3 million undiscounted, maximum of $10 million).

A call and put option has been granted over the 40% non-controlling interest. The call option is exercisable in the first half of 2016 and then following the expiry of the vendors' put option, which is exercisable in 2019.

The maximum additional consideration that the Group could pay for the remaining 40% equity interest is £45 million ($74 million; undiscounted). Final payment will be entirely dependent on future performance of the business, and the maximum payout will only be achieved if the business continues to deliver substantial growth over the next five years.

Intangibles, being the value placed on brands, customer contracts and contractual arrangements, of £7 million were identified and goodwill was valued at £16 million.

Based on the Group's projections at acquisition, the value of the put option was valued at £8 million ($13 million, discounted). The total was allocated, for accounting purposes, between a put option liability and an earnout accrual. Consequently, a put option liability of £6 million ($10 million) has been included in the Statement of Financial Position. Any changes in the fair value of the put option liability arising from a reassessment of projections will be reported within financing costs on the income statement, and excluded from adjusted profit. The remaining £2 million ($3 million) will be accrued over the put option vesting period as an earnout payment and will be reported within exceptional items relating to acquisitions in the income statement.

At the year end, the value of the put option was estimated to be £16 million ($28 million; undiscounted).

Thinkfactory Media

Initial consideration of £19 million ($30 million) for 65% was satisfied in cash.

A call and put option has been granted over the 35% non-controlling interest. The call option is exercisable in the first half of 2017 and then following the expiry of the vendors' put option, which is exercisable in 2019.

The maximum additional consideration which the Group could pay for the remaining 35% equity interest is £42 million ($70 million; undiscounted). Final payment will be entirely dependent on future performance of the business, and the maximum payout will only be achieved if the business continues to deliver substantial growth over the next five years.

Intangibles, being the value placed on brands, customer contracts and contractual arrangements, of £8 million were identified and goodwill was valued at £18 million.

At acquisition the put option was valued at £9 million ($13 million, discounted). The total has been allocated between a put option liability and an earnout accrual, resulting in a £7 million ($10 million) put option liability included in the Statement of Financial Position. Any subsequent changes in the fair value of the put option liability arising from a reassessment of projections will be reported within financing costs on the income statement, and excluded from adjusted profit. The remaining £2 million ($3 million) will be accrued over the put option vesting period as an earnout payment and will be reported within exceptional items relating to acquisitions in the income statement.

At the year end, the value of the put option was estimated to be £12 million ($20 million; undiscounted).

Effect of acquisition

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

£m	The Garden	High Noon	ThinkFactory	Big Talk	2013 Total	2012 Total (Note D)
	Recognised values on acquisition					
Consideration transferred:						
Initial consideration (net of cash acquired) (Note A)	14	13	18	11	**56**	35
Contingent consideration	1	2	–	3	**6**	1
Total consideration	15	15	18	14	**62**	36
Fair value of net assets acquired (Note B):						
Property, plant and equipment	–	–	–	–	**–**	2
Intangible assets	8	7	8	3	**26**	16
Trade and other receivables	2	11	8	11	**32**	7
Trade and other payables	(7)	(13)	(9)	(12)	**(41)**	(9)
Fair value of net assets	3	5	7	2	**17**	16
Non-controlling interest measured at fair value (Note C)	–	6	7	–	**13**	12
Goodwill	12	16	18	12	**58**	32
Other information:						
Present value at acquisition of the liability on options	–	6	7	–	**13**	12
Present value at acquisition of the earnout payment	5	2	2	6	**15**	9
Contributions to the Group's performance:						
Revenue – acquisition to date	10	22	20	9	**61**	6
Profit after tax – acquisition to date	1	1	1	–	**3**	–
Revenue – January to December	15	38	24	19	**96**	47
Profit after tax – January to December	2	2	1	1	**6**	6

Note A: Cash of £4 million was acquired with The Garden, £3 million was acquired with High Noon, £1 million with Thinkfactory and £2 million with Big Talk.
Note B: Provisional details of fair value of net assets acquired in 2013 are set out in the table above. The analysis is provisional and amendments may be made to these figures in the 12 months following the date of the acquisition.
Note C: Non-controlling interest arises where the Group acquires less than 100% of the equity interest in a business, but obtains control.
Note D: During 2013 a payment of £4 million was made to settle pre-acquisition cash of £6 million. Additional fair value adjustments of £6 million were recognised upon finalisation of the purchase price allocation exercise and recognised in goodwill. The December 2012 balance sheet has been restated to reflect the fair value adjustments to goodwill.

Fair value of the consideration transferred comprises the initial cash paid to the sellers and an estimate for any future payments the Group may be liable to pay, based on future performance of the business. This latter amount is classified as contingent consideration.

The total expected remuneration payment reflects the present value of the future amount the Group estimates it will have to pay the sellers based on employment conditions set out in the purchase agreement (separate to any employment contract). This payment does not form part of the calculation of goodwill.

Acquisitions in 2012

During 2012 the Group completed four acquisitions which have all been included in the ITV Studios operating segment.

The Group acquired a 61.5% controlling interest in Gurney in December 2012. Total payments of £29 million ($46 million) were made, consisting of initial consideration of £25 million ($40 million) and £4 million ($6 million) paid for cash acquired. A call and put option was granted over the non-controlling interest. The discounted put option liability ('options') at the acquisition date was £12 million and the maximum consideration which the Group could pay for the remaining 38.5% equity interest is £42 million ($71 million; undiscounted). Final payment will be entirely dependent on future performance of the business.

Intangibles, being the value placed on brands, customer contracts and contractual arrangements, of £8 million were identified and goodwill of £26 million has been recognised.

Section 3: Operating Assets and Liabilities

The Group acquired 100% of the share capital of the remaining three businesses for total consideration of £13 million. The maximum additional amount payable is £11 million (undiscounted), and is primarily being accounted for as an earnout payment. Total goodwill of £6 million was recognised on acquisition and represents the value placed on the opportunity to diversify and grow the content and formats produced by the Group.

Acquisition costs largely comprise legal and financial diligence fees. Details of that, along with earnout costs expensed in the period, are disclosed in exceptional items note 2.2.

3.5 Assets held for sale and disposals

Keeping it simple . . .

The following section outlines what the Group is either holding for sale or has disposed of in the year.

IFRS provides strict criteria that must be met for an asset to be classified as held for sale. Where the Group no longer considers an asset to meet any of the criteria, it is reclassified.

Accounting policies

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through sale, rather than continuing use; they are available for immediate sale; and the sale is highly probable. A disposal group consists of assets that are to be disposed of, by sale or otherwise, in a single transaction together with the directly associated liabilities. The Group includes goodwill acquired in a business combination if the disposal group is a cash-generating unit to which goodwill has been allocated.

On initial classification as held for sale, non-current assets or components of a disposal group are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment on a disposal group is first allocated to goodwill and then to remaining assets and liabilities on a pro rata basis, except to programming rights and other inventory, financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies. Impairment on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment.

No amortisation or depreciation is charged on non-current assets (including those in disposal groups) classified as held for sale. Assets classified as held for sale are disclosed separately on the face of the statement of financial position and classified as current assets or liabilities, with disposal groups being separated between assets held for sale and liabilities held for sale.

Assets held for sale

The movement in assets held for sale since 1 January 2013 is summarised in the table below:

	2013 £m
At 1 January 2013	25
Disposal of properties held for sale	(4)
Property reclassified to tangible fixed assets	(21)
At 31 December 2013	**–**

At the beginning of the year the Group was actively marketing certain freehold properties in Manchester following the Group's decision to relocate to a new site at MediaCity. The sale of one Manchester property was completed in 2013 for consideration of £4 million, with an immaterial gain on sale. The remaining properties are under a conditional offer, with the sale not expected to complete until 2015. As a result, they have been reclassified to tangible fixed assets.

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	Restruc-turing provisions £m	Property provisions £m	Other provisions £m	Total £m
At 1 January 2013	10	4	8	15	37
Additions	–	1	–	–	1
Utilised	(3)	(4)	(4)	–	(11)
At 31 December 2013	**7**	**1**	**4**	**15**	**27**

Provisions of £19 million are classified as current liabilities (2012: £25 million). Unwind of the discount is nil in 2013 and 2012.

Contract provisions comprise onerous sports rights commitments that are expected to be utilised over the remaining contract period. Other contract provisions relate to onerous commitments on transmission infrastructure.

Property provisions principally relate to onerous lease contracts due to empty space created by the ongoing review and rationalisation of the Group's property portfolio. Utilisation of the provision will be over the anticipated life of the leases or earlier if exited.

Other provisions of £15 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 ('FSDs') should be issued against certain companies within the Group in relation to the Boxclever pension scheme. The Group immediately referred this decision to the Upper Tribunal (thereby effectively appealing it). An FSD would require the Company to put in place financial support for the Boxclever scheme; however, it cannot be issued during the period of the reference. The reference process is ongoing and aside from procedural issues there were no substantive case developments in the period. The Directors have obtained leading counsel's opinion and extensive legal advice in connection with the proceedings and continue to believe that the provision held is appropriate.

Section 3: Operating Assets and Liabilities

3.7 Pensions

Keeping it simple . . .

Historically, the Group has offered its employees the opportunity to participate in a number of defined benefit schemes; these are now closed to new members. The ITV Pension Scheme (the Scheme) consists of three sections, A, B and C. Section A of the Scheme is considerably larger than the other sections. The Group is required to disclose the net of its defined benefit pension assets and liabilities in the statement of financial position. In the event of a net liability the Directors are obliged to determine how this deficit will be addressed.

The Group continues to offer employees defined contribution pension schemes and, where taken up, makes payments into this scheme on their behalf.

In this section we explain the accounting policies governing the Group's pension schemes, followed by analysis of the deficit on the defined benefit pension scheme and how this has been calculated. In addition, we have placed text boxes to explain some of the technical terms used in the disclosure.

Accounting policies

Defined contribution schemes
Obligations under the Group's defined contribution schemes are recognised as an operating cost in the income statement as incurred.

Defined benefit schemes
The Group's obligation in respect of defined benefit pension schemes are calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of scheme assets is then deducted. The discount rate used is the yield at the valuation date on high quality corporate bonds, that exactly match the timing of the expected benefit payments over future years.

The Group takes advice from independent actuaries relating to the appropriateness of the assumptions which include life expectancy of members, expected salary and pension increases, and inflation. It is important to note that comparatively small changes in the assumptions used may have a significant effect on the income statement and statement of financial position.

The liabilities of the defined benefit schemes are measured by discounting the best estimate of future cash flows to be paid using the projected unit method. This method is an accrued benefits valuation method that makes allowance for projected earnings. These calculations are performed by a qualified actuary.

Actuarial gains and losses are recognised in full in the period in which they arise through the statement of comprehensive income.

An unfunded scheme in relation to previous Directors is accounted for under IAS 19. This is securitised by assets held outside of the ITV Pension scheme in the form of gilts and included within cash and cash equivalents.

The Group's pension schemes

Keeping it simple . . .

Under defined contribution schemes, the Group pays fixed contributions into a separate fund on behalf of the employee and has no further obligations to employees. The risks and rewards associated with this type of scheme are assumed by the members rather than the Group. It is the member's responsibility to make investment decisions relating to their retirement benefits.

In a defined benefit scheme, members receive cash payments at and in retirement, the value of which is dependent on factors such as salary and length of service. The Group underwrites investment, mortality and inflation risks necessary to meet these obligations. In the event of poor returns the Group needs to address this through a combination of increased levels of contribution or by making adjustments to the schemes. 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.

The Group makes contributions to the ITV Pension 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 statement of financial position. It is the responsibility of the Trustee to manage and invest the assets of the schemes and to monitor the schemes' funding position. The Trustee is required to act in the best interest of the members. The appointment of trustees is determined by the scheme's documentation.

In the unfunded scheme the Group is responsible for meeting pension obligations as they fall due.

The following section outlines the key elements of the Group's defined contribution and defined benefit schemes during the year and as at 31 December 2013.

Defined contribution schemes

Total contributions recognised as an expense in relation to defined contribution schemes during 2013 were £8 million (2012: £9 million). This is the default scheme for all new employees.

Defined benefit schemes

The Group's main scheme was formed from a merger of a number of schemes on 31 January 2006. The level of retirement benefit is principally based on pensionable salary at retirement. The Group's main scheme consists of three sections, A, B and C. The latest triennial valuations of sections A, B and C were undertaken as at 1 January 2011 by an independent actuary appointed by the Trustee of the ITV Pension Scheme and agreed in 2012. The next triennial valuation of sections A, B and C will be as at 1 January 2014, and is expected to be agreed in 2015. The Group will monitor funding levels annually.

The defined benefit pension deficit

The defined benefit pension deficit at 31 December 2013 was £445 million (2012: £551 million).

The assets and liabilities of the schemes are recognised in the consolidated statement of financial position and shown within non-current liabilities. The totals recognised in the current and previous years are:

	2013 £m	2012 £m
Total defined benefit scheme obligations	**(3,315)**	(3,244)
Total defined benefit scheme assets	**2,870**	2,693
Net amount recognised within the consolidated statement of financial position	**(445)**	(551)

Section 3: Operating Assets and Liabilities

Addressing the deficit

The statutory funding objective is that a funded scheme has sufficient and appropriate assets to pay its benefits as they fall due. This is a long-term target. Future contributions will always be set at least at the level required to satisfy the statutory funding objective. The general principles adopted by the Trustee are that the assumptions used, taken as a whole, will be sufficiently prudent for pensions and benefits already in payment to continue to be paid, and to reflect the commitments which will arise from members' accrued pension rights.

The levels of ongoing contributions to the defined benefit schemes are based on the current service costs (as assessed by the scheme Trustee) and the expected future cash flows of the schemes. Normal employer contributions in 2014 for current service are expected to be in the region of £10 million (2013: £11 million) assuming current contribution rates continue as agreed with the Trustee. Based on the agreements currently in force, the following deficit funding payments are expected for forthcoming years.

In 2014 the Group expects to make deficit funding contributions of £89 million (£80 million was paid in 2013) comprised as follows:

- deficit funding contribution to Section A of £40 million;
- total annual deficit funding contributions to Sections B and C of £5.5 million;
- £32 million, being 10% of the Group's EBITA before exceptional items that exceeds the £300 million threshold;
- £11 million of annual deficit contributions as a result of the SDN pension partnership. Under the partnership arrangements, the Group has committed to making a payment to the main section of the Scheme of up to £200 million in 2022, if and to the extent that it remains in deficit at that time.

The remaining sections provide further detail of the value of scheme assets and liabilities, how these are accounted for and the impact on the income statement.

Total defined benefit scheme obligations

Keeping it simple . . .

The defined benefit obligation (the pension scheme liabilities) may change due to the following:

- Current service cost – the cost to the Group of benefits arising in the future which are attibutable to the members' service in the current period. This is charged to operating costs in the income statement.
- Past service cost – refers to the cost or credit as a result of changes in the benefits offered to members or a reduction in the number of employees covered by the scheme. This is recognised through operating costs in the income statement.
- Settlement gains/(losses) – these occur when the Group enters into a transaction to eliminate all further legal or constructive obligations for some or all of the benefits provided by the schemes. Settlement gains or losses can arise from the transfer of member benefits into alternative pension arrangements, fully insuring benefits or on business disposals.
- Increase due to interest cost – future pension obligations are stated in present value, in that a discount factor is used to state the current worth of a future cost. This interest cost is the unwinding of the discount on the present value of the obligation. Broadly, it is determined by multiplying the discount rate at the beginning of the period by the present value of the obligation during the period. This is recognised through net financing costs in the income statement.
- Actuarial losses/(gains) – in order to value the Group's defined benefit obligation at the end of a period, it is necessary to apply certain assumptions in relation to demographic and financial trends. Where there is a difference between previous estimates and actual experience, or a change to assumptions, this will give rise to actuarial gains or losses, which are recognised through other comprehensive income
- Benefits paid – any benefits paid out by the schemes will lower the obligations of those schemes.

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

	2013 £m	2012 £m
Defined benefit obligation at 1 January	**3,244**	3,036
Current service cost	**8**	7
Interest cost	**133**	140
Net actuarial loss	**70**	200
Benefits paid	**(140)**	(139)
Defined benefit obligation at 31 December	**3,315**	3,244

The present value of the defined benefit obligation is analysed between wholly unfunded and funded defined benefit schemes in the table below:

	2013 £m	2012 £m
Defined benefit obligation in respect of funded schemes	**3,271**	3,203
Defined benefit obligation in respect of wholly unfunded schemes	**44**	41
Total defined benefit obligation	**3,315**	3,244

Keeping it simple . . .

Assumptions used to calculate the best estimate of future cash flows to be paid out by the schemes include: future salary levels, future pensionable salary levels, the estimate of increases in pension payments, the life expectancy of members, the effect of inflation on all these factors and ultimately the discount rate used to estimate the present day fair value of these obligations.

When deciding on these assumptions the Group takes independent actuarial advice relating to the appropriateness of the assumptions.

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

	2013	2012
Discount rate for:		
Past service liabilities	**4.45%**	4.2%
Future service liabilities	**4.60%**	4.2%
Inflation assumption for:		
Past service liabilities	**3.35%**	2.9%
Future service liabilities	**3.40%**	2.9%
Rate of pensionable salary increases	**0.9%**	0.9%
Rate of increase in pension payment (LPI 5% pension increases)	**3.25%**	2.8%
Rate of increase to deferred pensions (CPI)	**2.35%**	2.2%

IAS 19 requires that the discount rate is determined by reference to high quality fixed income investments in the UK that match the estimated term of the pension obligations. The basis of estimating the discount rate is by using the yields available on AA rated corporate bonds of a term similar to the liabilities, using the yield curve as the basis of estimation and differentiating between past service (the defined benefit obligation) and future service (the current service cost). Differentiating in this way represents a refinement in the basis of estimation applied in prior periods, where previously the discount rate was based on the term of the past service liabilities and there was no differentiation between past and future service. There is no impact of the refinement on the defined benefit obligation as at 31 December 2013, as this continues to be valued by reference to a single rate for past service liabilities. The use of a different discount rate and inflation rate for future service liabilities has no material impact on the 2014 income statement charge.

Section 3: Operating Assets and Liabilities

The inflation assumption has been set by looking at the difference between the yields on fixed and index-linked Government bonds, also differentiating between past and future service. The inflation assumption is used as a basis for the remaining financial assumptions, except where inflation caps have been implemented. Both the discount rate and the inflation assumption have been selected by considering yields taken from yield curves at terms, and weighted by cash flows, consistent with the pension obligations. The yield curves are constructed by our actuarial advisers from the yields available on relevant AA rated corporate bonds (for the discount rate) and fixed and index-linked Government bonds (for the inflation assumption).

In estimating the life expectancy of pension scheme members, the Group has used the SAPS Normal year of birth tables with CMI 2013 improvements, with a 1.25% p.a. long-term trend and a minus one year age rating (i.e. tables are adjusted so that a member is assumed to be one year younger than actual age). At the 2012 year end, PA92 year of birth tables with medium cohort improvements were used, with a 1% per annum underpin and a one year age rating. Using these tables the assumed life expectations on retirement are:

	2013	**2013**	2012	2012
Retiring today at age	**60**	**65**	60	65
Males	**27.8**	**23**	26.8	21.9
Females	**30.4**	**25.5**	30.1	25.1
Retiring in 20 years at age	**60**	**65**	60	65
Males	**29.8**	**24.8**	28.8	23.7
Females	**32.4**	**27.4**	32.2	27.0

The tables above reflect published mortality investigation data in conjunction with the results of investigations into the mortality experience of scheme members. The Group estimates the average duration of its UK scheme's liabilities to be 15 years (2012: 15 years).

The sensitivities regarding the principal assumptions used to measure the defined benefit obligation are set out below:

Assumption	**Change in assumption**	**Impact on scheme deficit**
Discount rate	Increase by 0.5%	Decrease by £240 million
	Decrease by 0.5%	Increase by £270 million
Rate of inflation (Retail Price Index)	Increase by 0.5%	Increase by £80 million
	Decrease by 0.5%	Decrease by £60 million
Rate of inflation (Consumer Price Index)	Increase by 0.5%	Increase by £40 million
	Decrease by 0.5%	Decrease by £30 million
Life expectations	Increase by 1 year	Increase by £80 million

The above sensitivity for life expectations excludes the longevity swap. It is estimated that a £50 million benefit would arise from a one year increase in the market based assumption of mortality.

The sensitivities above consider the impact of the single change shown, with the other assumptions assumed to be unchanged. The inflation sensitivities allow for the consequential impact on the relevant pension increase assumptions. The sensitivity analyses have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

In practice, changes in one assumption may be accompanied by offsetting changes in another assumption (although this is not always the case).

The Group's net pension deficit is the difference between the schemes' liabilities and the schemes' assets. Changes in the assumptions may occur at the same time as changes in the market value of scheme assets.

These may or may not offset the change in assumptions. For example, a fall in interest rates will increase the schemes' liabilities, but may also trigger an offsetting increase in the market value of certain assets so there is no net effect on the Group's liability.

Total defined benefit scheme assets

Keeping it simple . . .

The Pension scheme holds assets across a number of different classes, these being equities, bonds and other investments. These assets are managed by the Trustee, although the Trustee is required to consult with the Group on changes to their investment policy. Financial instruments are in place which provide protection against changes in market factors (interest rates and inflation) which could act to increase the pension deficit.

In 2011 the scheme obtained protection against the effect of increases in the life expectation of the majority of pensioner members by transacting a longevity swap. Under the swap, the Trustees of the Scheme agreed to make predetermined 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 scheme assets. In prior periods, the present value as at the year end was calculated using the same assumptions applied to the defined benefit obligation. However, the introduction of IFRS 13 in the year means that the Group must now value the swap under market-based assumptions, which represents a change from previous best estimates. This results in a nil valuation of the swap at inception, subsequently adjusted for changes in the market life expectancy and market discount rates.

Pension scheme assets are measured at their fair value and can change due to the following:

- The investment income on scheme assets is determined based on the discount rate at the beginning of the year and calculated as the expected percentage return multiplied by the fair value of the scheme assets. This is recognised through net financing costs in the income statement.
- Remeasurement gains and losses arise from differences between the actual and expected final asset values and are recognised through other comprehensive income.
- A deduction from scheme assets is made for scheme administration expenses, which are recognised through operating costs in the income statement.
- Employer's contributions and cash contributions by scheme participants are paid into the schemes to be managed and invested.
- Any benefits paid out by the schemes will reduce the value of the schemes' assets.
- Movements in the value of the longevity swap. The value of the longevity swap is sensitive to changes in the discount rate or market life expectancy and movements are recognised as a remeasurement gain or loss in other comprehensive income.

The movement in the fair value of the defined benefit scheme's assets is analysed below:

	2013 £m	2012 (restated) £m
Fair value of scheme assets at 1 January	**2,693**	2,646
Investment income on scheme assets	**113**	124
Return on assets	**118**	(13)
Employer contributions	**91**	82
Benefits paid	**(140)**	(139)
Administrative expenses paid	**(5)**	(7)
Fair value of scheme assets at 31 December	**2,870**	2,693

Section 3: Operating Assets and Liabilities

At 31 December 2013 the scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. The fair value of the scheme's assets are shown below by major category:

		Market value 2013 £m	Market value 2012 £m
Equity-type assets			
UK	Quoted	**172**	144
	Unquoted	**–**	–
Overseas	Quoted	**575**	488
	Unquoted	**1**	–
Government bonds			
UK	Fixed	**410**	437
	Index-linked	**980**	934
Overseas	Quoted	**20**	25
	Unquoted	**1**	–
Corporate bonds			
UK	Quoted	**115**	121
	Unquoted	**–**	–
Overseas	Quoted	**268**	284
	Unquoted	**7**	5
Other assets			
Property		**49**	49
Infrastructure		**65**	48
Hedge funds/alternatives		**165**	150
Insurance policies		**38**	37
Cash and cash equivalents		**27**	89
Longevity swap fair value		**(23)**	(118)
Total scheme assets		**2,870**	2,693

The Trustee holds a longevity swap to remove the risk of increases in pension liabilities that would arise if a significant portion of the scheme's defined benefit pensioner population were to enjoy a longer life than currently expected. The recognition of the swap results in a reduction to the scheme's assets. The introduction of IFRS 13 as discussed below has resulted in a change in the approach and assumptions used to value the swap. As a result, the negative value of the swap has reduced by £95 million, with the associated gain being recognised as a remeasurement gain on assets in other comprehensive income within equity.

The scheme is invested in a range of asset classes and uses derivative financial contracts to improve the efficiency of the portfolio and to help manage risks.

The Trustee has a substantial holding of equity-type investments, mainly shares in listed and unlisted companies. The investment return related to these is variable, and they are generally considered 'riskier' investments. However, it is generally accepted that the yield on these investments will contain a premium to compensate investors for this additional risk. There is significant uncertainty about the likely size of this risk premium. In respect of overseas equity investments there is also a risk of unfavourable currency movements which the Trustee manages by hedging broadly 60% of the overseas investments against currency movements.

The Trustee also holds corporate bonds and other fixed interest securities. The risk of default on these is assessed by various rating agencies. Some of these bond investments are issued by the UK Government. The risk of default on these is lower compared to the risk of default on corporate bond investments, although some risk may remain. The expected yield on bond investments with fixed interest rates can be derived exactly from their market value.

The expected return for each asset class is weighted based on the target asset allocation for 2014 to develop the expected long-term rate of return on assets assumption for the portfolio. The benchmark for the main section of the scheme in 2014 is to hold broadly 47% liability-matching and 53% return-seeking assets. The majority of the equities held by the schemes are in international blue chip entities. The aim is to hold a globally diversified portfolio of equities, with a target of broadly 22% of equities being held in the UK and 78% of equities held overseas. Within the bond portfolio the aim is to hold 58% of the portfolio in government bonds (gilts) and 42% of the portfolio in corporate bonds and other fixed interest securities.

The actual return on the scheme's assets for the year ended 31 December 2013 was an increase of £231 million (2012: increase of £111 million).

The Trustee is responsible for deciding the investment strategy for the scheme's assets, although changes in investment policies require consultation with the Group. Varying returns from the different types of assets held by the scheme have resulted in Trustee investment decisions that have moved the asset allocation in the scheme's portfolio away from the target ratio of bonds and equities. A rebalancing of the portfolio only occurs if equity type assets exceed the target allocation by 3%, but is not necessary if equity asset types fall below the target allocation.

Amounts recognised through the income statement

Amounts recognised through the income statement in the various captions are as follows:

	2013 £m	2012 (restated) £m
Amount charged to operating costs:		
Current service cost	**(8)**	(7)
Scheme administration expenses	**(5)**	(7)
	(13)	(14)
Amount charged to net financing costs:		
Net interest on defined benefit scheme obligations	**(20)**	(16)
Total charged in the consolidated income statement	**(33)**	(30)

Amounts recognised through the consolidated statement of comprehensive income

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

	2013 £m	2012 (restated) £m
Remeasurement gains and (losses):		
Return on scheme assets excluding interest income	**118**	(13)
Actuarial losses on liabilities arising from change in:		
– demographic assumptions	**(66)**	–
– financial assumptions	**(4)**	(200)
	(70)	(200)
Total recognised in the consolidated statement of comprehensive income	**48**	(213)

The £70 million actuarial loss on the scheme's liabilities was principally due to the change to mortality assumptions. The £118 million remeasurement gain on scheme assets primarily results from the change in valuation method applied to the longevity swap, as discussed below.

Section 3: Operating Assets and Liabilities

Changes to accounting standards

A revised version of IAS 19 'Employee benefits' has been in force from 1 January 2013 and changes a number of disclosure requirements for post employment arrangements and restricts the options previously available on how to account for defined benefit pension plans. The Group adopted the revised standard from this date and has applied it restrospectively to the Group's 2012 results.

The most notable change resulting from IAS 19 (Revised) which impacts the Group is the requirement for the expected returns on pension plan assets, previously calculated based on management's estimate of expected returns, to be replaced by a credit on pension plan assets calculated at the liability discount rate. The retrospective application has resulted in an additional charge of £14 million in the consolidated income statement for 2012, of which £7 million has been charged to operating costs and £7 million is a reduction in interest income on assets, within net financing costs. The impact on basic and diluted EPS for 2012 was a reduction of 0.3p. This change has not impacted the Group's net assets.

IFRS 13 'Fair Value Measurements' was introduced and came into effect from 1 January 2013. The most significant impact on the Group is the requirement to value the longevity swap using IFRS 13 market-based assumptions, instead of the previous requirement to apply assumptions consistent with those used for the defined benefit obligation. Applying IFRS 13 to the swap valuation results in a swap value of nil at inception in August 2011, and a negative swap asset of £23 million as at 31 December 2013. The £95 million remeasurement gain arising in the period, primarily as a result of this change in valuation method, has been recognised as a return on scheme assets within other comprehensive income, and reduced the Group's defined benefit pension obligation by the same amount.

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.

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 deliver its business plan. During the year the Group's credit rating improved, and the Board continued to focus on improving the efficiency of the balance sheet through the partial repurchase of the bilateral loan and the repurchase and redemption of the 2016 convertible bond.

In 2014 the Board will further review its policies on capital structure to support the strategy. 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.

4.1 Net cash

Keeping it simple . . .

Net cash is the Group's key measure used to evaluate total cash resources net of the current outstanding debt. In defining total outstanding debt the Directors consider it appropriate to include:

- the currency impact of swaps held against those debt instruments;
- equity components of debt instruments (principally the convertible bond which was settled in the year); and
- the amortised cost adjustment which reflects the increase in coupon rates for specific bonds caused by the change in ITV's credit status to and from investment grade in between August 2008 and August 2013.

The table below analyses movements in the components of net cash during the year:

	1 January 2013 £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	**31 December 2013 £m**
Cash	602	(164)	–	**438**
Cash equivalents	88	(8)	–	**80**
Total cash and cash equivalents	**690**	**(172)**	**–**	**518**
Held to maturity investments	145	(145)	–	**–**
Loans and loan notes due within one year	–	–	(41)	**(41)**
Finance leases due within one year	(7)	7	(21)	**(21)**
Loans and loan notes due after one year	(594)	200	93	**(301)**
Finance leases due after one year	(38)	–	21	**(17)**
Total debt	**(639)**	**207**	**52**	**(380)**
Currency component of swaps held against euro denominated bonds	25	–	1	**26**
Convertible bond equity component	(22)	11	11	**–**
Amortised cost adjustment	7	–	(7)	**–**
Net cash	**206**	**(99)**	**57**	**164**

Section 4: Capital Structure and Financing Costs

	1 January 2012 £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	31 December 2012 £m
Cash	705	(103)	–	602
Cash equivalents	96	(8)	–	88
Total cash and cash equivalents	801	(111)	–	690
Held to maturity investments	147	–	(2)	145
Loans and loan notes due within one year	–	–	–	–
Finance leases due within one year	(9)	8	(6)	(7)
Loans and loan notes due after one year	(868)	275	(1)	(594)
Finance leases due after one year	(44)	–	6	(38)
Total debt	(921)	283	(1)	(639)
Currency component of swaps held against euro denominated bonds	31	–	(6)	25
Convertible bond equity component	(27)	–	5	(22)
Amortised cost adjustment	14	–	(7)	7
Net cash	45	172	(11)	206

Cash and cash equivalents

Included within cash equivalents is £36 million (2012: £43 million), the use of which is restricted to meeting finance lease commitments under programme sale and leaseback commitments, and gilts of £36 million (2012: £37 million) over which the unfunded pension commitments have a charge (see note 3.7 for details).

Held to maturity investments

In March 2013 gilts with a nominal value of £138 million secured against the £200 million bilateral loan were utilised in part repayment of the loan (2012: the gilts had a carrying value of £145 million).

Loans and loan notes due within one year

During the year the 2014 Eurobond was reclassified to current borrowings.

Loans and loan notes due after one year

In March 2013 £138 million of the £200 million covenant free loan with a maturity of March 2019 was repaid from cash and with the held to maturity gilts secured against the loan. All other terms, including the interest cost of 13.55%, remain unchanged. The repayment resulted in an upfront loss of £38 million, shown in net financing costs, and future interest savings of £48 million (2012: £75 million of the October 2015 bonds and £89 million of the January 2017 bonds were repurchased).

Currency components of swaps held against euro denominated bonds

As at 31 December 2013 the currency element of the cross currency interest rate swaps is a £26 million asset (2012: £25 million asset) effectively reducing the net amount repayable on the bond at maturity.

Convertible bond

In November 2009 ITV issued a £135 million convertible Eurobond with a maturity date of November 2016 and a coupon of 4%. As the bond contained an option for the issuer to convert a portion of the debt into ITV's equity (from November 2013), the components were treated as separate instruments. The accounting policy for this compound instrument is detailed in note 4.2 (i.e. partly debt and partly equity).

During 2013 the Group settled the entire convertible bond through a combination of repurchase and redemption, resulting in future interest cost savings of £16 million and share dilution of 95 million shares:

- the Group repurchased £73 million nominal for a cash cost of £169 million, resulting in a loss of £13 million recognised in net financing costs and a loss attributable to the equity component of £83 million, which has been reflected in retained earnings;
- the remaining nominal of £62 million was redeemed in exchange for 95 million new shares being issued. The Group recognised a loss of £10 million in net financing costs with respect to the redemption, and the residual equity element of £9 million was released to retained earnings.

The impact of the redemption on the Group's equity is detailed in note 4.7.

Amortised cost adjustment

The purpose of the amortised cost adjustment is to exclude the impact of the coupon step-up on net debt. When ITV's Standard & Poor's credit rating was lowered to BB+ in August 2008 a coupon step-up (an increased interest cost) in the 2014 and 2017 bonds was triggered. Consequently the debt carrying values had to be revalued under IFRS, resulting in a non-cash increase in net debt and associated loss in net financing costs of £30 million as at 31 December 2008. Since then the accounting treatment has been unwinding this through an annual interest expense, which is excluded from adjusted net financing costs.

In August 2013, the Group's investment grade status was fully restored, resulting in a reversing of the previous coupon step up for the 2017 bond. This 'step down' triggered another revaluation of the amortised cost of the debt under IFRS, leading to a gain of £5 million which has been recognised within interest expense on financial liabilities in net financing costs, on a basis consistent with the unwind described above.

At year end, the amortised cost adjustment remaining is nil (2012: £7 million).

4.2 Borrowings and held to maturity investments

Keeping it simple . . .

The Group borrows money from financial institutions and debt investors in the form of bonds and other financial instruments. The Group's bonds generally have fixed interest rates and are for a fixed term.

The interest payable and receivable on these instruments is shown in the net financing costs note in note 4.4.

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 basis. Borrowings are referred to in this section using their redemption value when describing the terms and conditions.

The mechanism used to determine variable interest rates on a loan is analysed when the loan is initially taken out to determine if it is closely related to the loan. If the variable rate mechanism is closely related to the loan it is not valued separately but cash flow estimates are included in the effective interest rate on the loan. This assessment is not revisited unless the terms of the loan are changed significantly.

Compound financial instruments

Compound financial instruments are instruments that are classified as partly debt and partly equity due to the terms of the instrument.

The Group had one compound financial instrument, the 2016 convertible bond, that was redeemed in the year as described in note 4.1.

The liability component of a compound financial instrument is recognised initially at the fair value of a normal bond that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition but is transferred to retained earnings over the term of the instrument on an effective interest rate basis.

Section 4: Capital Structure and Financing Costs

Held to maturity assets

Where the Group has the positive intent and ability to hold financial assets to maturity, they are classified as held to maturity. Held to maturity financial assets are recognised initially at fair value including any directly attributable transaction costs. Subsequent to initial recognition, held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment.

Borrowings and held to maturity investments

The table below analyses the Group's borrowings by when they fall due for payment and excludes the favourable impact of the cross-currency interest rate swaps:

	Loans and loan notes £m	Finance leases £m	2013 £m
Current			
In 1 year or less, or on demand	**41**	**21**	**62**
Non-current			
In more than 1 year but not more than 2 years	**78**	**7**	**85**
In more than 2 years but not more than 5 years	**161**	**10**	**171**
In more than 5 years	**62**	**–**	**62**
	301	**17**	**318**
Total	**342**	**38**	**380**

	Loans and loan notes £m	Finance leases £m	2012 £m
Current			
In 1 year or less, or on demand	–	7	7
Non-current			
In more than 1 year but not more than 2 years	39	23	62
In more than 2 years but not more than 5 years	355	15	370
In more than 5 years	200	–	200
	594	38	632
Total	594	45	639

Loans and loan notes repayable within one year

The Group has one loan repayable in 2014. The unsecured £41 million (€50 million) Eurobond has a coupon of 10.0% and matures in June. The Group expects to pay £15 million at maturity, net of cross-currency interest rate swaps.

Loans and loan notes repayable between one and two years

The unsecured £78 million Eurobond has a coupon of 5.375% and matures in October 2015.

Loans and loan notes repayable between two and five years

The Group has one loan that is repayable between two and five years as at 31 December 2013. The unsecured £161 million Eurobond matures in January 2017 and has a coupon of 7.375%, which decreases to 6.125% from January 2014 following the coupon step down discussed in note 4.1.

Loans and loan notes repayable after five years

The £62 million (previously £200 million) covenant free loan raised in February 2009 and partially repaid in 2013 (see note 4.1) matures in March 2019 and charges interest of 13.55%. In January 2014 the remaining nominal was repurchased. See note 5.3 for details.

Fair value versus book value

The tables below provide fair value information for the Group's borrowings and held to maturity investments:

Assets	Maturity	Book value 2013 £m	Book value 2012 £m	Fair value 2013 £m	Fair value 2012 £m
Held to maturity investments	Mar 2019	–	145	–	166

The fair value of held to maturity investments is based on quoted market bid prices at the year end.

Liabilities	Maturity	Book value 2013 £m	Book value 2012 £m	Fair value 2013 £m	Fair value 2012 £m
€50 million Eurobond	June 2014	**41**	39	**43**	48
£78 million Eurobond	Oct 2015	**78**	78	**83**	84
£135 million Convertible bond	Nov 2016	**–**	110	**–**	223
£161 million Eurobond	Jan 2017	**161**	167	**179**	178
£62 million loan (previously £200 million loan)	Mar 2019	**62**	200	**95**	309
		342	594	**400**	842

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. This calculation of fair value is consistent with assets and liabilities valued under level 2 of the fair value hierarchy detailed in note 4.6.

Movements in book values of the 2016 and 2019 bonds are the result of redemption and buybacks in the period.

Finance leases

The following table analyses when finance lease liabilities are due for payment:

	2013 Minimum lease payments £m	2013 Interest £m	2013 Principal £m	2012 Minimum lease payments £m	2012 Interest £m	2012 Principal £m
In 1 year or less	**22**	**1**	**21**	9	2	7
In more than 1 year but not more than 5 years	**18**	**1**	**17**	39	1	38
In more than 5 years	**–**	**–**	**–**	–	–	–
	40	**2**	**38**	48	3	45

Finance leases principally comprise programmes under sale and leaseback arrangements. The net book value of tangible assets held under finance leases at 31 December 2013 was £1 million (2012: £2 million).

Section 4: Capital Structure and Financing Costs

4.3 Derivative financial instruments

Keeping it simple . . .

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 an underlying exposure.

The Group is exposed to changes in interest rates on its net borrowings and to changes in foreign exchange rates on its foreign currency transactions and net assets. In accordance with Board approved policies, which are included in note 4.5, the Group uses derivatives to hedge these underlying exposures.

Derivative financial instruments are initially included in the balance sheet at their fair value, either as assets or liabilities, and are subsequently remeasured at fair value or 'marked to market' at each reporting date. Movements in instruments measured at fair value are recorded in the income statement in net financing costs.

An interest rate swap is an instrument to exchange a fixed rate of interest for a floating rate, or vice versa, or one type of floating rate for another. A cross-currency interest rate swap exchanges a fixed or floating interest rate in one currency for a floating or fixed interest rate in another currency.

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

The Group uses a limited number of derivative financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates. The Group does not hold or issue derivative instruments for speculative purposes. Hedge accounting as defined under IFRS has not been adopted by the Group for the derivatives held.

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the income statement within net financing costs. Derivatives with positive fair values are recorded as assets and negative fair values as liabilities.

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 the current creditworthiness of swap counterparties.

Third party valuations are used to fair value the Group'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 movements in the year relating to changes in fair value and interest are not separated.

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.

	Assets £m	2013 Liabilities £m
Current		
Interest rate swaps – fair value through profit or loss	**32**	**(6)**
Non-current		
Interest rate swaps – fair value through profit or loss	**41**	**(27)**
	73	**(33)**

	Assets £m	2012 Liabilities £m
Current		
Interest rate swaps – fair value through profit or loss	–	(1)
Non-current		
Interest rate swaps – fair value through profit or loss	99	(48)
	99	(49)

When the Group's 2014, 2015 and 2017 Eurobonds were issued, the Group used a portfolio of interest rate swaps and cross-currency interest rate swaps to convert a portion of the fixed rate coupons into floating rates. The Group subsequently layered on additional swaps to take these floating rates back into fixed rates. Consequently, the Group is now 100% fixed on its gross borrowings. The return to fixed rate locked in an interest benefit for the Group, since the fixed rate receivable on the original swap portfolio is higher than the fixed rate payable on the swaps subsequently layered on, resulting in a net mark-to-market gain on the portfolio. On the 2014 €50m Eurobond, this also locked in a foreign exchange benefit for the Group, whereby the net effect of the related swap portfolio at maturity is to receive €50 million (to settle the bond maturity) and to pay £15 million.

Given the bond repurchases in recent periods, the remaining principal outstanding on the 2015 and 2017 Eurobonds is now less than the notional amounts on the related swaps. However, the notional amounts on all of the swaps in the portfolio match, so that there is no remaining floating interest rate exposure and the Group remains 100% fixed rate on its debt portfolio.

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 assets and liabilities. The presentation of these net financing costs in this note reflects income and expenses according to the classification of the financial instruments.

In reporting 'adjusted profit', the Group adjusts net financing costs to exclude mark-to-market movements on interest rate and foreign exchange derivatives, gains/losses on bond buybacks, imputed pension interest, interest and fair value movements in acquisition-related liabilities and other financing costs.

Mark-to-market movements reflect the change in value of our derivative instruments between the later of inception or 1 January 2013, and 31 December 2013. The value at year end is not necessarily the same as the value at which they will be settled at maturity.

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 and 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.

Section 4: Capital Structure and Financing Costs

Net financing costs

Net financing costs can be analysed as follows:

	2013 £m	2012 (restated) £m
Financing income:		
Interest income	**7**	16
Change in fair value of instruments classified at fair value through profit or loss	**3**	–
Foreign exchange gain	**–**	4
	10	20
Financing costs:		
Change in fair value of instruments classified at fair value through profit or loss	**–**	(5)
Interest expense on financial liabilities measured at amortised cost	**(29)**	(60)
Net interest on defined benefit pension scheme obligations	**(20)**	(16)
Losses on early settlement	**(61)**	(36)
Foreign exchange loss	**(1)**	–
Other interest expense	**(14)**	(9)
	(125)	(126)
Net financing costs	**(115)**	(106)

Gains relating to changes in fair value of instruments of £3 million (2012: losses of £5 million) relate principally to the unwinding of the interest rate swaps as they near maturity.

As detailed in note 4.1, losses on early settlement of £61 million (2012: £36 million) were incurred as a result of the debt settlements during the year. The partial repurchase of the £62 million 2019 bilateral loan resulted in a loss of £38 million, while the repurchase and redemption of the convertible bond resulted in a loss of £23 million.

Other interest expense includes the interest element of the acquisition related contingent liabilities as detailed in note 3.4.

The Group has restated 2012 net interest on defined benefit pension scheme obligations by £7 million in accordance with revisions to IAS 19. Details of the impact on 2012 are discussed in note 3.7.

4.5 Financial risk factors

Keeping it simple . . .

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments within its policies described below as hedges to manage certain risk exposures.

Treasury policies have been approved by the Board for managing each of these risks including levels of authority on the type and use of financial instruments. Transactions are only undertaken if they relate to underlying exposures, i.e. the Group does not use derivatives to speculate. The treasury function reports regularly to the Audit Committee and treasury operations are subject to periodic reviews.

Market risk

Currency risk

The Group operates internationally and is therefore exposed to currency risk arising from movements in foreign exchange rates, primarily with respect to the US dollar and the euro. Foreign exchange risk arises from: differences in the dates foreign currency commercial transactions are entered into and the date they are settled; recognised monetary assets and liabilities held in a non-functional currency; and net investments in foreign operations.

The Group's foreign exchange policy is to hedge material foreign currency denominated costs at the time of commitment and to hedge a proportion of foreign currency denominated revenues on a rolling 12-month basis using either a natural hedge where one exists, or through forward foreign exchange contracts taken out for up to two years. The Group also utilises foreign exchange swaps to manage foreign currency cash flow timing differences.

The Group ensures that its net exposure to foreign currency denominated cash balances is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The euro denominated interest and principal payments under the €50 million bond have been fully hedged by cross currency interest rate swaps.

The Group's investments in overseas subsidiaries are not hedged as those currency positions are considered to be long-term in nature.

At 31 December 2013, if sterling had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been £8 million (2012: £6 million) higher/lower. Equity would have been £17 million (2012: £13 million) higher/lower.

At 31 December 2013, if sterling had weakened/strengthened by 10% against the euro with all other variables held constant, post-tax profit for the year would have been £7 million (2012: £8million) higher/lower. Equity would have been £15 million (2012: £2 million) higher/lower.

Interest rate risk

Interest rate risk is the risk that the Group is impacted by significant changes in interest rates. Borrowings issued at or swapped to floating rates expose the Group to interest rate risk.

The Group's interest rate policy was changed in 2011 to having 100% of its borrowings at fixed rates in order to lock in low interest rates. This policy has been maintained throughout 2012 and 2013. The Group utilises fixed and floating rate interest swaps and options in order to achieve the desired policy mix, as illustrated in note 4.3.

All of the Group's interest rate swaps are classified as fair value through profit or loss so any movement in the fair value goes through the income statement rather than equity.

At 31 December 2013, if interest rates had increased/decreased by 0.1%, post-tax profit for the year would have been unchanged (2012: unchanged).

Price risk

Price risk is the risk that the Group's financial instruments change in value due to movements in market prices. This excludes movements in interest rate or foreign exchange. The Group is not exposed to any material price risk.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's receivables from customers, cash, held to maturity investments and on in-the-money derivatives. There is also credit risk relating to the Group's own credit rating as this impacts the availability and cost of future finance.

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.

Cash and held to maturity investments

The Group operates investment guidelines with respect to surplus cash that emphasises 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 and perceived state support. Deposits longer than 12 months require the approval of the Audit Committee.

Section 4: Capital Structure and Financing Costs

Borrowings

ITV's credit ratings improved in 2013 with all three ratings agencies upgrading their long-term credit ratings. In March and April respectively, Standard & Poor's and Fitch upgraded the Group's long-term credit rating to investment grade BBB- (2012: BB+). In August Moody's Investor Service upgraded their long-term credit rating to Baa3 (2012: Ba1). 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. The cost of existing borrowing remains subject to the terms of the instrument.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's financing policy is to fund itself for the long term by using debt instruments with a range of maturities and to ensure access to short-term appropriate facilities. It is substantially funded from the UK and European capital markets, supplemented with bank facilities (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 possible future credit ratings and headroom and takes into account the accessibility of cash and cash equivalents.

At 31 December 2013 the Group has available two undrawn committed facilities worth a total of £375 million (2012: £375 million). The first is a £125 million invoice discounting facility, maturing in September 2015, which is secured on advertising receivables and which has no financial covenants. The second is a £250 million Revolving Credit Facility ('RCF') which is provided by a small group of relationship banks and which matures in July 2016, following an election made in July 2013 to extend the maturity by one year. The RCF, which is unsecured, can be extended by a further year subject to agreement by the banks. The facility has leverage and interest cover financial covenants normal for such a facility.

Keeping it simple . . .

The table below analyses the Group's financial liabilities including derivatives into relevant maturity groupings based on the period remaining until the contractual maturity date. 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 2013	**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	**(483)**	**(92)**	**(108)**	**(216)**	**(67)**
Trade and other payables	**(744)**	**(702)**	**(31)**	**(10)**	**(1)**
Other payables – non-current	**(97)**	**-**	**(4)**	**(75)**	**(18)**
Derivative financial instruments					
Interest rate swaps	**55**	**37**	**9**	**9**	**–**
	(1,269)	**(757)**	**(134)**	**(292)**	**(86)**

At 31 December 2012	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	(909)	(57)	(112)	(507)	(233)
Held to maturity investments	178	6	6	19	147
Trade and other payables	(623)	(593)	(20)	(9)	(1)
Other payables – non-current	(22)	–	–	(8)	(14)
Derivative financial instruments					
Interest rate swaps	62	7	37	18	–
	(1,314)	(637)	(89)	(487)	(101)

In 2012 held to maturity investments were included within the table above as the £138 million March 2019 gilts were used as security against the £62 million 2019 loan (previously £200 million loan).

4.6 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) and does not calculate its own fair values. The different valuation methods are called 'hierarchies' and are described below.

The tables below set out the financial instruments included on the ITV statement of financial position at 'fair value'.

	Fair value 31 December 2013 £m	Level 1 31 December 2013 £m	Level 2 31 December 2013 £m	Level 3 31 December 2013 £m
Assets measured at fair value				
Available for sale financial instruments				
Available for sale gilts	**36**	**36**	**–**	**–**
Financial assets at fair value through profit or loss				
Interest rate swaps	**73**	**–**	**73**	**–**
	109	**36**	**73**	**–**

	Fair Value 31 December 2013 £m	Level 1 31 December 2013 £m	Level 2 31 December 2013 £m	Level 3 31 December 2013 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Interest rate swaps	**(33)**	**–**	**(33)**	**–**
Contingent consideration	**(7)**	**–**	**–**	**(7)**
	(40)	**–**	**(33)**	**(7)**

	Fair value 31 December 2012 £m	Level 1 31 December 2012 £m	Level 2 31 December 2012 £m	Level 3 31 December 2012 £m
Assets measured at fair value				
Available for sale financial instruments				
STV shares (disposal detailed in note 2.2)	3	3	–	–
Available for sale gilts	37	37	–	–
Financial assets at fair value through profit or loss				
Interest rate swaps	99	–	99	–
	139	40	99	–

	Fair value 31 December 2012 £m	Level 1 31 December 2012 £m	Level 2 31 December 2012 £m	Level 3 31 December 2012 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Interest rate swaps	(49)	–	(49)	–
Contingent consideration	(1)	–	–	(1)
	(50)	–	(49)	(1)

Section 4: Capital Structure and Financing Costs

Level 1
Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2
Fair values 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 measured using inputs for the asset or liability that are not based on observable market data.

Contingent consideration is the Group's only financial instrument classified as level 3 in the fair value hierarchy. As noted in the accounting policy section of note 3.3, the key assumptions taken into consideration when measuring this acquisition related liability are the performance expectations of the acquisition and a discount rate that reflects the size and nature of the new business. There is no reasonable change in discount rate or performance targets that would give rise to a material change in the liability at year end.

The acquisitions in the period gave rise to an additional £6 million of contingent consideration (see note 3.4 for details). The unwind of interest and fair value movement in the liability was immaterial in the period (2012: nil), which is recognised in other interest expense in net financing costs.

4.7 Equity

Keeping it simple . . .

This section explains material movements recorded in shareholders' equity that are not explained elsewhere in the financial statements. The movements in equity and the balance at 31 December 2013 are presented in the consolidated statement of changes in equity.

The Group utilises share award schemes as part of its employee remuneration packages. The various ITV share-based compensation schemes are explained in this section as they are accounted for through retained earnings.

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.

Share-based compensation
The Group operates a number of 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 a Black–Scholes model, as appropriate, taking into account the terms and conditions of the individual scheme. 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. Based on this number, and the option fair values, their present value is determined.

The valuation of these share-based payments also requires estimates to be made in respect of the number of options that are expected to be exercised.

Vesting conditions are limited to service conditions and performance conditions. Conditions other than service or performance conditions are considered non-vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each reporting date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

4.7.1 Share capital and share premium

The Group's share capital at 31 December 2013 of £403 million (2012: £391 million) and share premium of £174 million (2012: £122 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.

4.7.2 Merger and other reserves

Merger and other reserves at 31 December 2013 include the following reserves:

	2013 £m	2012 £m
Merger reserves arising on historic mergers	**119**	119
Capital reserves	**112**	112
Capital redemption reserves	**36**	36
Revaluation reserves	**6**	6
Equity element of the 2016 convertible bond	**–**	22
Put option liabilities arising on acquisition of new subsidiaries	**(25)**	(12)
Total	**248**	283

The equity element of the 2016 convertible bond was reduced to nil in the year following redemption of the bond, as detailed in note 4.1.

The £13 million increase in liabilities on the options for the acquisition of new subsidiaries relates to the non-controlling interests of High Noon Entertainment and Thinkfactory Media, as detailed in note 3.4.

4.7.3 Translation reserve

The translation reserve comprises all foreign exchange differences arising on the translation of the accounts of, and investments in, foreign operations.

4.7.4 Available for sale reserve

The available for sale reserve comprises all movements arising on the revaluation and disposal of assets accounted for as available for sale.

4.7.5 Retained earnings

The retained earnings reserve comprises profit for the year attributable to owners of the Company of £326 million (2012: £256 million) and other items recognised directly through equity as presented on the consolidated statement of changes in equity.

The Directors of ITV plc propose a final dividend of 2.4p per share and a special dividend of 4.0p per share.

4.7.6 Non-controlling interests

In 2013 £4 million (2012: £1 million) of profit was attributable to non-controlling interests.

4.7.7 Share-based compensation

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 whose amount is based on the price or value of the Group's shares then this will also fall under a share-based transaction. The Group operates a number of share-based compensation schemes, the details of which are set out below.

Section 4: Capital Structure and Financing Costs

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 Deferred Share Award Plan. During the year all exercises were satisfied either by using shares purchased in the market and held in the ITV Employees' Benefit Trust or by issuing new shares.

Share-based compensation charges totalled £14 million in 2013 (2012: £9 million).

The table below summarises the movements in the number of share options outstanding for the Group and their weighted average exercise price:

	Number of options ('000)	**2013 Weighted average exercise price (pence)**	Number of options ('000)	2012 Weighted average exercise price (pence)
Outstanding at 1 January	**68,387**	**11.06**	81,479	12.74
Granted during the year – nil priced	**12,726**	**–**	19,184	–
Granted during the year – other	**13,371**	**126.97**	6,218	66.79
Forfeited during the year	**(4,900)**	**7.69**	(16,948)	3.80
Exercised during the year	**(21,385)**	**5.97**	(18,052)	14.52
Expired during the year	**(523)**	**51.51**	(3,494)	106.17
Outstanding at 31 December	**67,676**	**14.52**	68,387	11.06
Exercisable at 31 December	**846**	**–**	6,407	2.30

For those options exercised in the year, the average share price during 2013 was 150.44 pence (2012: 84.03 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)	**Weighted average exercise price (pence)**	**Number of options ('000)**	**2013 Weighted average remaining contractual life (years)**	Weighted average exercise price (pence)	Number of options ('000)	2012 Weighted average remaining contractual life (years)
Nil	**–**	**44,439**	**1.88**	–	54,618	1.97
20.00 – 49.99	**31.09**	**2,960**	**1.29**	35.00	5,324	1.68
50.00 – 69.99	**67.38**	**5,399**	**2.11**	65.76	6,598	2.87
70.00 – 99.99	**73.58**	**1,639**	**1.31**	73.69	1,847	2.27
100.00 – 109.99	**102.59**	**1,899**	**3.16**	–	–	–
110.00 – 119.99	**–**	**–**	**–**	–	–	–
120.00 – 149.99	**131.44**	**11,339**	**3.20**	–	–	–

Share schemes

The Black–Scholes model is used to value the SAYE Schemes as these do not have any market performance conditions. The ITV SAYE scheme is an Inland Revenue Approved SAYE scheme.

Assumptions made relating to grants of share options during 2013 and 2012 are as follows:

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)
Save As You Earn								
ITV – three year	04 Apr 2012	85.25	68.81	43.00%	3.25	2.82%	0.65%	17.97
ITV – five year	04 Apr 2012	85.25	68.81	50.00%	5.25	2.82%	1.18%	22.36
ITV – three year	13 Sept 2012	86.70	66.60	38.00%	3.25	2.82%	0.38%	17.46
ITV – five year	13 Sept 2012	86.70	66.60	50.00%	5.25	2.82%	0.81%	23.32
ITV – three year	05 Apr 2013	121.00	102.59	36.00%	3.25	2.73%	1.04%	32.83
ITV – five year	05 Apr 2013	121.00	102.59	49.00%	5.25	2.73%	1.80%	48.43
ITV – three year	13 Sept 2013	183.40	131.44	34.00%	3.25	2.73%	0.31%	63.33
ITV – five year	13 Sept 2013	183.40	131.44	47.00%	5.25	2.73%	0.72%	85.08
Performance Share Plan								
ITV – three year	01 Mar 2012	88.00	–	*	3.00	*	*	88.00
ITV – three year	10 Sept 2012	88.70	–	*	3.00	*	*	88.70
ITV – three year	01 Mar 2013	123.40	–	*	3.00	*	*	123.40
ITV – three year	28 Mar 2013	129.40	–	*	3.00	*	*	129.40

* Awards do not include market based performance conditions; therefore, Black–Scholes model not required to calculate fair value.

The expected volatility for awards made under the SAYE scheme reflects the historic volatility of ITV plc's share price and equity markets as a whole over the preceding three or five years, and, depending on the expected life of the award, prior to the grant date of the share options awarded.

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. In particular, the EBT's purchases of shares in ITV plc are debited directly to equity.

The table below shows the number of ITV plc shares held in the trust at 31 December 2013 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 2013	14,849,415	1,484,942
ITV Deferred Share Award Plan		(529,004)	
ITV Performance Share Plan		(18,322,427)	
ITV SAYE Scheme		(2,555,209)	
Subscription for new issue shares		19,500,000	
Shares purchased		8,834,678	
	31 December 2013	**21,777,453**	**2,177,745**

The total number of shares held by the EBT at 31 December 2013 represents 0.54% (2012: 0.38%) of ITV's issued share capital. The market value of own shares held at 31 December 2013 is £42 million (2012: £16 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 which do not relate to restricted shares under the Deferred Share Award Plan. 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.

Section 5: Other Notes

5.1 Related party transactions

Keeping it simple . . .

The related parties identified by the Directors include joint ventures, associated undertakings, 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 related party relationship when control exists, irrespective of whether there have been transactions between the related parties.

Related party transactions

Transactions with joint ventures and associated undertakings

Transactions with joint ventures and associated undertakings during the year were:

	2013 £m	2012 £m
Sales to joint ventures	10	11
Sales to associated undertakings	11	9
Purchases from joint ventures	27	24
Purchases from associated undertakings	57	52

The transactions with joint ventures primarily relate to sales and purchases of digital multiplex services with Digital 3&4 Limited.

Purchases from associated undertakings primarily relate to the purchase of news services from ITN.

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:

	2013 £m	2012 £m
Amounts owed by joint ventures	–	1
Amounts owed by associated undertakings	4	6
Amounts owed by pension scheme	2	2
Amounts owed to associated undertakings	–	2

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:

	2013 £m	2012 £m
Short-term employee benefits	8	8
Share-based compensation	5	6
	13	14

Principal joint ventures, associated undertakings and investments

The Company indirectly held at 31 December 2013 the following holdings in significant joint ventures, associated undertakings and investments:

Name	Note	**Interest in ordinary share capital 2013 %**	Interest in ordinary share capital 2012 %	Principal activity
Freesat (UK) Limited	a	**50.0**	50.0	Provision of a standard and high definition enabled digital satellite proposition
Digital 3&4 Limited	a	**50.0**	50.0	Operates the Channel 3 and 4 digital terrestrial multiplex
YouView TV Limited	a	**14.3**	14.3	Internet connected television platform
Noho Film and Television Limited	a	**50.0**	50.0	Television drama and film production company
Independent Television News (ITN) Limited	b	**40.0**	40.0	Supply of news services to broadcasters in the UK and elsewhere
Mammoth Screen Limited	b	**25.0**	25.0	Production of television programmes
ISAN UK Limited	b	**25.0**	25.0	Operates voluntary numbering system for the identification of audiovisual works

a Joint venture.
b Associated undertaking.

5.2 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.

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.

Section 5: Other Notes

5.3 Subsequent events

Keeping it simple . . .

Where the Group receives information in the period between 31 December 2013 and the date of this report about conditions related to certain events that existed at the year end, we update our disclosures that relate to those conditions in light of the new information. Such events can be categorised as adjusting or non-adjusting depending on whether the condition existed in 2013. If non-adjusting events after the year end are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements.

Accordingly, for each material category of non-adjusting event after the reporting period we disclose in this section the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

On 16 January 2014, the Group repurchased the remaining 2019 Bilateral loan, with a nominal value of £62 million, for £95 million. Although this resulted in a loss of £30 million recognised within net financing costs, the Group will receive future cash interest savings of £44 million.

5.4 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 to 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 for the year ended 31 December 2013. This exemption is taken in accordance with Companies Act s479A.

Company name
12 Yard (North) Productions Limited
Broad Street Films Limited
Campania Limited
Carbon Media Limited
Carlton Content Holdings Limited
Carlton Finance Limited
Carlton Food Network Limited
Carlton Programmes Development Limited
Carlton Screen Advertising (Holdings) Limited
Carltonco 103
Carltonco Forty Investments
Carltonco Ninety-Six
Cosgrove Hall Films Limited
David Young 12 Yard Productions Limited
DTV Limited
Granada Media Limited
Granada Screen (2005) Limited
Granada Television Overseas Limited
ITC Entertainment Holdings Limited
ITV (HC) Limited
ITV International Channels (Asia) Limited
ITV News Channel Limited
Juice Music UK Limited
Link Electronics Limited
Morning TV Limited

ITV plc Company Financial Statements

Company Balance Sheet

As at 31 December	Note	2013 £m	2013 £m	2012 £m	2012 £m
Fixed assets					
Investments in subsidiary undertakings	iii		**1,648**		1,646
Held to maturity investments			**–**		145
Derivative financial instruments			**41**		99
			1,689		1,890
Current assets					
Amounts owed by subsidiary undertakings		**1,280**		3,424	
Derivative financial instruments		**32**		–	
Other debtors		**26**		4	
Cash at bank and in hand and short-term deposits		**319**		513	
		1,657		3,943	
Creditors – amounts falling due within one year					
Borrowings	v	**(41)**		–	
Amounts owed to subsidiary undertakings		**(1,342)**		(4,285)	
Accruals and deferred income		**(22)**		(8)	
Derivative financial instruments		**(5)**		(1)	
		(1,410)		(4,294)	
Net current assets/(liabilities)			**247**		(351)
Total assets less current liabilities			**1,936**		1,539
Creditors – amounts falling due after more than one year					
Borrowings	v		**(301)**		(594)
Derivative financial instruments			**(27)**		(48)
			(328)		(642)
Net assets			**1,608**		897
Capital and reserves					
Called up share capital	vi		**403**		391
Share premium	vii		**174**		122
Other reserves	vii		**36**		58
Profit and loss account	vii		**995**		326
Shareholders' funds – equity			**1,608**		897

The accounts were approved by the Board of Directors on 26 February 2014 and were signed on its behalf by:

Ian Griffiths
Director

Notes to the ITV plc Company Financial Statements

i Accounting policies

Basis of preparation

These accounts have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

As permitted by section 408 (3) of the Companies Act 2006, a separate profit and loss account, dealing with the results of the parent company, has not been presented.

Under FRS 29 the Company is exempt from the requirement to provide its own financial instruments disclosures, on the grounds that it is included in publicly available consolidated financial statements which include disclosures that comply with the IFRS equivalent to that standard.

The Company has taken advantage of the FRS 1 exemption from the requirement to prepare and disclose a cash flow statement.

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, adjusted for the effect of UITF 41 when it was adopted in prior years. Annual FRS 20 share-based payment compensation costs are recharged to the subsidiaries through the profit and loss account.

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. 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.

Compound financial instruments are instruments that are classified as partly debt and partly equity due to the terms of the instrument. The Company had one compound financial instrument, the 2016 convertible bond, that was redeemed in the year as described in note v.

The liability component of a compound financial instrument is recognised initially at the difference between the fair value of a normal bond that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition but is transferred to the profit and loss account over the term of the instrument on an effective interest basis.

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

ii Employees

Two (2012: two) Directors of ITV plc were employees of the Company during the year, both of whom remain at the year end. The costs relating to these Directors are disclosed in the Remuneration Report.

iii Investments in subsidiary undertakings

The principal subsidiary undertakings are listed in note xi. The balance at 31 December 2013 was £1,648 million (2012: £1,646 million).

iv Amounts owed (to)/from subsidiary undertakings

The Company operates an inter-group banking policy with certain 100% owned UK subsidiaries. The policy involves the daily closing cash position for participating subsidiaries whether positive or negative, being cleared to £nil via daily bank transfers to 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.

v Borrowings

Loans repayable in less than than one year
Loans repayable within one year as at 31 December 2013 comprise:

- an unsecured £41 million (€50 million) Eurobond
  (£15 million net of cross currency swaps) which has a coupon of 10.0% maturing in June 2014

Loans repayable after more than one year
Loans repayable after more than one year as at 31 December 2013 include:

- an unsecured £78 million Eurobond which has a coupon of 5.375% maturing in October 2015;
- an unsecured £161 million Eurobond which has a coupon of 7.375% maturing in January 2017; and
- in March 2013 £138 million of the £200 million covenant free loan with a maturity of March 2019 was repaid from cash and with the held to maturity gilts secured against the loan. All other terms, including the interest cost of 13.55%, remain unchanged. The loss on repayment was £38 million, which is shown in financing costs. The repurchase resulted in future cash interest savings of £48 million. Subsequent to year end, in January 2014, the remaining £62 million nominal was repurchased. Details are included in note xii.

Convertible bond
In November 2009 the Company issued a £135 million convertible Eurobond with a maturity date of November 2016 and a coupon of 4%. As the bond contained an option for the issuer to convert a portion of the debt into ITV plc's equity (from November 2013), the components were treated as separate instruments.

During 2013 the Company settled the entire convertible bond through a combination of repurchase and redemption, resulting in future interest cost savings of £16 million and share dilution of 95 million shares:

- the Company repurchased £73 million nominal for a cash cost of £169 million, resulting in a loss of £13 million recognised in net financing costs and a loss attributable to the equity component of £83 million, which has been reflected in the profit and loss account within shareholders' funds.
- the remaining nominal of £62 million was redeemed in exchange for 95 million new shares being issued. The Company recognised a loss of £10 million in net financing costs with respect to the redemption, and the residual equity element of £9 million was released to the profit and loss account within shareholders' funds.

Notes to the ITV plc Company Financial Statements

vi Called up share capital

	Authorised 2013 £m	Authorised 2012 £m	Allotted, issued and fully paid 2013 £m	Allotted, issued and fully paid 2012 £m
Ordinary shares of 10 pence each				
Authorised:				
8,000,000,000 (2012: 8,000,000,000)	**800**	800		
Allotted, issued and fully paid:				
4,025,409,194 (2012: 3,912,026,854)			**403**	391
Total	**800**	800	**403**	391

The Company's ordinary shares give shareholders equal rights to vote, receive dividends and to the repayment of capital. The Company issued 20 million new ordinary shares during the period, for total consideration of £2 million. A further 95 million new ordinary shares were issued as a result of the conversion of £62 million of the £135 million convertible Eurobond into equity, creating an additional share premium of £52 million.

vii Reconciliation of movements in shareholders' funds

	Share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 January 2012	389	120	63	497	1,069
Movement for year	2	2	(5)	(171)	(172)
At 31 December 2012	**391**	**122**	**58**	**326**	**897**
Retained profit for year for equity shareholders	–	–	–	996	996
Share-based compensation	–	–	–	14	14
External dividend paid	–	–	–	(271)	(271)
Equity portion of the convertible bond	10	52	(22)	(70)	(30)
Issue of shares	2	–	–	–	2
At 31 December 2013	**403**	**174**	**36**	**995**	**1,608**

The profit after tax for the year dealt with in the accounts of ITV plc is £996 million (2012: loss of £107 million).

The profit and loss account reserves of £995 million at 31 December 2013 are all distributable.

The Company received £1,117 million of dividends from subsidiaries in 2013 (2012: £nil).

The Directors of the Company propose a final dividend of 2.4p per share and a special dividend of 4.0p per share.

viii Contingent liabilities

Under a group registration, the Company is jointly and severally liable for VAT at 31 December 2013 of £51 million (31 December 2012: £33 million). The Company has guaranteed certain finance and operating lease obligations of subsidiary undertakings.

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.

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.

ix Capital and other commitments

There are no capital commitments at 31 December 2013 (2012: none).

x Related party transactions

Transactions with key management personnel

Key management consists of ITV plc Executive Directors.

Key management personnel compensation is as follows:

	2013 £m	2012 £m
Short-term employee benefits	3	3
Share-based compensation	2	4
	5	7

xi Principal subsidiary undertakings and investments

Principal subsidiary undertakings

The principal subsidiary undertakings of the Company at 31 December 2013, all of which are wholly owned (directly or indirectly) and incorporated and registered in England and Wales except where stated, are:

Name	Principal activity
ITV Broadcasting Limited	Broadcast of television programmes
ITV Network Limited	Scheduling and commissioning television programmes
ITV2 Limited	Operation of digital television channels
ITV Digital Channels Limited	Operation of digital television channels
ITV Breakfast Limited	Production and broadcast of breakfast time television under national Channel 3 licence
ITV Consumer Limited	Development of platforms, broadband, transactional and mobile services
SDN Limited	Operation of Freeview Multiplex A
ITV Studios Limited	Production of television programmes
ITV Studios, Inc.[1]	Production of television programmes
ITV Studios Germany GmbH[2]	Production of television programmes
ITV Studios Australia Pty Limited (formerly Granada Media Australia Pty Limited)[3]	Production of television programmes
12 Yard Productions (Investments) Limited	Production of television programmes
Imago TV Film und Fernsehproduktion GmbH[2, 4]	Production of television programmes
3sixtymedia Limited[4]	Supplier of facilities for television productions
ITV Global Entertainment Limited	Rights ownership and distribution of television programmes and films
ITV Ventures Limited (formerly Granada Ventures Limited)	Production and distribution of video and DVD products
ITV Global Entertainment, Inc[1]	Distribution of television programmes
ITV Services Limited	Provision of services for other companies within the Group
Carlton Communications Limited	Holding company
Granada Limited	Holding company
ITV Scottish Limited Partnership[5]	Holding company
ITV Breakfast Broadcasting Limited	Broadcast of television programmes
Gurney Productions LLC [1,6]	Production of television programmes
Big Talk Productions Limited	Production of television programmes
High Noon Group LLC [1,7]	Production of television programmes
The Garden Productions Limited	Production of television programmes
Thinkfactory Group, LLC [1,8]	Production of television programmes

1 Incorporated and registered in the USA
2 Incorporated and registered in Germany
3 Incorporated and registered in Australia
4 80% owned
5 99.9% owned SPE partnership with the remaining interest held by the ITV pension scheme. Fully consolidated in the Group accounts. Incorporated and registered in Scotland holding the ownership interest in SDN. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnership (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these accounts. Separate accounts for the partnership are not required to be, and have not been, filed at Companies House.
6 61.5% owned
7 60% owned
8 65% owned

Notes to the ITV plc Company Financial Statements

A list of all subsidiary undertakings will be included in the Company's annual return to Companies House.

Principal joint ventures, associated undertakings and investments

The Company indirectly held at 31 December 2013 the following interests in significant joint ventures, associated undertakings and investments:

Name	Note	**Interest in ordinary share capital 2013 %**	Interest in ordinary share capital 2012 %	Principal activity
Freesat (UK) Limited	a	**50.0**	50.0	Provision of a standard and high definition enabled digital satellite proposition
Digital 3&4 Limited	a	**50.0**	50.0	Operates the Channel 3 and 4 digital terrestrial multiplex
YouView TV Limited	a	**14.3**	14.3	Internet connected television platform
Noho Film and Television Limited	a	**50.0**	50.0	Television drama and film production company
Independent Television News Limited	b	**40.0**	40.0	Supply of news services to broadcasters in the UK and elsewhere
Mammoth Screen Limited	b	**25.0**	25.0	Production of television programmes
ISAN UK Limited	b	**25.0**	25.0	Operates voluntary numbering system for the identification of audiovisual works

a Joint venture
b Associated undertaking

xii Post balance sheet events

On 16 January 2014, the Company repurchased the remaining 2019 Bilateral loan, with a nominal value of £62 million, for £95 million. Although this resulted in a loss of £30 million recognised within the profit for the year, the Company will receive future cash interest savings of £44 million.

Financial Record

	2013 £m	2012 (restated) £m	2011 £m	2010 £m	2009 £m
Results					
Revenue	**2,389**	2,196	2,140	2,064	1,879
Earnings before interest, tax and amortisation (EBITA) before exceptional items	**620**	513	462	408	202
Amortisation of intangible assets	**(66)**	(57)	(59)	(63)	(59)
Impairment of intangible assets	**–**	(3)	–	–	–
Share of losses of joint ventures and associated undertakings	**(2)**	(1)	(2)	(3)	(7)
Exceptional items	**(2)**	(12)	1	19	(20)
Profit before interest and tax	**550**	440	402	361	116
Net financing costs	**(115)**	(106)	(75)	(75)	(91)
Profit before tax	**435**	334	327	286	25
Taxation (charge)/credit	**(105)**	(77)	(79)	(16)	69
Profit after tax	**330**	257	248	270	94
Non-controlling interests	**(4)**	(1)	(1)	(1)	(3)
Profit for the financial year	**326**	256	247	269	91
Basic earnings per share	**8.3p**	6.6p	6.4p	6.9p	2.3p
Adjusted earnings per share	**11.2p**	9.1p	7.9p	6.4p	1.8p
Dividend per share	**3.5p**	2.6p	1.6p	–	–
Special dividend per share	**4.0p**	4.0p	–	–	–
Consolidated statement of financial position					
Share capital	**403**	391	389	389	389
Reserves	**455**	426	417	272	(44)
Total equity attributable to equity shareholders of the parent company	**858**	817	806	661	345
Non-controlling interests	**31**	15	3	2	1
Net assets	**889**	832	809	663	346
Represented by:					
Property, plant and equipment and intangible assets	**1,213**	1,094	1,101	1,120	1,191
Investments	**4**	9	5	5	6
Distribution rights	**10**	17	11	12	16
Inventory	**322**	252	285	284	388
Trade and other receivables (including assets held for sale and derivative financial instruments)	**449**	479	475	511	565
Deferred tax asset	**52**	93	65	73	50
Total assets	**2,050**	1,944	1,942	2,005	2,216
Net cash/(debt)	**164**	206	45	(188)	(612)
Deferred tax liability	**–**	–	–	–	–
Other liabilities	**(1,298)**	(1,281)	(1,145)	(1,105)	(1,182)
Provisions	**(27)**	(37)	(33)	(49)	(76)
	889	832	809	663	346

Shareholder Information

Shareholder profile

Information as at 31 December 2013	Holders Number	%	Shares held Millions	%
Type of holder:				
Insurance companies	7	0.01	0	0.00
Banks and nominee companies	2,460	4.12	3,839	95.36
Individuals	56,925	95.33	135	3.36
Others	321	0.54	51	1.28
Totals	**59,713**	100.00	**4,025**	100.00

	Holders Number	%	Shares held	%
Size of holding:				
1 – 100	9,740	16.31	346,447	0.01
101 – 200	8,148	13.65	1,222,098	0.03
201 – 500	15,423	25.83	4,978,168	0.12
501 – 1,000	9,808	16.43	7,172,614	0.18
1,001 – 2,000	7,515	12.59	10,818,644	0.27
2,001 – 5,000	5,101	8.54	15,762,847	0.39
5,001 – 10,000	1,726	2.89	12,301,121	0.31
10,001 – 50,000	1,285	2.15	26,009,203	0.65
50,001 – 100,000	188	0.31	13,614,940	0.34
100,001 – 500,000	336	0.56	86,967,481	2.16
500,001 – 1,000,000	131	0.22	93,895,771	2.33
1,000,001 – 5,000,000	196	0.33	457,459,506	11.37
5,000,001 – 10,000,000	45	0.08	319,355,231	7.93
10,000,001 – 50,000,000	56	0.09	1,152,494,459	28.63
50,000,001 and above	15	0.03	1,823,010,664	45.29
Totals	**59,713**	100.00	**4,025,409,194**	100.00