

ITV plc

Full year results for the year ended 31 Dec 2020

Carolyn McCall, Chief Executive, said:

"Throughout this last year, we have all been dealing with the effects of the pandemic. As the UK's largest commercial network, we've worked hard to fulfil our responsibility as a source of reliable and trusted news and to deliver some of the best entertainment into the country's homes.

"I'm proud of the work of all our colleagues and thank them for their dedication, creativity and hard work to successfully manage our way through the crisis while continuing to invest in our strategy. Our production teams were very innovative in restarting productions quickly and safely in the UK and internationally, while our commercial colleagues inspired advertisers to restart their marketing campaigns.

"Good progress has been made in delivering our strategic priorities with the rollout of our programmatic addressable advertising platform, Planet V, to agencies to a very positive response; the acceleration of the transformation of the ITV Hub; BritBox UK is ahead of plan hitting half a million subscriptions in January 2021; and BritBox US increased its subscriptions by 50% over the year - we now have over 2.6m subscriptions globally across all our SVOD services.

"While total revenues and profits were down our financial performance was ahead of expectations driven by a strong end to Q4 and our firm control over costs.

"We are encouraged by the roadmap out of lockdown. We are seeing more positive trends in the advertising market in March and April and the majority of our programmes are now back in production. However, there remains uncertainty in all markets around the world with the potential risk of lockdowns, which if they materialise will affect revenues. We are committed to taking further cost out of the business while further investing to accelerate the delivery of our strategy and digital transformation. We have restructured the Broadcast business to create the Media and Entertainment Division to better respond to changing viewing habits. ITV Studios is well positioned to take advantage of the continued strong growth in the demand for quality content internationally."

2020 Financial performance has been materially impacted by COVID-19

- Total external revenue was down 16% at £2,781m
 - ITV Studios total revenues were down 25%, impacted by the disruption to the majority of our productions from March
 - Total Broadcast revenues were down 8%, with total advertising down 11% despite VOD advertising up 17%
- Adjusted Group EBITA was down 21% at £573m which is better than external expectations, driven by the strong end to Q4 and tight cost control delivering £116m of overhead savings of which £21m are permanent
 - ITV Studios adjusted EBITA was down 43% to £152m, impacted by the decline in revenue and the costs associated with COVID-19 safety measures
 - Broadcast adjusted EBITA was down 9% to £421m, with the decline in advertising partly offset by the reduction in the programme budget
- Adjusted EPS was 10.9p, down 22%
- Statutory EPS was 7.1p, down 40%

Operational update:

ITV Studios

- 2020:
 - With the determination and innovation of the team, ITV's productions started to resume from the summer under our strict safety protocols
 - We have invested in our creative development and creative talent as we have further strengthened our UK and international business and continue to diversify our customer base
 - SnowPiercer for TNT and Netflix has been recommissioned for a third series and Love Island is now in 20 countries
- 2021:
 - Our key strategic focus is to internationalise our formats, grow our scripted business and increase our commissions for OTT platforms
 - In spite of the restrictions in place, as of today we have about 90% of programmes back in production
 - We are monitoring and evaluating the situation but with the prevalence of the virus we do expect that there may be some continued disruption and delay with increased costs due to safety protocols

Total advertising revenue (TAR):

- 2020:
 - TAR finished the year well, with Q4 up 3% against the same period in 2019, as ITV continues to work closely with advertisers to develop innovative and effective marketing campaigns
- 2021:
 - As expected the advertising environment in Q1 is challenging
 - We forecast TAR to be down around 6% in Q1, with strong growth in VOD up around 14%, assuming there is no change in the current planned restrictions
 - We are now seeing more positive trends, with March expected to be up around 8% and April expected to be up between 60% and 75%, with the four months to the end of April up between 5% and 7%

Viewing:

- 2020
 - Total ITV viewing was up 1%
 - Due to the lack of VOD volume drivers, such as Love Island, fewer soaps and no major sporting events, online viewing was down 5%
 - ITV Family share of viewing (SOV) was down 4% partly impacted by the volume of the BBC's news output during the year, fewer episodes of the soaps and less new content due to the pause in productions
 - ITV main channel had its third biggest SOV in a decade, with a 16.7% SOV
- 2021
 - Our strong schedule is delivering mass audiences and key demographics including The Pembrokeshire Murders, Finding Alice, The Bay, Dancing On Ice and The Masked Singer
 - The programme budget will increase to £1.1bn in line with historic levels
 - We are assessing the appropriate allocation of the NPB between linear and advertiser funded video on demand (AVOD) to balance our ability to deliver mass audiences and increase on-demand viewing
 - We expect our focused investment in the user experience and content of the Hub to drive good viewing on the Hub over the full year, assuming the schedule is not further disrupted

Direct to Consumer

- 2020
 - Good performance from BritBox UK which is ahead of our business plan hitting 500,000 subscriptions in January 2021
 - We have increased BritBox US subscriptions by 50% over the year and we now have over 2.6m subscriptions across all our SVOD products globally
 - Interactive revenues were strong with good demand for ITV's competitions and the further development of ITV Win
- 2021
 - Continue to roll out new original content on BritBox UK including The Beast Must Die, The Secrets of the Krays and Spitting Image series 2 and BritBox will launch on Amazon

Cost savings

- 2020
 - We have taken tough action on our costs and delivered £116m of cost savings, ahead of the guidance of £60m. Of this £21m are permanent savings, ahead of the guidance of £10m.
- 2021
 - We will now deliver around £100m of annualised permanent overhead cost savings by 2022 (from 2019), compared to our previous guidance of £55 to £60m. Around £30m of these savings will be delivered in 2021.

Further amplifying ITV's social purpose, raising awareness and inspiring positive change

- Multiple campaigns to help improve physical and mental health, including Eat Them To Defeat Them, The Daily Mile and Britain Get Talking
- ITV has committed to become a Net Zero carbon business by 2030 and we are a signatory to TCFD

- ITV's Diversity Acceleration Plan is making progress including running external diversity campaigns, such as Black Voices and Black History Month, as well as internal campaigns such as Step Up 60 and additional apprenticeship positions

Delivering our strategic priorities and accelerating our More Than TV Strategy

- ITV Studios is one of the largest independent producers globally. We continue to strengthen our pipeline of new and returning scripted and unscripted shows and increasingly diversify our customer base
- We have restructured the broadcast business to create the Media and Entertainment division with two business units – Broadcast and On-demand - to better reflect and serve changes in viewer habits and to streamline ways of working
- We have further strengthened the ITV Hub which has 33m registered users, up 6%; expanded its content by extending the catch up window and adding short form content; and improved the user experience with increased personalisation and the continuous Hub redesign
- We have successfully rolled out Planet V to the majority of the large agencies; Samsung TV Plus is confirmed as Planet V's first third party publisher partner
- International rollout of BritBox is progressing well with the successful launch of BritBox in Australia in Q4 2020. South Africa is due to launch in 2021 and further roll out will follow
- We have made good progress in our digital transformation to improve our agility and efficiency and to better support our increasingly digital business

ITV has good access to liquidity and its financial position remains robust

- Reported net debt of £545m at 31 December 2020 (31 December 2019: £893m), which is unusually low, benefitting from a favourable working capital position, deferred VAT payments and is before earnout payments which we anticipate paying in 2021
- Reported net debt to adjusted EBITDA leverage of 0.9x (31 December 2019: 1.2x)
- Strong cash conversion of 138% reflecting a favourable working capital position from the reduction in stock and the deferral of VAT payments. This will unwind in 2021 and so taking 2020 and 2021 together, profit to cash conversion is expected to be 80% to 85% over the two years
- Total liquidity of £1,497m comprising cash of £668m and committed undrawn facilities of £829m
- The Board recognises the importance of the dividend to our shareholders and intends to restore dividend payments as soon as circumstances permit. The Board will balance shareholder returns with our commitment to maintain investment grade metrics over the medium term, to continue to invest behind the strategy and with the ongoing uncertainty with COVID-19

Outlook:

- The macro outlook remains uncertain but as of today we are seeing an improvement in advertising market trends with TAR expected to be up around 8% in March, and expected to be up between 60% and 75% in April, and the majority of programmes are now back in production
- We continue to monitor our performance very carefully and control our cash and costs tightly
- Our colleagues remain our overriding priority and we continue to take steps to protect their health, safety and wellbeing
- While we are managing and mitigating the impact of COVID-19, we remain very focused on executing our More Than TV strategy, accelerating our digital transformation and ensuring we emerge stronger and more resilient
- The creation of our Media and Entertainment business enables us to better respond to changing viewing habits and ITV Studios is well positioned to take advantage of the continued strong demand for quality content internationally

Results webcast and Q&A:

ITV's results webcast is now available on www.itvplc.com in the Reports Centre at www.itvplc.com/investors/results-centre/reports-and-results-archive/2020. In addition a live Q&A will be held for investors and analysts at 9am today. The Q&A can be accessed via itv.zoom.us/join/itvplc and you are now able to pre-register.

Notes to editors

1. Unless otherwise stated, all financial figures refer to the 12 months ended 31 December 2020, with the change compared to the same period in 2019.
2. Group financial performance

	2020 £m	2019 £m	Change £m	Change %
12 months to 31 December				
ITV Studios total revenue	1,370	1,822	(452)	(25)
Total advertising revenue	1,577	1,768	(191)	(11)

Broadcast non-advertising revenue	313	295	18	6
Broadcast total revenue	1,890	2,063	(173)	(8)
Total group revenue	3,260	3,885	(625)	(16)
Internal supply	(479)	(577)	98	17
Group external revenue	2,781	3,308	(527)	(16)
<i>Total non-advertising revenue</i>	<i>1,683</i>	<i>2,117</i>	<i>(434)</i>	<i>(21)</i>
Group adjusted EBITA	573	729	(156)	(21)
Group adjusted EBITA margin	21%	22%		
Statutory EBITA	561	693	(132)	(19)
Adjusted EPS	10.9p	13.9p	(3.0)p	(22)
Statutory EPS	7.1p	11.8p	(4.7)p	(40)
Dividend per share	-	8.0p	(8.0)p	-
Reported net debt as at 31 December*	(545)	(893)	348	39

* including IFRS 16 liabilities

3. Total advertising, which includes ITV Family NAR, online VOD and sponsorship, is forecast to be down around 6% in Q1 with January down 9%, February down 15% and March up around 8%. Early indications are that total advertising revenue will be up between 60% and 75% in April, with the four months to the end of April up between 5% and 7%. Figures for ITV plc are based on ITV estimates and current forecasts.

4. Broadcast key performance indicators

12 months to 31 December	2020	2019	Change %
ITV Total viewing (hrs)	16.6bn	16.3bn	1
ITV Family Share of Viewing (SOV)	22.2%	23.2%	(4)
Long form online viewing (hrs)	482m	506m	(5)
ITV Hub registered user accounts	32.6m	30.8m	6

- ITV Total viewing is the total number of hours spent watching ITV channels live, recorded broadcast channels within 28 days, third party VOD platforms, ITV Hub on owned and operated ad funded platforms and ITV Hub+.
- SOV data based on BARB/AdvantEdge. SOV data is for individuals and is based on 7 days (C7). ITV Family includes: ITV, ITV2, ITV3, ITV4, ITV Encore, ITVBe, CITV, ITV Breakfast, CITV Breakfast and associated "HD" and "+1" channels. All viewing on a TV set, therefore includes catch up and Hub on television.
- Long form online viewing is the total number of hours ITV VOD content is viewed on owned and operated ad funded platforms, and Hub+ viewing on owned and operated platforms, based on data from Crocus.
- A registered user account is an individual viewer who has signed up to the ITV Hub using one email address. The individual has to have been active within the last 3 years to remain a registered user.
- % change for performance indicators is calculated on unrounded numbers.

5. 2021 full year planning assumptions

The following planning assumptions for 2021 are based on our current best view but may change depending on how events unfold over the year.

Profit and Loss impact:

- Total schedule costs are estimated to be around £1.1 billion
- Total essential investment of around £25 million in 2021, which includes £10 million as previously guided, the phasing of 2020 investments which fall into 2021 and £13 million of additional investment to accelerate our strategy
- Total BritBox UK venture losses are expected to be around the same level as 2020 and will decline thereafter
- Overhead cost savings are expected to be around £30 million in 2021. We will deliver around £100m of annualised permanent overhead cost savings by the end of 2022 (from 2019) compared to our previous guidance of £55 million to £60 million over that period
- Adjusted interest is expected to be around £36 million, which is in line with 2020
- The adjusted effective tax rate is expected to be between 18% and 19% in 2021 and 2022, and then move to around 25% over the medium term
- The translation impact of foreign exchange, assuming rates remain at current levels, could have an adverse impact of around £25 million on revenue and around £3 million on profit
- Exceptional items are expected to be around £25 million, mainly due to acquisition related expenses, restructuring and reorganisation costs, and reducing our transponder capacity

Cash impact:

- Tax will reflect the payment of £75 million of deferred VAT from 2020
- Total capex is expected to be around £75 million as we further invest in our digital transformation
- The cash cost of exceptionals are expected to be around £190 million, largely relating to accrued earnouts which includes the final earnout payment for Talpa
- Profit to cash conversion is expected to be around 30% in 2021, as the favourable working capital position in 2020 unwinds. Taking 2020 and 2021 together, cash conversion is expected to be 80% to 85% over the two year period in line with historic levels
- Total pension deficit funding contribution for 2021 is expected to be around £75 million

6. This announcement contains certain statements that are or may be forward looking statements. Words such as "targets", "expects", "aim", "anticipate", "intend", or the negative of these terms and other similar expressions of future performance or results, and their negatives, are intended to identify such forward-looking statements. These forward-looking statements are based upon current expectations and assumptions regarding anticipated developments and other factors affecting ITV. Although ITV believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. 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. They are not historical facts, nor are they guarantees of future performance; actual results may differ materially from those expressed or implied by these forward-looking statements. 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) the general economic, business, political, regulatory and social conditions in the key markets in which the Group operates, including the duration and severity of COVID-19 impacts on ITV's colleagues, business, partners and customers, (ii) a significant event impacting ITV's liquidity or ability to operate and deliver effectively in any area of our business, (iii) a major change in the UK advertising market or consumer demand, (iv) significant change in regulation or legislation, (v) a significant change in demand for global content, and (vi) a material change in the Group strategy to respond to these and other factors. Certain of these factors are discussed in more detail elsewhere in this announcement and in ITV's 2020 Annual Report including, without limitation, in ITV's approach to risk management.

Forward-looking statements speak only as of the date they are made and, except as required by applicable law or regulation, ITV undertakes no obligation to update any forward-looking statements, whether written or oral that may be made from time to time, whether as a result of new information, future events or otherwise. Nothing in this statement should be construed as a profit forecast.

7. The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2020 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the registrar of companies, and those for 2020 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor 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.

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Chief Executive's Report

ITV took swift action from the very beginning of the pandemic and worked with real determination to successfully manage and mitigate the impact of COVID-19 while continuing to invest in our future. Our overriding priority was the physical safety and mental wellbeing of our colleagues, while they were working from home or on furlough, or while they were producing programmes. (See Response to COVID-19 section for further details)

ITV Studios has been very innovative and agile in restarting productions and our commercial teams have worked closely with advertisers to produce creative marketing solutions and attract new advertisers to TV. Throughout the pandemic, ITV has been on air informing and entertaining the nation.

Despite the disruption, and our focus on conserving cash, we have protected our strategic investment and are making good progress in executing our strategy. ITV Studios is continuing to strengthen its creative pipeline and diversify its customer base; we are implementing the Hub Acceleration plan which is delivering improvements in the user experience and content; Planet V has been successfully rolled out to the majority of major agencies, to a very positive response; BritBox UK is ahead of its plan hitting 500,000 subscriptions in January 2021; and BritBox US increased its subscriptions by 50% over the year.

We are well placed to continue to deliver our strategy despite the current uncertainty. As a world class global production business, ITV Studios is well positioned to take advantage of strong growth in demand for quality content. The restructure of the Broadcast business creating Media and Entertainment (M&E) enables us to better respond to changing viewer habits and we will continue to manage our costs tightly. We have identified further permanent overhead cost savings across the business which will be delivered in 2021 and 2022. These will more than fund additional investment opportunities we have identified to further accelerate the delivery of the strategy.

“Despite the disruption, and our focus on conserving cash, we have protected our investment and are making good progress in executing our strategy.”

2020 Financial highlights

ITV's operational and financial performance in 2020, as expected, was materially impacted by the COVID-19 pandemic. Government imposed lockdowns and containment measures in the UK and internationally caused us to stop productions for a period of time and COVID-19 protocols have increased production costs as we have returned to production. It has also resulted in a significant decline in the demand for advertising.

Total external revenue was down 16%, with total advertising revenue (TAR) down 11% in spite of online video on demand (VOD) advertising revenue being up 17% in the year. ITV Studios revenue was down 25%.

Adjusted EBITA declined 21% to £573 million, in spite of the benefit of £116 million of cost savings. ITV Studios adjusted EBITA declined by 43% and Broadcast adjusted EBITA declined by 9%. The margins of both businesses have been significantly impacted by the decline in revenue, ongoing fixed costs and our essential investments to support the delivery of our strategic priorities. Adjusted EPS declined 22% to 10.9p. Statutory EBITA was down 19% to £561 million and statutory EPS decreased by 40% to 7.1p.

Despite the decline in profits, we were highly cash generative in 2020, with profit to cash conversion of 138%. At 31 December 2020 our reported net debt (including IFRS 16 liabilities) was £545 million (31 December 2019: £893 million) which benefited from the deferred VAT payments and is before earnout payments that we anticipate paying in 2021. Our reported net debt (including IFRS 16 liabilities) to adjusted EBITDA was 0.9x (31 December 2019: 1.2x).

We remain committed to investing in our key priorities and value drivers to deliver organic growth in line with our strategy. We will balance this investment with returns to shareholders, with our commitment to maintain investment grade metrics over the medium term and the ongoing uncertainty with COVID-19. The Board recognises the importance of the dividend to our shareholders and intends to restore dividend payments as soon as circumstances permit.

ITV purpose

Our purpose and our culture defines ITV. Our purpose is to be More than TV. We connect millions of people every day, make content they can't get enough of and we reflect and shape the world we live in... and we do all this through the power of creativity.

Our colleagues are always our priority – we are also focused on all our stakeholders: our viewers, subscribers, customers and partners; citizens; legislators and regulators; programme participants and others we work with; and our shareholders and debt investors.

The pandemic has amplified the enduring value of ITV as a Public Service Broadcaster. We contribute to our culture and society, creating shared national moments, highlighting difficult issues, and running programmes and campaigns for mental and physical wellbeing. We make programmes by us, for us and about us across the whole of the UK, available for free to everyone. We contribute to the health of democracy, providing trusted, impartial and high quality local and national news. And we play an important part in economic growth, investing in regional creative economies and the independent production sector.

Our strategic vision

In 2020 we undertook a review of our strategy in light of the challenges created by COVID-19. The conclusion was that COVID-19 was accelerating some of the trends already identified. For example, increasing viewership of streaming, and increased demand for content. This has meant the key change in the strategy is in the pace of execution particularly in transforming the business digitally, in order to be able to continue to manage the challenges and take advantage of opportunities.

Our goal is to be a digitally led media and entertainment company that creates and brings our brilliant content to audiences wherever, whenever and however they choose.

Our strategy will continue to evolve but we remain focused on three priorities:

- Growing our UK and global production business
- Transforming our Broadcast business, now called Media and Entertainment, and
- Expanding and strengthening our now established Direct to Consumer (DTC) relationships

These are supported by embedding data, analytics and tech across the business; ensuring we own and manage rights efficiently; continuing to build upon our strong partnerships in the UK and internationally; and delivering our social purpose strategy.

Being an integrated producer broadcaster gives us a competitive advantage. It provides Studios with a bedrock of core commissions and a formidable promotional engine for its content; it enables cross promotion and 360 degree monetisation of Studios content across our business models; secures access to great content for ITV's channels, advertiser funded video on demand (AVOD) and SVOD businesses; and all this helps attract and retain the best creative talent in the industry.

We are making strong progress in delivering our strategy and we continue to focus on the speed of delivery in each of the four pillars of the business that drive value.

Firstly, ITV Studios is a world class international production company. It is the largest commercial producer in the UK, one of the largest producers in the Europe and one of the largest unscripted producers in the US. Therefore, it is in a strong position to benefit from the growing demand for quality content internationally. We expect the global content market to continue to grow 3 to 5% per annum – predominantly driven by OTT platforms.

Secondly, our linear channels. They have a unique ability to drive live mass audiences which continue to be an important part of marketing campaigns and TV remains the media delivering the highest return on advertising investment.

Thirdly, in the rapidly growing AVOD market, the ITV Hub is capturing the shift to online viewing and strong demand for online advertising. The rollout of Planet V provides advertisers with targeted advertising in a brand safe environment.

And finally, DTC. BritBox UK enables ITV to monetise our Best of British content in the UK in collaboration with other PSBs. And internationally with the BBC we are able to take advantage of high growth markets for British content. We now have over 2.6 million SVOD subscriptions globally across our services. In addition, we are able to drive revenues from our IP ownership and ITV Win, as consumers are increasingly willing to pay to engage with a trusted brand and its content.

Social purpose is an integral part of delivering our strategy

It is increasingly clear that companies with a strong and clear purpose drive increased value. Our ESG strategy is an integral part of delivering our purpose and our business goals. ITV does much more than entertain – it makes a difference to British culture in a way that global competitors can not.

We have a unique ability to drive meaningful change, raising awareness and inspiring positive change through the massive reach of our platforms. Our social purpose strategy is built around four areas: Better Health, Diversity & Inclusion, Climate Action and Giving Back. 2020 highlights include:

Better Health: physical and mental health

- Our healthy eating campaign, Eat Them to Defeat Them, encourages children to eat vegetables; we have supported the Daily Mile since 2019; and we have been working with Public Health England and the government on encouraging healthy behaviours during the pandemic
- We relaunched our mental health campaign Britain Get Talking during the COVID-19 pandemic, encouraging people to stay connected; 6.4 million people started a conversation as a result

Diversity & Inclusion:

- Our focus for 2020 was particularly on improving opportunities for people from Black, Asian and Minority Ethnic backgrounds and to increase representation for those with a disability, where our target has increased by 50%
- We have appointed a Group Diversity Director and launched our Diversity Acceleration Plan across ITV on and off screen. This sets out steps ITV will take to deliver measurable change. We will report on progress annually.

Climate Action:

- We have set an ambitious target to be net zero carbon emissions by 2030. We will do this by reducing the emissions we control by 46% and reducing emissions we influence, such as business travel and the products and services we use, by 28%. In addition we are one of the founding signatories of the Media Climate Pact and among the first to join The Climate Pledge and Ad Net Zero. We are working with our commercial partners to help them deliver their environmental strategies and we have increasingly used our programmes to raise awareness, inform and inspire sustainable habits.

Giving Back:

- During the pandemic we have helped raise over £3.6 million for NHS Charities Together and raised £9.3 million for UNICEF on Soccer Aid 2020. And we continue to encourage our colleagues to use their three paid days a year for volunteering and have put in place online volunteering opportunities.

Strategic progress in 2020

We have made good progress in delivering our strategic priorities in 2020 but as expected our performance has been significantly impacted by COVID-19.

Growing UK and Global Productions

We paused our productions systematically in March to enable them to resume quickly and to minimise the costs of disruption. With the innovation and dedication of the ITV Studios team we continued to produce our daytime schedule and News and started to resume productions from the summer. ITV worked closely with the UK government and the industry to develop a set of protocols to minimise health and safety risks during production. There remain operational challenges with producing content particularly large entertainment programmes and multi-location dramas. However we are working hard on overcoming these and have delivered large scale entertainment programmes such as Love Island in the US, I'm A Celebrity in the UK and dramas such as The Bay in the UK and Paris Police 1900 in France. The majority of programmes are now back in production.

We have further strengthened our talent, which remains absolutely key to building a successful Studios business. Most recently, Nicola Shindler, the multi-award winning producer has launched a scripted label within ITV Studios UK, and we have increased our shareholding in Danish Producer, Apple Tree Productions, to a controlling interest.

Despite the pandemic, we have maintained our development budget and focused on further building the creative pipeline. We continue to build our portfolio of scripted programmes which we have targeted as an area of growth. We saw real success in the US with Snowpiercer for TNT which has been recommissioned for a third series; Good Witch for Hallmark has been renewed for a seventh season; The Pembrokeshire Murders for ITV which launched with 12.5 million viewers; and The Serpent on BBC which has had 31 million streams on the iPlayer. In Europe we are continuing to produce for OTT platforms and local broadcasters with programmes such as Suburra and Balthazar.

In 2020, we reorganised our international distribution and commercial business to strengthen our position as a creator, producer and distributor of world-leading formats. We have a portfolio of world-class brands which we continue to strengthen and protect. Love Island has now been sold in 20 countries, up from 13 in 2019. The Chase formats continue to travel internationally, most recently commissioned in the US by ABC and is now in 16 countries. We have a number of new formats that have been developed, including Rat In The Kitchen and Let Love Rule.

We have further diversified our customer base as we have strengthened our relationships with OTT platforms, particularly in the US, where we have development projects with all the main OTT platforms for scripted and unscripted content. We produced a number of programmes for them in 2020, including the fifth season of Queer Eye, The Big Flower Fight, and Suburra for Netflix, Love Island France for Amazon and Becoming for Disney+. We have also sold international rights to a number of significant dramas, including Snowpiercer and The Serpent. Since 2017 we have tripled our distribution revenues from OTT platforms.

Transforming Broadcast (Media and Entertainment)

Our priority at the start of the pandemic was to keep ITV on air and the ITV Hub and BritBox fully operational. While our schedule was impacted by production stoppages we continued to broadcast 10 hours of live Daytime and News programming each weekday. This played a key part in providing viewers with accurate and trustworthy information, and a broad schedule of entertainment and drama to provide an escape from it. Total ITV viewing was up during the year, although our online viewing was down, impacted by no summer Love Island, fewer episodes of the soaps and no major sporting event. Excluding the impact of Love Island and the soaps, online viewing was up over 5%.

While the viewing landscape changed during the pandemic, with people streaming more content than ever before, ITV's extensive offering of linear television channels, the ITV Hub and BritBox, gave viewers the choice in how, where and when they consume content, while continuing to provide advertisers with mass simultaneous reach, alongside a more targeted advertising proposition.

We have restructured Broadcast to create the Media and Entertainment division, with two business units – Broadcast and On-Demand. Broadcast is focused on delivering live mass audiences and On-Demand is focused on driving digital viewing through our digital products – both advertiser funded on ITV Hub, ITV2, ITVBe and CiTV, and DTC through SVOD, as well as our interactive business. This new structure will enable us to: better serve changing viewer habits; be more agile and flexible; drive mass audiences and digital viewing; ensure we have the appropriate allocation of resources between broadcast and AVOD; further develop our digital capabilities; and streamline the ways we are working to improve productivity and reduce cost.

ITV is the home of mass quality reach which is recognised by the industry. As viewing and advertising becomes more fragmented, the scale and reach of advertising that television, and particularly ITV, delivers becomes increasingly valuable. We provide a safe, trusted, measured and transparent environment in which to advertise. In 2020 we delivered 94% of all commercial audiences over 5 million.

Advertising demand has been significantly impacted by the crisis, but our Commercial team continues to deepen its relationship with our advertisers and agencies to create innovative and relevant marketing opportunities which started before COVID-19. We use the breadth of our experience, creativity and our unique platform, to bring new campaigns and brands to television. Throughout the COVID-19 pandemic we provided frequent webinars and teach-ins to over 3,000 customers; marketing support and digital content; consumer insight to help advertisers stay close to their customers; and made booking with ITV more flexible.

We have created a number of specific initiatives to help advertisers, which include ITV AdVentures for digitally native brands; ITV Backing Business, our B to B initiative, supporting businesses; and ITV Home Planet – an initiative for sustainable brands to tell their environmental stories and encourage viewers to reduce their carbon footprint.

We have further improved the ITV Hub, which now has 33 million registered users, up 6% year-on-year, as we deliver the Hub acceleration plan. Our investment has been focused on redesigning the interface to improve the overall user experience; further personalisation; increased distribution; and strengthening the content available, including the extended catch-up window, full series drops and short form.

We are continuing to successfully roll out Planet V to the majority of large agencies, to a very positive response. With our tech partnership with InfoSum, advertisers are also able to add their own first party data to campaigns in a secure and compliant way. And we have confirmed that Samsung TV Plus will be our first third party publisher partner.

Expanding Direct to Consumer

Our DTC business has seen a positive uplift from COVID-19. We have delivered good growth in our interactive revenue as we have improved the ITV Win platform and extended our competitions. We have however had to temporarily close all our live events and tours.

We have also seen strong growth in our SVOD products. BritBox UK is ahead of plan hitting 500,000 subscriptions in January 2021 and conversion and churn rates are tracking in line with our expectations. We have strengthened its content with the successful launch of the first original 'Spitting Image' and Film4 content and extended its distribution, with the roll out of the EE/BT deal. The service is now available on around 20 million devices and its brand awareness is over 90%. This presents a real opportunity for us to grow our subscriber base as we further improve our content offering.

Subscriptions for BritBox US have continued to grow strongly, up 50% in the year and the service is profitable. We successfully launched BritBox in Australia in Q4. Hub+ continues to perform well with around 410,000 subscriptions.

Priorities for 2021 and beyond

We have clear priorities for this year and beyond as we continue to execute our strategy.

In Studios, key in the short term is to continue to produce safely and at scale. At the same time we are focused on further building and monetising our strong pipeline of programmes internationally; growing scripted; creating global formats that travel and return; and diversifying our customer base as we create more programmes for streaming platforms. In 2021 we expect to double our revenues from OTT platforms. We will continue to look at opportunities to further grow our creative talent.

We expect ITV Studios to perform well in 2021 but it will continue to be impacted by national lockdowns, social distancing and other COVID-19 measures.

Across M&E we need to achieve the right balance between delivering mass live audiences and growing our digital viewers. Therefore we will be testing and trialling our content windowing strategy and the appropriate allocation of the programme budget between our linear channels and AVOD. We have a strong schedule lined up for 2021 including the Euros, Finding Alice, The Bay, Unforgotten, The Masked Singer, Saturday Night Takeaway, and Love Island. Some of these programmes have already aired and performed very well driving mass audiences and light viewers.

We are continuing to deepen our strategic and creative relationships with advertisers and are also exploring linear addressable opportunities.

In addition, we are launching a Media for Equity fund, where we will take minority stakes within early stage digital and direct-to-consumer businesses, in return for advertising inventory. The scheme will serve as an innovative opportunity for entrepreneurial companies to accelerate their growth and establish their brands by accessing ITV's unique reach and scale.

To drive On-Demand viewing and increase engagement with light viewers, we will further strengthen the Hub to make it a destination and not just a catch up service; focusing on its continuous redesign; leveraging our data capabilities; and trialling a new content strategy to further strengthen it with more originals and exclusive programming.

We will also continue to roll out Planet V in self-serve and build further third party partnerships.

In DTC we are further growing BritBox UK – strengthening the content offering and exploring opportunities to expand its distribution, with the confirmed launch on Amazon in 2021. We have an exciting slate of originals in 2021, which include The Beast Must Die and The Secrets of the Krays in H1.

We are working through the planning for a phased roll out of BritBox internationally, with South Africa due to launch in 2021 and more markets following thereafter.

Digital transformation

Digital transformation is key to unlocking success in many areas of our strategy and therefore to accelerate our strategy we need to fast forward our digital transformation.

This is not only the digital transformation of our products to respond to changing viewing habits, including the Hub, Planet V, SVOD, but also how we work. Transforming our internal systems, processes and behaviours to support a digital business, be more agile and efficient and ensure our colleagues have the digital tools to drive the most effective ways of working. Our culture is key – having the right mindset and capabilities will enable us to achieve this more quickly.

We are transforming our core systems, digitising end to end processes more widely and adopting digital ways of working. We are making good progress with new systems and processes in place, such as Talent Pay and FreeCon; Smart Working, an initiative started before COVID-19 has been accelerated with good results.

Investments and cost savings

Throughout the pandemic we have continued to invest behind our strategic initiatives in the ITV Hub, Planet V, BritBox, data and technology.

In 2018, we set out our £60 million essential investment plan over three years to 2021, which is on track with cumulative investments to date of £48 million. In 2021, in addition to the original planned investments of £12 million, we have highlighted a further £13 million of investments to accelerate the delivery of our strategy, which will be funded by further cost savings.

In 2020, we delivered £116 million of cost savings, well ahead of our planned £60 million for the year. Of this, £21 million were permanent as we have challenged the cost base line by line and in particular relate to contract renegotiation and headcount savings from reorganisational changes. The temporary savings were in relation to steps taken to mitigate the impact of COVID-19 including: a reduction in executive and non-executive director pay of 20%; a suspension of performance-related cash bonuses; the furlough of colleagues during the height of the pandemic; and the natural decrease in non-essential spend, such as travel and entertainment.

We are now targeting £100 million of annualised permanent overhead cost savings by 2022 (from 2019), compared to our previous target of £55 million to £60 million over that period. We expect to deliver around £30 million of these savings in 2021 with savings coming from our new operating model, the increased use of technology and data, digitising end to end processes and increased smart working.

The venture loss of BritBox UK was £59 million in line with our guidance of £55 million to £60 million.

Colleagues

Our colleagues are key to the success of ITV and delivering our strategy. I am incredibly proud of the way our colleagues have responded to the crisis and worked with such determination and a real sense of purpose.

We want ITV to have an inclusive culture, where everybody can perform at their best, realise their full potential and thrive. The ITV Way provides all our colleagues with the guiding principles of how we like to work in order to achieve this and to deliver our strategy. We have five active colleague networks and in 2020 we launched the Diversity Acceleration Plan to increase the pace of progress in this area.

Regulation

In late 2020, Ofcom published its review of public service broadcasting, ahead of making recommendations to government by the summer as to how the system might be maintained and strengthened. It has concluded that there is now an urgent need for a new framework to support an effective transition to public service media (PSM), straddling online and broadcast TV. We are fully engaged with Ofcom and government as part of this process, particularly in relation to the need for reform of the rules governing prominence, inclusion and fair value for PSB on all major platforms.

In 2020, the government announced it would introduce a 9pm watershed ban on TV advertising of High Fat Salt and Sugar (HFSS) products and similar protection for children viewing adverts online. It also announced it would bring in equivalent restrictions for online advertising, in parallel, by the end of 2022. Whilst we remain fully engaged with this process - and continue to believe that there is a strong, evidence-based case for alternatives to the pre 9pm ban - we nonetheless face significant loss in relation to HFSS advertising revenue. The government has also issued a call for evidence in relation to gambling, ahead of the launch of a full review of the Gambling Act 2005, expected later this year. The call for evidence was very broad encompassing the industry as a whole, though advertising may well be part of the review.

Outlook

We have taken difficult decisions to deal with the crisis, but they have enabled us to continue to invest in and successfully execute our strategy. There is much we have learnt in the crisis including how to work very effectively remotely – from presenting news to remote editing – and we will continue to learn and iterate as we digitally transform the business. Certain parts of our business such as DTC have seen a positive uplift from COVID-19 which we will further build upon.

We are encouraged by the roadmap out of lockdown and are seeing more positive trends. The majority of ITV Studios programmes in the UK and internationally are back in production, although with the prevalence of the virus there may be some further disruption. The lockdown in Q1 has impacted the demand for advertising, with TAR expected to be down around 6% in Q1. However, March is expected to be up around 8% and April is expected to be up between 60% and 75%, with January to April up between 5% and 7%. This assumes there is no change in the current planned restrictions.

We monitor our performance very carefully and the risks associated with COVID-19 and are very focused on tightly managing our costs and cash.

Delivering the More than TV strategy puts ITV in a good position to respond to changing viewing habits and to take advantage of the continued strong demand for quality content internationally. We have strong foundations across our four pillars of the business and are clear about what we need to do to ensure we emerge as an even more resilient, digital and future facing media and entertainment business.

Carolyn McCall
Chief Executive

Response to COVID-19

We address the impacts posed by the pandemic through our COVID-19 response governance structure, coordinated by a crisis project management office reporting to the Management Board. This addresses the unprecedented challenges, operational uncertainty and risks created by the pandemic. Reporting to the crisis project management office, we have working parties focused on the significant areas of concern. The health and safety of our colleagues and individuals involved in our productions is our overriding priority.

COVID-19 governance structure

This structure and approach remains in place today as we continue to address the challenges created by the pandemic.

The Board: Oversight and regular updates (weekly in the height of the crisis)

Management Board: Oversight and weekly updates (daily at height of crisis)

Crisis PMO & Strategy: Co-ordinating response across the business and reporting to the Management Board

Working groups focused on the following areas:

Situation analysis

Regular conversations with government and external advisers to understand how the crisis is playing out medically, politically and economically.

Cash and Costs

Modelling our financial position across a range of scenarios (informed by situational analysis), developing costs mitigation and cash management.

Revenue

Developing and implementing plans to continue identifying opportunities and mitigate against negative sales impacts.

Tech and Ops

Invoking existing business continuity plans to ensure critical operations can continue through the crisis.

People and Comms

Putting in place processes and responses that protect our people and support the wider community.

The severity of COVID-19 and the ongoing uncertainty it posed meant that we needed to take a series of measures to increase our resilience, manage the business for the long term and protect the interest of all our stakeholders. These included:

Situational analysis

As the situation with COVID-19 evolved we have continued to keep an open dialogue with the Government and Department for Digital, Culture, Media and Sport to understand the risks associated with the crisis and also put forward our views on measures which could support the industry. This has included successful engagement on issues, such as financial support for the freelancer population, work restriction exemptions for key production and operational staff and production pandemic insurance.

We constantly review the medical situation to understand further measures we can introduce to keep our colleagues safe. We have engaged medical advisers to support us in developing these measures.

Cash and Costs

In response to the uncertainty and challenges to our revenue streams presented by COVID-19, ITV took swift action to preserve cash, reduce costs and manage working capital in the business.

These actions included:

- Reducing Executive Directors and Management Board salaries along with the fees of the Board from April to the end of October
- Recruitment and pay freezes across the business, except in the case of critical roles
- Cancelling the 2020 bonus for the entire Company
- Furloughing colleagues as appropriate
- Restricting non-essential travel and other expenses
- A commitment to reduce the Broadcast programme budget by at least £100 million
- Agreements with ITV pension trustees and tax authorities to delay at least £150 million of payments out of the first half of 2020 and into the second half of 2020 and 2021
- Withdrawal of the 2019 final dividend and the intention to pay 8p for the full year 2020 was withdrawn

We will continue to track our financial performance against a range of scenarios and internal and external analysis.

Revenue

See section on 'Strategic progress in 2020' for details on actions taken to mitigate against the impact of the pandemic and identify opportunities.

Technology and Operations

By rapidly flexing to home working in early March, our critical technology and operations have remained uninterrupted. Our Technology team has worked closely with the business to ensure all colleagues have access to the necessary technology and support to allow them to continue performing their roles as normal.

People and Communications

Protecting the health, safety and wellbeing of our colleagues and individuals involved in our productions continues to be our overriding priority.

The majority of our colleagues continue to work from home, benefiting from the investment we have made in technology and systems. Those colleagues who are working on site – in our offices, our studios and on location are protected by robust safety protocols. We currently have no staff who are on furlough.

To enable our colleagues to remain feeling connected to and engaged with the wider business, purpose and aims, we have held fortnightly CEO led vodcasts (weekly for 12 weeks in the height of the crisis) covering a range of topics and involving management from across the business. We have leveraged our existing tools to further support the mental wellbeing of our colleagues during this time, and also launched new ones, such as Big White Wall, a mental health peer-to-peer platform accessible to all staff. We regularly review our support programmes with colleagues to ensure we are providing practical, useful and easily accessible support.

See our 'Social Purpose' section which will be available on our 2020 Annual Report, for the actions we undertook to support our communities.

Key Performance Indicators (KPIs)

We define our KPIs to align our performance and accountability to our strategic priorities. As we continue to evolve our strategy, our KPIs may be redefined to ensure they remain appropriate to our business and our priorities. In 2018, we set targets or strategic ambitions for our KPIs for three years to 2021 (where appropriate to do so).

In 2020, the performance of all our KPIs and the delivery of corresponding targets has been impacted by the COVID-19 pandemic. Further detail is included in the following tables and within our Operating and Performance Review.

ITV Group

Adjusted EPS¹

Definition

Adjusted EPS represents the adjusted profit for the year attributable to equity shareholders. Adjusted profit is defined as profit for the year attributable to equity shareholders after adding back exceptional items and including high-end production tax credits. Further adjustments include amortisation and impairment of assets acquired through business combinations, net financing costs and the tax effects relating to these items. It reflects the business performance of the Group in a consistent manner and in line with how the business is managed and measured on a day-to-day basis.

Performance

Adjusted EPS decreased by 22% from 13.9p to 10.9p. This was predominantly due to the decline in total advertising revenue (TAR), and Studios revenues and margin as a result of the impact of COVID-19.

2020 10.9p

22% decline in 2020

Total non-advertising revenues

Definition

Total non-advertising revenue is total ITV revenue (including internal revenue) excluding advertising revenue (being net advertising revenue (NAR), VOD and sponsorship). This is an important measure as we continue to rebalance the business away from our reliance on advertising.

Performance

Non-advertising revenue decreased by 21% in 2020 to £1,683 million, driven almost entirely by the decline in ITV Studios total revenue by 25% to £1,370 million due to productions pausing in March as a result of the pandemic. Offsetting this were increases in Direct to Consumer revenue of 4% to £87 million, SDN revenue of 6% to £73 million, and other Broadcast revenue (which includes BritBox UK) of 8% to £153 million.

2020 £1,683m

21% decline in 2020

Target

3 years to 2021

Grow by at least 5% CAGR

Cost savings

Definition

Cost savings are permanent savings to the business. In 2020, this also includes temporary savings as a result of the COVID-19 pandemic. Managing our cost base is key as we aim to run our business as efficiently as possible and fund investments in line with our strategic priorities.

Performance

We delivered £116 million of cost savings in 2020 which was ahead of the target of £60 million for the year. Of the cost savings achieved £21 million are permanent and £95 million are temporary savings.

Since 2019, we have delivered a cumulative £46 million of permanent cost savings. In 2021, we will deliver around £30 million of permanent cost savings, with total cumulative cost savings of around £100 million by 2022. This is £40 million – £45 million more than our original guidance of £55 million to £60 million over this period.

Target

4 years to 2022

Deliver £55–£60 million run-rate of savings by 2022

Profit to cash conversion¹

Definition

This is our measure of our effectiveness of cash generation used for working capital management. It is calculated as our adjusted cash flow as a proportion of adjusted EBITA (see definition within Studios adjusted EBITA margin). Adjusted cash flow, which reflects the cash generation of our

underlying business, is calculated on our statutory cash generated from operations and adjusted for exceptional items, net of capex on property, plant and equipment and intangible assets, and including the cash impact of high-end production tax credits.

Performance

Profit to cash conversion was 138% in the year, driven by a large working capital inflow arising from a reduction in programme stock (where we delivered programmes but were unable to continue producing) and the timing of VAT payments which have been deferred. This is expected to unwind in 2021.

2020 138%

Target

3 years to 2021

Maintain at around 85%

1. A full reconciliation between our adjusted and statutory results is provided in the Alternative Performance Measures section.

Grow

UK and global production

Total Studios revenue growth

Definition

Total Studios revenue measures the scale and success of our global studios business. It includes revenues from programmes sold to ITV Broadcast (M&E), which as an integrated producer broadcaster, is an important part of our business.

Performance

ITV Studios total revenue declined by 25% to £1,370 million. This was impacted by the pause in global productions due to the COVID-19 pandemic which caused a significant delay in the delivery of productions. The subsequent social distancing and health and safety protocols that have had to be implemented, have caused further delays to productions, particularly scripted.

Total organic revenue at constant currency (which excludes 2019 acquisitions and assumes exchange rates remain consistent with 2019) was also down 25%. There was a £3 million unfavourable currency impact in the year.

2020 £1,370m

25% decline in 2020

Target

3 years to 2021

Grow by at least 5% average CAGR

Studios adjusted EBITA margin²

Definition

This is the key profitability measure used across the Studios business. The profile of adjusted EBITA margin differs for production and distribution activities, and further varies with each production due to genre and maturity. Adjusted earnings before interest, tax and amortisation (EBITA) is calculated by adding back exceptional items and including high-end production tax credits. It reflects the underlying performance of the business and provides a more meaningful comparison of how the business is managed and measured on a day-to-day basis. The margin is calculated based on total ITV Studios revenue.

Performance

ITV Studios adjusted EBITA margin was 11% (2019: 15%), impacted by the lost revenue, ongoing fixed costs within the business, and incremental costs associated with social distancing guidelines and health and safety protocols in productions.

2020 11%

4% point decline in 2020

Target

3 years to 2021

Maintain at 14% to 16%

2. A full reconciliation between our adjusted and statutory results is provided in the Alternative Performance Measures section.

Total production hours

Definition

Total hours of programming produced is an important measure of the scale and success of our global studios business. It measures the number of hours produced across all genres and geographies for ITV and other broadcasters and platform owners.

Performance

The number of hours of content produced by ITV Studios declined by 15% to 7,120 hours. This was driven by the pause in global productions and the subsequent delay in deliveries.

2020 7,120 hrs

15% decline in 2020

Target

3 years to 2021

Grow to 10,000

Transform

Broadcast (M&E)

Total advertising revenue

Definition

Total advertising revenue measures all our advertising revenues and includes ITV Family NAR, VOD, sponsorship and other advertising revenues.

Performance

Total advertising revenue declined by 11% to £1,577 million. There was strong growth in online revenues, up 17%, but this was more than offset by a decline in NAR, sponsorship and creative partnerships revenues, all of which were impacted by the pandemic.

2020 £1,577m

11% decline in 2020

Strategic ambition

To grow total advertising in a flat NAR market

Online revenue growth

Definition

Online revenues are advertising revenues from VOD via the ITV Hub. With the investment in the ITV Hub and the significant growth of viewing on the ITV Hub these are now a material part of our advertising revenues and an important measure of our success.

Performance

Online revenue continued to grow strongly, up 17% in the year, despite the uncertainty caused by the COVID-19 pandemic.

2020 17%

Target

3 years to 2021

Double digit growth per annum

Total ITV viewing¹

Definition

Total ITV viewing is the total number of hours spent watching ITV channels live and recorded within 28 days, third-party VOD platforms, ITV Hub on owned and operated and ad-funded platforms, ITV Hub+, and managed YouTube channels.

Performance

Total ITV viewing grew by 1% to 16.6 billion hours with more viewing across our live linear channels. This was driven by our good schedule and also benefited from lockdown restrictions in the UK. Total broadcast viewing (broadcast channels including TV VOD) was up 6% with growth on: the BBC (for news and daily government briefings); Channel 4 (for The Great British Bake Off and Gogglebox); and Sky (for box sets and football). Including unmatched viewing (SVOD, YouTube, games consoles), total TV set viewing was up 15%, driven by growth to SVOD platforms.

External source: BARB/Advantage, Crocus and third-party platforms

2020 16.6bn hrs

1% increase in 2020

Strategic ambition

To maintain total viewing¹

1. Maintain total viewing compared to the 2015 – 2018 average of 16.8 billion hours.

ITV Family share of viewing (SOV)

Definition

Keeping our free-to-air proposition strong with unrivalled commercial audiences, is vital for the Broadcast business, and ITV Family SOV helps measure this. ITV Family SOV is the total viewing audience over the year achieved by ITV's family of channels as a proportion of total television viewing, including the BBC Family.

Performance

ITV Family SOV declined 4% to 22.2% in 2020. Within this, ITV main channel was down 1% to 16.7%, which is the third biggest SOV in a decade. ITV's other channels were down 13% to 5.5% which was driven predominantly by ITV2 due to no summer Love Island and a lower volume of the soaps/new content. While our daytime linear viewing was strong in 2020, our share of peak hours was impacted by the increased news output on the BBC, fewer episodes of the soaps and a lower volume of new content.

External source: BARB/AdvantEdge

2020 22.2%

Strategic ambition

Above 21%

Online viewing

Definition

Online viewing is an important indicator of our online success as it measures how long viewers are spending online watching long-form content². It is calculated as the total number of hours ITV VOD content is viewed on owned and operated ad-funded platforms and ITV Hub+ viewing.

Performance

The ITV Hub and ITV Hub+, is the online home for our family of channels and content. While viewing on the ITV Hub has grown rapidly in prior years, online viewing in 2020 declined by 5% to 482 million hours. This was significantly impacted by no summer Love Island, less episodes of the soaps, no major sporting event and a lower volume of new content in the year. We expect an increase in online viewing in 2021.

External source: Crocus

2020 482m hrs

5% decline in 2020

Target

3 years to 2021

Double digit growth per annum

2. Long-form is content which is more than ten minutes in length.

ITV Hub registered user accounts

Definition

A registered user is an individual viewer who has signed up to the ITV Hub and have been active in the last three years. The size of our viewer online reach is key for our advertising proposition.

The target of 30 million registered user accounts was achieved in 2019.

Performance

The ITV Hub grew the number of registered user accounts by 6% to 32.6 million in 2020. This growth continues to be driven by our high-quality content and good user experience, which has been supported and enhanced by a process of continued improvement and investment in the year.

The ITV Hub helps ITV reach valuable light viewers and younger audiences, who are increasingly using the ITV Hub for simulcast as well as catch-up. Simulcast viewing hours were up 13% year-on-year.

2020 32.6m

6% growth in 2020

Target

3 years to 2021

Increase to 30 million

Brand consideration

Definition

UK public perception of the ITV brand as measured by YouGov. Our brand perception is very important as we look to attract light viewers to ITV and build a Direct to Consumer business.

Performance

Brand consideration in 2020 was 50%, down three percentage points on 2019. This was driven by the absence of key content in the schedule which would normally have a positive impact (sport, dramas, key entertainment), along with strong competition from the SVOD platforms who significantly benefited from marketing during the pandemic. All PSBs saw a decline in their brand consideration during 2020. ITV's brand consideration for light viewers declined by two percentage points.

External source: YouGov

2020 49.6%

3% pts decline in 2020

Target

3 years to 2021

Increase to 60% for all adults

Expand

Direct to Consumer

Direct to Consumer revenue

Definition

Direct to Consumer revenue is a key measure of the success of our strategy. It measures revenue generated directly from relationships with a customer through the purchase of goods and services, and entry into competitions. This excludes BritBox revenues.

Performance

Direct to Consumer revenue grew 4% to £87 million in 2020. Growth was predominantly driven by an increase in competitions revenue which benefited from strong daytime viewing during the year. Offsetting this was the absence of pay per view boxing matches in the year, and the closure of the majority of our live events from March 2020 in line with government restrictions, which adversely impacted this revenue stream.

2020 £87m

4% growth in 2020

Target

3 years to 2021

Grow to at least £100 million

Paying product relationships

Definition

We aim to grow ITV's Direct to Consumer revenues through increasing the number of people who pay for an ITV product as well as increasing spend per customer. This KPI measures the total number of paying relationships we have with consumers.

Performance

Paying product relationships declined by 7% to 7.8 million in 2020. This excludes relationships from BritBox.

The decline in the year was largely due to the absence of pay per view boxing matches, and a reduction in the average number of Hub+ subscriptions and lower live event attendees, both of which were impacted by travel restrictions, nationwide lockdowns in the UK, and for ITV Hub+ in particular, no summer Love Island, less requirement for downloading for EU portability, and a lower volume of new content in the year.

2020 7.8m

7% decline in 2020

Target

3 years to 2021

Grow to 10 million

Operating and Performance Review

ITV's operational and financial performance in 2020 was materially impacted by the COVID-19 pandemic, which caused the majority of productions to pause and a significant decline in advertising demand. Despite this, ITV continued to make good progress in executing its strategy, building a digitally led media and entertainment company.

Key financial highlights

See Alternative Performance Measures for a full reconciliation between our statutory and adjusted results.

Group external revenue

£2,781m

-16% (2019: £3,308m)

Total advertising revenue

£1,577m

-11% (2019: £1,768m)

Total non-advertising revenue

£1,683m

-21% (2019: £2,117m)

Adjusted EBITA

£573m

-21% (2019: £729m)

Adjusted EPS

10.9p

-22% (2019: 13.9p)

Statutory EPS

7.1p

-40% (2019: 11.8p)

Reported net debt

£545m (2019: £893m)

ITV's operational and financial performance in 2020 was materially impacted by the COVID-19 pandemic, with government imposed lockdowns and containment measures in the UK and internationally negatively impacting productions and causing a significant decline in the demand for advertising. Despite the disruption and challenges created, we worked with purpose and determination to successfully manage our way through the crisis while investing in our future. The significant value of being an integrated producer broadcaster was evident during 2020 and enabled us to continue investing in and delivering our key strategic priorities. Within ITV Studios, we further invested in creative talent and our content pipeline, and across the business focused on digitally transforming the business externally and internally.

We have restructured the Broadcast business to create a new Media and Entertainment division to better reflect and serve changing viewing habits; the delivery of the ITV Hub acceleration plan remains on track; Planet V (our programmatic addressable advertising platform) was successfully rolled out to the majority of major agencies; content and distribution on BritBox UK were extended, along with the international roll out of BritBox in Australia, and, we augmented our data and analytics team.

The global lockdown restrictions during 2020 drove an increase in viewing and demand for content across all platforms. ITV Studios' strong position in the international market, with its diversity in scripted and unscripted content production, enviable talent pool, development pipeline, and strength in relationships with broadcasters, distribution networks and platform owners was critical during this time. It was able to capitalise on the demand for content from broadcasters and OTT platforms for both new and library content. While this revenue stream is small, it helped to partly offset some of ITV Studios' overall revenue decline from the delay in productions. SVOD platforms, who have been less financially impacted than FTA broadcasters during the pandemic have continued to commission new content, which ITV Studios has been in a good position to serve.

Our Broadcast business, while seeing a decline in advertising, saw an increase in total viewing in 2020 with people watching more linear television during lockdown restrictions. Our schedule was impacted during the pandemic but we continued to broadcast live daytime and news programming that played a key part in providing viewers with accurate and trustworthy information, and a broad schedule of entertainment and drama to provide an escape. While the viewing landscape changed during the pandemic, with people streaming more content than ever before, ITV's extensive offering of linear television channels, the ITV Hub and BritBox, gave viewers the choice in how, where and when they consume content, while continuing to provide advertisers with mass simultaneous reach, alongside a more targeted advertising proposition.

Group financial overview

We measure performance through a range of metrics, particularly through our alternative performance measures and KPIs, as well as statutory results, all of which are set out in this report.

The COVID-19 pandemic significantly impacted our two main sources of revenue – production and advertising – which were both down in 2020. Total ITV revenue decreased by 16% to £3,260 million (2019: £3,885 million), with external revenue down 16% at £2,781 million (2019: £3,308 million). Total advertising revenue was down 11% to £1,577 million (2019: £1,768 million) driven by a decrease in NAR, partly offset by online VOD advertising revenue which was up 17% in the year. Total non-advertising revenue was down 21% to £1,683 million (2019: £2,117 million), of which ITV Studios was down 25% at £1,370 million (2019: £1,822 million).

Network schedule costs were £156 million lower in the year at £935 million (2019: £1,091 million), and this coupled with the delivery of £116 million of overhead cost savings, more than offset the decline in TAR in the year. The £116 million of cost savings delivered was ahead of our planned £60 million. Of this, £21 million were permanent and £95 million were temporary. The permanent savings include contract renegotiations across the business and headcount savings from reorganisational changes, particularly in ITV Studios. The temporary savings were in relation to steps taken to mitigate the impact of COVID-19, including a reduction in executive and non-executive director pay of 20%, a suspension of performance-related cash bonuses, the furlough of colleagues during the height of the pandemic, and the natural decrease in non-essential spend such as travel and entertainment. Since 2019, we have delivered a cumulative £46 million of permanent cost savings. In 2021 we will deliver around £30 million of permanent cost savings, with total cumulative cost savings of around £100 million by 2022 (from 2019). This is £40 million to £45 million more than our original guidance over this period. We continue to take a systematic multi year approach to our cost saving programme which is increasing in its effectiveness as it matures.

Our essential investments to support our strategic priorities totalled £16 million in the year which was slightly lower than our planned £18 million due to timing. This will unwind in 2021, and our essential investments will be £25 million, £13 million ahead of our previous guidance as we accelerate the delivery of our strategy. BritBox UK venture loss was £59 million which was in line with our guidance of £55 million to £60 million.

Adjusted EBITA declined 21% to £573 million (2019: £729 million), with a 43% decline in ITV Studios adjusted EBITA and a 9% decline in Broadcast adjusted EBITA. The margins of both businesses have been impacted by the decline in revenue, ongoing fixed costs and our essential investments to support the delivery of our strategic priorities.

Adjusted financing costs were down £4 million year-on-year to £36 million and our adjusted tax rate was 18% (2019: 18%). Adjusted EPS declined 22% to 10.9p (2019: 13.9p).

Statutory EBITA was £561 million, down 19% (2019: £693 million), which was marginally lower than the decline in adjusted EBITA due to a decrease in production tax credits in the year. Total exceptional items were £114 million (2019: £22 million) and includes costs relating to COVID-19, the impairment of sports rights, and an onerous contract provision.

Statutory financing costs were £44 million which was down in 2020 due to the inclusion of Eurobond buyback costs in 2019 (2019: £68 million). Our reported effective tax rate was 13.5% (2019: 9.8%) and statutory EPS decreased by 40% to 7.1p (2019: 11.8p). See the Finance Review for further detail.

We have good access to liquidity. At 31 December 2020, we had cash and committed undrawn facilities totalling £1,447 million, including unrestricted cash of £618 million. Our profit to cash conversion was 138% (2019: 87%). At 31 December 2020 our reported net debt (including IFRS 16 liabilities) was £545 million (31 December 2019: £893 million) which benefited from the deferred VAT payments and is before earnout payments which we anticipate paying in 2021. Our reported net debt (including IFRS 16 liabilities) to adjusted EBITDA was 0.9x (31 December 2019: 1.2x).

We continue to maintain tight control over cashflow and costs whilst continuing to pay our suppliers on the agreed terms. Our objective is to run an efficient balance sheet and manage our financial metrics appropriately, consistent with investment grade metrics over the medium term. Our priority remains to invest in our key assets and value drivers in line with our strategic priorities and balance this investment with the returns to shareholders. The Board recognises the importance of the dividend to our shareholders and intends to restore dividend payments as soon as circumstances permit.

A range of scenarios reflecting ITV's principal risks, including those arising from the ongoing COVID-19 pandemic, have been modelled and considered in the assessment of the longer-term viability of ITV. See our Viability Statement.

ITV Studios

ITV Studios is the largest commercial producer in the UK, as well as one of the largest producers in Europe, and one of the largest independent unscripted producers in the US. With a combined content library of over 46,000 hours, it is also one of the largest distributors in the UK.

Growing UK and global productions is central to ITV's More than TV strategy, with ITV Studios aiming to be a leading creative force in global content production and distribution. As ITV Studios creates more content, our linear and on-demand channels in the UK provide a platform to showcase our programmes before distributing them further in the UK and internationally. In addition, we have built significant scale in the key creative markets around the world that also drive content revenues, creating and producing programmes and formats that return and travel.

At the start of 2020, the international distribution and commercial exploitation business of ITV Studios was reorganised from an operational perspective to strengthen ITV Studios' position as a creator, producer and distributor of world-leading programmes. The new structure focuses on three centres of excellence - the Creative Network, which boosts creativity across ITV Studios' unscripted format labels to increase the potential of developing global hit shows; Global Entertainment, which brings together international unscripted format sales and exploitation across the group under one roof, and Global Distribution, which focuses on the international distribution of finished tape versions of both drama and unscripted programmes. The three centres of excellence will work closely together and with ITV Studios' UK and international production businesses.

Resilient and diverse production and distribution businesses in a challenging year

Performance in our different production territories can be impacted by phasing and in a normal year, we manage this risk through our portfolio. COVID-19 impacted the production business differently in each territory due to restrictions varying by country, and different customer bases, however, through the resilience and diversity of each territory, we were able to mitigate some of the negative impact caused by the pandemic.

While the majority of our productions were paused in mid-March, the teams focused on remote post-production, creative development and growing the creative pipeline. We did not cut development spend during 2020 and this places ITV Studios in a strong position to meet the increasing global demand for content. Our scale means that we were able to manage risks effectively when restarting productions, and the safeguards in place have enabled us to be more resilient in subsequent lockdowns, continuing to producing content.

During the first government lockdown in the UK, with the innovation, creativity and dedication of our production teams, we were able to keep producing our daytime shows. In addition, we filmed other shows without a studio audience, including The Graham Norton Show, The Martin Lewis Money Show and Saturday Night Takeaway, and we made Isolation Stories a short four-part drama written, filmed and edited during the UK lockdown. Differing country restrictions also enabled us to continue filming in some of our international locations, including the Netherlands (Koffietijd – daily morning talk show), Germany (The Chase) and Australia (The Voice and The Chase).

ITV worked closely with the UK government and the industry to develop a set of protocols to minimise COVID-19 health and safety risks to our talent, participants, colleagues and crew during content production. We have undertaken risk assessments on all productions since the start of the pandemic, and have developed procedures outlining how the protocols should be applied to each production globally. This has enabled us to continue to produce large scale entertainment formats, such as Love Island in the US, and I'm A Celebrity...Get Me Out Of Here! in both the UK and Australia.

Despite the challenges presented by COVID-19, ITV Studios was able to build upon its global profile of being a leading creator, producer and distributor of content, and shaping the path for longer-term revenue growth by focusing on the following key areas:

Strengthening creative talent

A key part of ITV Studios investment strategy is to strengthen and retain our creative talent and despite the challenges caused by the pandemic, we continued to do this successfully during 2020. ITV Studios US entered into several new partnerships aimed at further building and strengthening the US business and establishing it as a leading independent television studio in the highly competitive US market. Within scripted, ITV Studios America has partnered with Tomorrow Studios and Nick Weidenfeld to launch Work Friends, an animation label, which secured its first commission for HBO Max called 10-Year-Old-Tom. ITV Studios America also invested in a new drama label run by acclaimed producer Tony To (Band of Brothers) and Dan Sackheim (True Detective) called Bedrock Entertainment. Within unscripted, ITV America partnered with production label Nobody's Hero, created by Christopher Potts and Jonty Nash, (Nailed It! and Sugar Rush for Netflix) to develop and produce unscripted content and formats, working alongside the ITV team.

In the UK, award-winning producer Nicola Shindler (Happy Valley, Last Tango in Halifax, It's A Sin, The Stranger) joined ITV Studios UK launching a new scripted label focusing on producing premium drama for the UK and international market.

During the year ITV Studios also expanded its existing production partnership with Boomerang TV in Spain, giving Boomerang exclusive production rights to a large selection of the ITV Studios formats catalogue. The Spanish market has a strong demand for non-scripted programming and is a bridge towards other Spanish speaking countries. Altresmedia has since commissioned ITV formats, Love Island and game show, Divided, to be produced by Boomerang TV in Spain.

In March 2021, ITV Studios International stepped up its investment in Apple Tree Productions in Denmark to take a controlling stake.

Growing scripted

While ITV Studios is predominantly unscripted in terms of scale, scripted is an area of higher growth driven by demand from the OTT platforms, and we also are seeing increasing demand from platforms internationally for original long-form and secondary rights. Part of our strategy within ITV Studios is to build a scripted business of scale and we have boosted this through the recent talent deals mentioned previously and we will look at further investments in other key scripted markets to continue to take advantage of the demand for local scripted content.

Many of our scripted labels are creating and producing high-quality content with global appeal for FTA and OTT platforms, including Mammoth Screen, creators of The Serpent, McDonald & Dodds, Victoria, World on Fire and Poldark, and World Productions creators of Line of Duty, Save Me, The Pembrokeshire Murders, Vigil and Bodyguard. Our international scripted businesses Cattleya in Italy and Tetra Media Studio in France, also create and produce long-running and new critically acclaimed foreign-language dramas, including Paris Police 1900 and Balthazar in France, and Gomorrah, Suburra, Zero Zero Zero and Summertime in Italy.

Diversifying customer base particularly with local and international OTT platforms

As the demand from OTT platforms grows, this presents a significant opportunity for ITV Studios to diversify its customer base and grow revenues. In the US, we have strengthened our relationships with SVOD platforms, having both scripted and unscripted development projects and commissions in place with all the major platforms. A third of US scripted revenues now come from OTT's. Our UK and International Studios (aside from Italy) remain more reliant on local broadcasters, and going forward they will harness the strength and position of the ITV Studios group and key creative talent, to develop their relationships with these platforms. Original hours supplied to OTT platforms increased by 4% in 2020, with scripted and unscripted programmes including; Queer Eye, Suburra, The Big Flower Fight and Snowpiercer (internationally) all for Netflix, Love Island France for Amazon – the first reality show on the service and Becoming for Disney+. New commissions for future broadcast by OTTs include Spy Amongst Friends for BritBox UK, Cowboy Bebop and One Piece for Netflix, Physical for Apple TV, along with several other titles in progress with HBO Max, Netflix, Hulu and Amazon. We expect that in 2021 we will double our revenues from OTT platforms.

Producing more content for, and distributing more content to OTT platforms will impact our working capital going forward due to the upfront cash requirements and the extended payment profile from the OTTs. In addition, it limits the ability for us to maximise margins on high-value scripted titles as the OTT platforms invariably want worldwide rights for original commissions.

We balance our financial exposure through building a portfolio of customers and programmes, across genres and their content life cycle, with successful international dramas offsetting the risk that we will not recover the full deficit on every show. This efficiently uses the rights windows of our content to maximise monetisation opportunities.

Globalising and maximising the value of key formats and monetising our strong pipeline of programmes

Our Global Formats business includes a large portfolio of some of the world's most successful entertainment and factual entertainment formats that return and travel, many of which are made globally through ITV Studios' production bases. We are very focused on developing, managing and exploiting our global formats to maximise IP revenues. We have a portfolio of world-class brands which we continue to protect and strengthen each year, including (number of countries the format has been sold to, to date is included in brackets); The Voice (70+ countries), Love Island (20 countries), The Chase (16 countries), Beat The Chasers (5 countries), Four Weddings (20+ countries), I'm A Celebrity...Get Me Out Of Here! (11 countries) and Come Dine With Me (40+ countries). These formats continue to generate strong mass audiences for our clients, with I'm A Celebrity...Get Me Out Of Here! in the UK having one of its best viewing performances in 2020, and Beat The Chasers in the UK and Netherlands, and The Chase in the US all launching successfully on their respective channels/networks.

We have several new formats recently commissioned in our UK, US and International production bases that have the potential to be future global hits. These include UK formats; Moneyball, and Rat In The Kitchen, which has had its first commission in the US to be produced by ITV America. In addition, Let Love Rule, an ITVS Netherlands format produced by ITVS Sweden and ITVS UK (commissioned as The Cabins for ITV2), and also commissioned in Belgium.

Building on the success of key franchises, we are also focusing on expanding our production hubs, driving further sales of formats by supporting productions in a cost-effective and safe environment (e.g. Love Island, I'm A Celebrity...Get Me Out Of Here!). During 2020 we acquired the unscripted formats catalogue from Elk Entertainment, which includes the formats and IP of 65 titles, as we look to continue building our creative strength and monetisation capabilities.

In 2020 across our Global Formats business we sold 56 (2019: 62) different formats internationally, 14 of which were sold to three or more countries (2019: 14).

Through our Global Distribution business, we focused on exploiting our 46,000+ hour library of global scripted and unscripted content assets and maximising the value of primary and secondary windows with FTA, Pay TV, SVOD and AVOD customers. We are investing in ITV Studios produced content (including Vigil, Line of Duty, Vera, and McDonald & Dodds), selective third-party content (including A Year on Planet Earth, and Harry Palmer: The Ipcress File) as well as executing high profile English and local language drama deals, in turn attracting more opportunities and talent. We also sell an increasing amount of content to BritBox UK and BritBox internationally. Going forward we will look at how we drive long-term revenues from new AVOD market entrants such as Tubi, and Pluto, as well as continuing to exploit new rights opportunities including stacking and box sets.

Twelve months to 31 December	2020 £m	2019 £m	Change £m	Change %
ITV Studios UK	535	725	(190)	(26)
ITV Studios US	234	271	(37)	(14)
ITV Studios International	343	508	(165)	(32)
Global Formats and Distribution	258	318	(60)	(19)
Total ITV Studios revenue	1,370	1,822	(452)	(25)
Total ITV Studios costs	(1,218)	(1,555)	337	(22)
Total ITV Studios adjusted EBITA*	152	267	(115)	(43)
ITV Studios adjusted EBITA margin	11%	15%		

* Includes the benefit of production tax credits.

Twelve months to 31 December	2020 £m	2019 £m	Change £m	Change %
Sales from ITV Studios to Broadcast and DTC	472	573	(101)	(18)
External revenue	898	1,249	(351)	(28)
Total ITV Studios revenue	1,370	1,822	(452)	(25)

* Includes the benefit of production tax credits.

Twelve months to 31 December	2020 £m	2019 £m	Change £m	Change %
Scripted	354	520	(166)	(32)
Unscripted	773	1,018	(245)	(24)
Core ITV* and Other	243	284	(41)	(14)
Total ITV Studios revenue	1,370	1,822	(452)	(25)

* Core ITV includes the soaps and daytime shows produced by ITV Studios for the ITV main channel.

ITV Studios financial performance in 2020

ITV Studios started 2020 with good momentum, expecting a good slate of programme deliveries over the full year and to see revenue growth and a stable margin being delivered. The COVID-19 pandemic changed this outlook, causing around 230 of ITV Studios productions globally to be paused or impacted as a result of country lockdowns and restrictions on working practises. While the majority of productions were able to resume in the second half of 2020, the delay in production and delivery of a number of our programmes caused ITV Studios total revenue to decline by 25% in 2020 to £1,370 million (2019: £1,822 million), with external revenue down 28% to £898 million (2019: £1,249 million). Total organic revenue at constant currency was down 25%. There was a £3 million unfavourable impact from foreign exchange in the year.

Due to the pause in productions, the number of hours delivered in 2020 was down 15% year-on-year to 7,120 hours, this was lower than the decrease in total revenue of 25%, due to the mix of productions that were delivered. While the year-on-year decrease in scripted production hours was lower than the decrease in unscripted hours, scripted is of higher value and therefore had a more significant impact on revenue in the year. Scripted revenue was down 32% to £354 million (2019: £520 million), with unscripted revenue down 24% to £773 million (£1,018 million) in the year.

Reflecting our presence in key global production markets, 56% of ITV Studios' revenue was generated outside the UK. This was marginally lower than the prior year (2019: 58%).

Adjusted EBITA was down 43% year-on-year at £152 million (2019: £267 million), with the adjusted EBITA margin at 11% (2019: 15%) and a £1 million favourable impact from foreign exchange. While ITV Studios is a largely variable cost business, the decline in margin reflects the lost revenue, ongoing fixed costs in the business, investments of £8 million in line with our strategic priorities, and costs associated with social distancing guidelines and health and safety protocols in productions. This more than offset the £63 million of overhead cost savings delivered in the year (£50 million of which are temporary and £13 million permanent). While guidelines remain in place globally to mitigate the transmission of COVID-19, our productions will continue to be impacted by increased costs to adhere to social distancing and safety protocols. Going forward we will improve the use of technology and data to drive cost and revenue efficiencies, taking steps to digitalise processes and use remote editing more routinely.

ITV Studios UK

As the largest commercial producer of content in the UK, ITV Studios UK is made up of nearly 30 production labels, with a diverse range of scripted and unscripted titles for the UK's PSBs and OTT platforms. The business is built upon many long-running and recurring titles, the majority of which are sold to the Broadcast business for transmission on ITV's family of channels, ITV Hub and BritBox UK. The core portfolio includes daytime programmes such as: Good Morning Britain, This Morning, Loose Women; the soaps: Coronation Street and Emmerdale; and entertainment programmes such as The Voice, Love Island and I'm A Celebrity...Get Me Out Of Here! ITV Studios UK's share of original content on ITV main channel was up at 68% (2019: 65%), however, this is based on a lower available network programme budget year-on-year.

In 2020, total ITV Studios UK revenue was down 26% to £535 million (2019: £725 million), and also down 26% on an organic basis. Internal sales to Broadcast and Direct to Consumer was down 18% across the year, with the first quarter of 2020 benefiting from the return of Saturday Night Takeaway and the new winter series of Love Island. From the end of Q1, the rest of the year was subsequently impacted by COVID-19 with the delay and cancellation of productions. This included a lower number of episodes of Coronation Street and Emmerdale delivered to Broadcast across Q2 and part of Q3, no summer series of Love Island and, a lower volume of drama deliveries compared to 2019, with several planned deliveries delayed into 2021. Deliveries in 2020 included: Saturday Night Takeaway, The Bay, Beat The Chasers, The Pembroke Murders, The Voice Kids, The Chase, I'm A Celebrity...Get me Out Of Here! and the winter series of Love Island.

Internal deliveries in the first half of 2021 should include new and returning programmes, Unforgotten, McDonald & Dodds, Grace, Vera and the first series of The Cabins.

Off-ITV revenues (productions for non-ITV channels in the UK) decreased by 39%, impacted by the delay of planned deliveries, combined with strong comparatives from the delivery of 2019 high-end scripted commissions, including Noughts & Crosses, World on Fire, Poldark and Harlots. Offsetting this, was growth from new and returning deliveries in 2020, such as: The Big Flower Fight for Netflix; The Serpent, Four Lives and Ghosts all for BBC; and Back and Friday Night Dinner for Channel 4. Deliveries in the first half of 2021 should include: Line of Duty, Vigil and The Graham Norton Show all for the BBC; and 24 Hours in A&E and Countdown for Channel 4.

ITV Studios US

ITV Studios US is a scaled production business, providing content to all the major networks and cable channels in the US, along with every major SVOD platform. It has a good foundation of core programmes, including unscripted titles with multiple seasons and a high volume of episodes, which, combined with the output from our investment in scripted content over the last few years, has enabled the business to grow its presence significantly in a highly competitive market. This diversity of content and customer base has enabled ITV Studios US to mitigate some of the impact seen from the pandemic. In addition, a number of programmes were remotely post-produced during this time, many of which were delivered in the first half of 2020.

ITV Studios US total revenue declined by 14% to £234 million (2019: £271 million) and 12% to £238 million when adjusted for the unfavourable foreign exchange impact. Within ITV Studios America (scripted), deliveries included Snowpiercer S2 to TNT and S1 to Netflix, and Good Witch S6 to Hallmark. ITV America (unscripted) deliveries included: Cannonball to NBC and USA, Crank Yankers to Comedy Central, Love Island S2 for CBS, and Becoming to Disney+ along with core unscripted titles: Alone, Marriage Bootcamp and First 48, all delivered in the year. Offsetting this was strong comparatives in 2019, which included the delivery of two seasons of Hell's Kitchen to Fox.

ITV Studios America has several larger scripted programmes which should deliver in 2021, these include Physical for Apple TV, 10-Year-Old Tom for HBO Max, Cowboy Bebop for Netflix, the third season of Snowpiercer for TNT, and the seventh season of Good Witch. Within ITV America, deliveries expected in 2021 include Love Island S3, Rat In The Kitchen for TBS, The Chase for ABC, and Forged in Fire for History.

The development and commissioning pipeline for the ITV Studios US is strong, with several large scale unscripted commissions in progress with existing and emerging SVOD platforms, which have the potential for multiple series.

ITV Studios International

ITV Studios International has production bases in Australia, Germany, France, the Netherlands, the Nordics, and Italy, where we produce original scripted and unscripted content, as well as local versions of key formats developed through our Global Formats business.

Revenue within ITV Studios International declined by 32% to £343 million (2019: £508 million), and by 32% to £342 million when adjusted for the favourable impact of foreign currency. While the pause in productions impacted most of our territories, the decline was also driven by strong comparatives in 2019 which had deliveries of high-end scripted titles, such as *Zero Zero Zero* and *Gomorrah* in Italy, and *Profilage* and *Une Belle Histoire* in France. Deliveries in 2020 included: *Love Island* France for Amazon; *Suburra* and *Vampires* for Netflix; *Paris Police 1900* for Canal+, *Masan Antonio* for Mediaset; and *Romulus* for Sky Italia.

Productions across all our international bases have largely resumed, but with many of our large entertainment franchises being filmed but with no audience. We have scripted productions in France and Italy underway but there remain challenges operating under COVID-19 restrictions. We have a good diversity of shows in our portfolio across multiple territories and we continue to strengthen the depth of our offering.

In 2021 we will continue to focus on growing our European scripted business to allow us to benefit from the increasing demand for locally produced content with global appeal. Deliveries expected in the first half of 2021 should include *Summertime* for Netflix, *The Voice* in France and Netherlands, *The Voice Kids* in Germany, *Love Island* in Germany and *I'm A Celebrity...Get Me Out Of Here* in Australia and Germany.

Global Formats and Distribution

Global Formats and Distribution revenues were down 19% year-on-year to £258 million (2019: £318 million), with nil impact from foreign exchange. Much of this decline was driven by Global Formats, which had strong comparatives due to a number of multi-year deals secured for *The Voice* in 2019, and other unrepeatable 2019 format licensing deals. Global Distribution saw increased catalogue sales due to high demand for our content globally as networks and platforms tried to fill gaps in their schedule left by the delay in productions during the year. However, this was offset by the delay of new scripted and unscripted content in the year. Classic British scripted titles such as *Marple*, *Vera*, *Endeavour*, *Victoria* and *Poldark* sold well, with many territories relicensing old seasons of programmes. We also benefited from the international distribution of *Snowpiercer* to Netflix and *Little Birds* to Starz, *Bodyguard* entering its second window rights, the distribution of natural history titles such as *Wild Tokyo* and *India's Wild Karnataka* and global sales of Emmy and Golden Globe award-winning *Schitt's Creek*. Unscripted titles such as *The Graham Norton Show*, *24 Hours in Police Custody* and *Autopsy USA* also sold well.

In 2021, the full pipeline of new content for Global Distribution will be dependent on whether COVID-19 restrictions continue to impact the filming of productions. However, we have a strong slate of new scripted titles including *Grace*, *Line of Duty*, *Vigil* and *The Serpent*, and finished tapes sales of unscripted formats including *The Voice*, *Love Island*, *Hell's Kitchen*, *The Chase* and *Come Dine With Me*, all delivering across a number of different territories. We will also start the pre-selling third-party productions including international spy drama, *Harry Palmer: The Ipcress File*, and *A Year On Planet Earth*, a new natural history series.

Broadcast (M&E)

ITV, through our family of free-to-air channels and platforms, offers unique audience scale and reach, as well as more targeted demographics demanded by advertisers. The ITV Hub, the online home for content on our family of channels, has grown rapidly over a number of years, driven by viewers' appetite for our content on catch up, VOD and simulcast. Through our Direct to Consumer business, we are building relationships with consumers who are increasingly willing to pay to engage with our brands, content and intellectual property (IP). This is through SVOD, competitions, voting, live events, gaming and merchandising. Data and technology are key to evolving our broadcast business and driving revenue growth and new revenue streams.

The media market environment in which we operate is dynamic. The viewing and advertising landscape is evolving rapidly and becoming increasingly competitive, and our Broadcast business is constantly adapting. COVID-19 accelerated some of the changes we were already seeing presenting both challenges and opportunities. Our strategy is designed to mitigate the long-term impact of changing viewing patterns, and we are increasing the pace of implementation.

As part of our More than TV strategy and to better reflect and serve changing viewing habits, the Broadcast business has been restructured, creating a new Media and Entertainment division which is effective from 1 April 2021 with two business streams – Broadcast and On-Demand. The Broadcast business will remain the home of ITV main channel and will continue to deliver ITV's USP of mass simultaneous reach and unmissable content. The On-Demand business will focus on digital product development and digital growth for ITV, providing new content that appeals to audiences who already do most or all of their viewing on demand, and will serve it to them in whatever way they want to access it.

Continuing to deliver unrivalled audiences

ITV's on-screen viewing in 2020 benefited from lockdown restrictions in the UK, with more people at home watching linear television. Total ITV viewing (which combines live viewing of ITV channels, recorded and VOD) was up 1%, with ITV main channel share of commercial impacts (SOCl) up 2% to 25.8% (2019: 25.3%). ITV main channel SOV and ITV Family SOV, however, declined by 1% and 4% respectively to 16.7% and 22.2% (2019: 16.9% and 23.2%) partly impacted by the volume of news output on the BBC, fewer episodes of the soaps and less new content as a result of COVID-19. Despite this, ITV main channel had its third-biggest SOV in a decade.

Total broadcaster TV viewing (live and catch up viewing to broadcast channels including TV VOD) was up 6% in the year, benefiting from the increase in viewing on the BBC, along with Channel 4 (with increased viewing for *The Great British Bake Off* and *Gogglebox*), and Sky (due to increased viewing for its box sets and football). Total TV set viewing, which includes unmatched viewing (content that cannot be matched to broadcast TV such as SVOD, YouTube, games consoles) was up 15% and driven by the significant increase in viewing on SVOD platforms during the year (Source: BARB).

With the lack of on-demand viewing drivers such as the absence of summer *Love Island*, fewer episodes of the soaps, lower volumes of new content following the pause in production and no major sporting event, online viewing (which measures the total number of hours viewers are spending online) on the ITV Hub was down 5% year-on-year. Within this, simulcast viewing hours were up 13% in the year, as more viewers used the ITV Hub as a destination for live viewing via connected TVs and streaming devices. The growth of the ITV Hub is a key part of our strategy. We have a number of initiatives focused on improving the user experience and content to help drive strong viewing over the coming year. Further details are included in the ITV Hub section. In addition, as part of the restructure of the Broadcast business, we will assess the appropriate allocation of the network schedule cost between our linear channels and AVOD to balance our ability to deliver mass audiences and increase on-demand viewing.

On average the number of minutes of television viewers watched per day in 2020 was 192 minutes (C7 total broadcast TV including catch up), up 5% on the previous year (2019: 183 minutes), this is the first time growth has been seen in total broadcast TV viewing since 2010. Despite the decline in SOV and online viewing, ITV delivered record-breaking audiences both in linear and on-demand, with programming such as Des, Quiz, I'm A Celebrity...Get Me Out Of Here! and The Chase. During the day, most of our daytime shows had their strongest viewing in years, including Good Morning Britain, This Morning and Loose Women. However, during peak hours, our share of linear viewing was impacted by the factors mentioned previously and the significant increase in viewing on SVOD platforms, particularly amongst 16-34s. While younger viewers are watching less linear television than they used to, television still reaches on average, around 80% of young people each week. Through delivering great content such as Saturday Night Takeaway, winter Love Island and Gordon, Gino and Fred: Road Trip, we were able to reach them both through linear and online, with ITV main channel being the most-watched channel for 16-34s in 2020 (Source: BARB C7 viewing).

On ITV main channel, Coronation Street and Emmerdale maintained their position as the UK's two largest soaps, with Coronation Street increasing its audience year-on-year. We successfully aired a range of new programmes, including four of the top five most-watched new dramas such as Des – ITV's biggest new drama ever, White House Farm and Van Der Valk; new entertainment shows, including The Masked Singer and Beat The Chasers – the two biggest new entertainment series launches in 13 years; and successful factual entertainment, including; Bradley Walsh & Son: Breaking Dad, Gordon, Gino and Fred: Road Trip, and Long Lost Family: Born Without A Trace. We continue to drive significant audiences with our returning brands such as The Voice, Britain's Got Talent, and I'm A Celebrity...Get Me Out Of Here! – which was the most-watched entertainment series of the year. Our news programming performed well, with our national weekday bulletins increasing their share year-on-year. Viewing was however impacted by the decision to cancel or postpone the majority of sporting tournaments and live entertainment shows including the European Football Championships, horse racing and the summer series of Love Island. The delay in delivery of a number of programmes, particularly scripted, arising from the pause in production in ITV Studios and other indies also had an impact on viewing.

We continue to target the demographics most highly demanded by advertisers – particularly young and male audiences – through our family of channels and online.

On ITV2, SOV and SOCI for 16-34s were down 27% and 25% respectively, with the cancellation of the summer series of Love Island and less new content, having a significant impact on the schedule. Despite this, ITV2 remained the most-watched digital channel for 16-34s for the fourth year in a row. This was helped by the winter series of Love Island, Ibiza Weekender, and several box-office films.

On ITV3, ABC1 adults SOV was up 6% in the year due to the strong slate of classic dramas which appealed to the increased number of people at home looking for quality content to watch. Programmes included Downton Abbey, Midsomer Murders and Vera, as well as repeats of Emmerdale and Coronation Street.

On ITV4, Male SOV was down 1%, impacted by the loss of sport in the schedule, such as the Isle of Man TT, Tour of Britain and Yorkshire and the Snooker Tour Championship. The return of live sport with snooker and horse racing in June helped to mitigate some of this viewing decline.

We have a strong schedule in 2021 with new and returning dramas including: The Pembrokeshire Murders, Finding Alice, Grace, Viewpoint, The Bay, Marcella, Unforgotten, McDonald & Dodds and Vera; and new and returning entertainment including: The Masked Singer, Saturday Night Takeaway, The Cabins, and the summer series of Love Island. Our sporting schedule includes the Rugby Six Nations and the rescheduled European Football Championships, along with the FA Cup which we will start broadcasting in the second half of 2021.

While there remains a risk that some programmes due to broadcast during the year, may be delayed due to continued COVID-19 restrictions, being an integrated producer broadcaster puts us in a unique position enabling us to work with ITV Studios to develop filming plans on key programmes, and to source additional library content for our channels.

Spontaneous consideration amongst all adults and light viewers was down 3.3 percentage points and 2.5 percentage points respectively year-on-year, mainly impacted by the growth in SVOD brands during the pandemic. Our decline was less than that of the BBC demonstrating the high-quality of our content and the positive impact of our marketing investment.

Growing and enhancing our AVOD and SVOD propositions

Our AVOD proposition is the ITV Hub in the UK and our SVOD propositions are ITV Hub+, BritBox UK, BritBox International in the US, Canada and Australia, and Cirkus in the Nordics, Germany, Austria and Switzerland.

ITV Hub

The ITV Hub has 32.6 million registered user accounts (31 December 2019: 30.8 million) and is available on 28 platforms, and is pre-installed on the majority of connected televisions currently sold in the UK.

During 2020, despite the challenges presented by the COVID-19 pandemic, we continued to invest in, and deliver the Hub acceleration plan which is a key part of the More than TV strategy. There has been a process of continued enhancement and improvement in the ITV Hub over the last two years, focused on redesigning the interface on all platforms to further improve the overall user experience, increasing personalisation, prominence and distribution to make it a destination for viewing our content, and integrating BritBox UK, to make the transition to the service seamless. We have also redesigned the ITV News online site. During 2020 we strengthened the content available through extending the catch up window for content from 30 days to 12 months; trialling short-form content on iOs and itv.com; showing live exclusive events such as British Touring Cars, and had the re-run of the 1996 European Football Championship and the 2003 Rugby World Cup. We also launched a 'Continue Watching' option, a recommendations rail, and a 'My List' function.

Our investment in the ITV Hub in 2021 will be focused on further accelerating its growth to make the ITV Hub a destination, not just catch up service, along with rolling out the redesign across connected TVs. We plan to trial a new windowing strategy which will include: increasing the number of dramas series we make available in full on the ITV Hub once the first episode launches on linear – such as Finding Alice, The Bay and Marcella; having exclusive content including spin-offs from large entertainment shows such as The Masked Singer and Saturday Night Takeaway; and increasing the curation of content using our vast archive. We will also focus on the increased distribution of the ITV Hub on new platforms and TVs. In 2021 we would expect our investment to drive an increase in online viewing and monthly active users.

ITV Hub+

The ITV Hub+ offers an ad-free subscription version of the ITV Hub with content download capability. The number of subscriptions at the end of December 2020 was c410,000 which was broadly in line with 2019. The absence of key programming, a lower volume of new content along with travel restrictions resulting in people not requiring download functionality or EU portability, all had an impact on our ability to drive new subscriptions in the year. We continued our process of improvement on ITV Hub+, launching an annual subscription pass, incorporating programme download functionality on Android devices and integrating in-app purchases on Amazon. At 31 December 2020, EU portability on ITV Hub+ was disabled as the Brexit transition period ended. In 2021 we would expect the return of key entertainment shows and sport to positively impact our Hub+ subscriptions and we will focus on other initiatives including embedding Google Play billing in the app and creating more upselling opportunities for ITV Hub+ within the ITV Hub.

BritBox

BritBox UK has seen good growth in subscriptions in the year, and as expected, the lockdown restrictions along with the increase in content and distribution of the service, increased the number of customers signing up for the free trial period. We have continued to see strong subscriber appeal and in January 2021 we had over 500,000 subscriptions, which was ahead of our business plan. Conversion and churn rates are in line with our plan. Distribution of BritBox UK was extended during the year, with the roll out through BT and EE, the service now available on over 20 million devices and to 65% of streaming households. It has also reached over 90% brand awareness in the UK (Source: YouGov). We are continuing to explore opportunities to expand the distribution of BritBox UK and are working with a number of platforms to enable this. During the year Channel 4 and Film4 content became available on the platform and we saw the launch of our first original commission, Spitting Image, which helped drive a ten-fold increase in subscriptions to the service. Spitting Image has been recommissioned for a second series in 2021, with four original dramas, and one factual expected to launch on the service across 2021 and 2022. The first will be The Beast Must Die, and Secrets of the Krays in the first half of 2021, followed by Magpie Murders, Crime and A Spy Amongst Friends. The content pipeline for BritBox UK is healthy with further originals currently in development.

Our international BritBox joint venture with the BBC is currently available in the US, Canada, and Australia, and provides an ad-free SVOD service offering the most comprehensive collection of British content available in those territories. Subscriptions have grown strongly, increasing by 50% in the US and Canada in 2020. We now have over 1.7 million BritBox subscriptions internationally. We are planning a phased roll out of BritBox in up to 25 countries, with South Africa expected to launch in 2021. The countries we have identified are those where research indicates we could launch the service profitably, managing our SVOD rights more effectively and drive more value from them. Our funding for the next phase of the roll out will be from our share of BritBox US cashflows, which is a profitable service, and we will undertake a full business case review for each territory before deciding to launch.

Across all our SVOD services (including Hub+) we now have over 2.6 million subscriptions globally.

Strong linear and online advertising proposition

While the COVID-19 pandemic and uncertain outlook led advertisers to reduce their total advertising spend, our Commercial team continued to work very closely with advertisers and agencies during the year to create relevant and innovative marketing and advertising opportunities. They helped brands to market themselves in a way that was socially responsible and reflected the mood of the nation. During the height of the pandemic, the team hosted weekly webinars reaching over 3,000 customers and sent weekly updates to all our customers during this time. We removed the late booking penalty for advertisers and had no charges for making amendments to existing campaigns to give advertisers as much flexibility as possible during the uncertain backdrop. ITV Creative remained operational and was able to help advertisers film and produce campaigns. Some of the innovative campaigns we were involved in included BT providing technology tips in the wake of the pandemic, The People's Ad Break, Waitrose Pick For Britain, and Just Eat taking over an ad break to support Britain Get Talking, our mental health campaign.

Television remains one of the most efficient and effective mediums for advertisers to achieve mass reach and in 2020, ITV delivered 94% of all commercial audiences over three million and over five million. As viewing and advertising become more fragmented, the scale and reach of advertising that television, and particularly ITV, delivers becomes increasingly valuable. We provide a safe, trusted, measured and transparent environment in which to advertise, and television generates the highest return on investment of any media. With the significant increase in television viewing volumes, combined with the decline in advertising revenue, there was 50% to 60% deflation in the cost of television advertising during the height of the pandemic compared to before the pandemic. With the proven return on investment which television offers, we set up ITV AdVentures, aimed at encouraging digitally native brands to advertise on television for the first time, including car insurance brand By Miles, pregnancy app Peanut, business-to-business comparison site Bionic, and Butternut Box, a subscription service dog food brand.

The focus going forward will be to continue to build deep strategic relationships with our advertisers and the Commercial team has a number of initiatives underway to help drive this. This includes ITV Backing Business, making it as flexible as possible for British businesses to advertise on television, providing them with marketing support and a wealth of resources to help them return to growth. We also forged partnerships between Backing Business and established advertisers, such as NatWest's business banking unit, as they launched a competition for small businesses to win advertising creative; and with Facebook Portal to help people connect with their friends and families over Christmas. In addition, we created ITV Home Planet, a new initiative for sustainable brands to encourage viewers to reduce their carbon footprint, with Quorn (meat substitute brand) becoming ITV's first brand partner.

During 2021 we will also continue to explore linear addressable advertising opportunities.

Online video advertising on the ITV Hub delivers targeted demographics in a high-quality, trusted and measured environment for advertisers. We have now rolled out Planet V, our scaled programmatic addressable advertising platform, to the majority of major agencies, with around 85% of all customer orders now managed on the platform. Planet V is designed and deployed as a self-service platform for advertisers and agencies, enabling them to plan and buy ITV Hub inventory seamlessly and cost effectively, create bespoke audiences, add their first party data and monitor their campaigns via a custom built user interface. Our Commercial business is therefore able to offer our clients the best of both worlds, mass audiences with simultaneous reach on linear channels, and addressable targeting at scale around our premium inventory on the ITV Hub. We have also agreed our first third-party partnership with Samsung Plus TV for their inventory to be plannable and buyable via Planet V.

We have recently invested in InfoSum, a data and identity infrastructure company, to augment Planet V's first party data capabilities. Infosum allows us to merge advertisers first-party data with ITV's data, in a secure and compliant way. This will enable more granular targeting and measurement across ITV's premium video inventory, providing the capability to build new and more powerful audience segments, at scale, unique to each advertiser.

To provide more insight into the effectiveness of television advertising, ITV has joined Channel 4 and Sky to launch a new total television advertising measurement system in the UK. CFlight (designed by NBCU in the US) is a post-campaign online evaluation tool, using combined linear television and Broadcaster VOD (BVOD) data to show advertisers and media agencies what the overall advertising exposure is for television advertising, including reach and frequency metrics. This will give advertisers and agencies a unique view of the coverage achieved by their commercial campaigns across both linear and BVOD. We expect this to be available during 2021.

Broadcast financial performance in 2020

Broadcast total revenue was down 8% in the year at £1,890 million (2019: £2,063 million). This decline was entirely driven by a decrease in total advertising revenue which was down 11% to £1,577 million (2019: £1,768 million) in 2020. Within this VOD advertising revenues up 17%. Broadcast non-advertising revenues were up 6% in the year to £313 million (2019: £295 million) with growth across all areas. Further detail on the year-on-year movement in revenue is detailed below.

Total costs within Broadcast were down 8%, primarily driven by lower schedule costs, which were down 14% to £935 million (2019: £1,091 million) due to the cancellation or delay of programming impacted by the pandemic. This included the UEFA European Football Championship, the summer series of Love Island, a reduction in episodes of the soaps and the delay of some scripted titles into 2021. It is expected that schedule costs in 2021 will return to previous levels of around £1.1 billion. Variable costs were up 20% at £161 million (2019: £134 million), mainly driven by costs for marketing and content for BritBox UK and higher interactive costs associated with the increase in revenue and prize costs in the year. Broadcast infrastructure and overhead costs decreased by 1% to £373 million, with additional overhead costs associated with BritBox UK and Planet V, along with investments of £8 million in data, the ITV Hub, ITV Hub+ and technology in line with our strategic priorities. This was offset by £53 million of cost savings made across Broadcast (£45 million of which are temporary and £8 million are permanent).

The 2020 net investment in BritBox UK was £49 million (2019: £19 million) with venture losses of £59 million (2019: £21 million), both of which were in line with expectation. We anticipate that as we build BritBox UK's subscriber base, it will remain in the net investment phase for several years.

Broadcast adjusted EBITA (excluding BritBox UK) was down 1% to £480 million (2019: £483 million), with a margin of 25% (2019: 23%). Total Broadcast adjusted EBITA (including BritBox) was down 9% to £421 million (2019: £462 million), with a 22% margin (2019: 22%).

Within exceptional items we have included a £23 million impairment to sports rights, reflecting the impact of COVID-19, along with changing forecasts of audience mix and revenues for certain sporting events. We have also included a £19 million onerous contract provision for one of our satellite transponders which we are no longer utilising. See the exceptional items note within the Finance Review for further detail.

Total advertising revenue (TAR)

At the start of 2020, there was good momentum in total advertising with revenues in Q1 up 2%, preceded by two-quarters of growth in the second half of 2019. However, the COVID-19 pandemic had a severe negative impact on advertising demand from Q2. The announcement of the UK government imposed lockdown and containment measures in March, caused an almost immediate decline in advertising, with many brands reducing, or stopping their advertising spend completely. Total advertising in Q2 2020 was down 43%, the most severe decline in the history of TV. We saw trends improve in Q3 with TAR down 7% and in Q4 with TAR up 3%, as advertisers spent more in advance of Christmas with confidence boosted from the commencement of the roll out of the COVID-19 vaccine.

Most advertising categories decreased their spend during 2020, with categories such as Airlines and Travel, Entertainment and Leisure, and Retail being the hardest hit as travel restrictions were imposed and shops, leisure facilities and showrooms were closed. While the spend from online brands (excluding gambling) also declined in the year, they declined less than most categories and we did see increased spend from social networking brands, OTT platforms and food delivery brands, who benefited from people being at home. Government, Charities and Other, Publishing and Broadcasting, Cosmetics and Toiletries, and Household Stores were key categories which grew spend in the year.

VOD advertising revenue on the ITV Hub was up 17% in the year, with the second half of 2020 seeing strong demand from advertisers.

The current advertising environment remains challenging, and the tightening of restrictions at the end of 2020 and further national lockdown introduced at the beginning of January 2021, has impacted Q1 2021 with TAR expected to be down around 6%, with March up around 8% and April up between 60% and 75%, with January to April up between 5% and 7%. This assumes there is no change in the current planned restrictions.

Direct to Consumer

Direct to Consumer (DTC) generates revenue directly from the customer and includes ITV Hub+, competitions, merchandise, live events and gaming. DTC revenue does not include BritBox UK (which is included within Other Revenue) or BritBox US/Australia (which is included within JVs and Associates).

In 2020, DTC revenue increased by 4% to £87 million (2019: £84 million) predominantly due to an increase in competitions revenues which performed strongly across the schedule. Daytime was particularly important, which corresponded with the increase in viewers, and also programming such as Saturday Night Takeaway and I'm A Celebrity...Get Me Out Of Here! Our rebranded competitions portal, ITV Win, has seen a significant uplift in traffic in the year, with an increasing proportion of competitions revenue being generated through it. We will continue to extend the offering and marketing around ITV Win in 2021.

Partly offsetting some of the DTC growth in the year, was the absence of pay per view boxing revenues included within the 2019 comparatives, along with a decline in live events revenue. All our live events were closed in line with government restrictions from March. Events such as the Coronation Street set tour and Emmerdale village tour and studio experience are linked to our production sets and therefore are likely to remain closed until social distancing guidelines are eased further. Our branded Ninja Warrior Experiences around the UK are managed by third parties and opened briefly when restrictions were relaxed. Our I'm A Celebrity...Get Me Out Of Here! leisure attraction in the UK which was due to launch in 2020, has been delayed until the first half of 2021. These initiatives help build relationships directly with our viewers and, while the current environment has impacted our ability to generate revenues, we will continue to have a focused approach to opportunities in this area. With the restructure of Broadcast, gaming, live events and merchandising revenues around our IP will move to Global Formats and Distribution within ITV Studios from 2021. The impact to Broadcast from the reclassification of this revenue stream will be small.

SDN

SDN generates revenue by licensing multiplex capacity to broadcast channels, radio stations and data providers on digital terrestrial television (DTT) or Freeview. Currently, the SDN platform utilises the radio spectrum licensed to it to provide capacity for 18 broadcast channels and a number of data and radio services.

SDN customers include ITV and third parties, with external revenue (non-ITV) increasing by 6% in the year to £73 million (2019: £69 million), driven by the launch of two new video streams in January 2020.

SDN's current multiplex licence expires towards the end of 2022. The Government is currently consulting on the future of the SDN licence (as well as most of those held by Arqiva, the BBC and Channel 4). The consultation indicated that the Government is seeking to renew the licence and not to hold an open competition, though the period of the possible renewal is not yet determined. The Government recognises the need to ensure that Ofcom can undertake the renewal of these licences sufficiently in advance of their expiry in 2022, and is aiming for the amended legislation to come into force during 2021.

In 2022 and 2023, some long-standing contracts which were agreed at the peak of the DTT capacity market ten years ago will come to an end, which we expect these to revert to current market rates.

Other revenue

Other revenue includes revenue from platforms, such as Sky and Virgin, and third-party commissions, e.g. for services we provide to STV, along with subscription revenue for BritBox UK. This is up 8% year-on-year to £153 million (2019: £142 million) predominantly due to BritBox UK which has seen good growth since its launch in 2019 and has benefited during the pandemic. A reduction in third-party commission due to the corresponding decline in NAR in the year partly offset this growth.

Twelve months to 31 December	2020 £m	2019 £m	Change £m	Change %
Total advertising revenue	1,577	1,768	(191)	(11)
Direct to Consumer	87	84	3	4
SDN	73	69	4	6
Other revenue	153	142	11	8
Broadcast non-advertising revenue	313	295	18	6
Total Broadcast revenue	1,890	2,063	(173)	(8)
Network schedule costs	(935)	(1,091)	156	14
Variable costs	(161)	(134)	(27)	(20)
Broadcast infrastructure and overheads	(373)	(376)	3	1
Total Broadcast costs	(1,469)	(1,601)	132	8
Total Broadcast adjusted EBITA*	421	462	(41)	(9)
Total adjusted EBITA margin	22%	22%		
BritBox UK venture loss**	59	21	38	-
Adjusted EBITA Broadcast (ex BritBox UK)	480	483	(3)	(1)
Adjusted EBITA margin (ex BritBox UK)	25%	23%		

* There are no adjusting items within Broadcast EBITA.

** BritBox UK venture loss includes the cost of advertising on ITV, and the acquisition of programmes from ITV Studios. The venture loss better reflects the stand-alone performance of BritBox.

Alternative Performance Measures

The Annual Report and Accounts includes both statutory and adjusted measures (Alternative Performance Measures or APMs), the latter of which, in management's view, reflect the underlying performance of the business and provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis.

Our APMs and KPIs are aligned with our strategy and business segments and together are used to measure the performance of our business and form the basis of the performance measures for remuneration. Adjusted results exclude certain items because, if included, they could distort the understanding of our performance for the period and the comparability between periods. The Audit and Risk Committee has oversight of ITV's APMs and actively reviews, revises and approves the policy for classifying adjustments and exceptional items. Further detail is included below.

Key adjustments for adjusted EBITA, profit before tax and EPS

Adjusted EBITA is calculated by adding back exceptional items and high-end production tax credits to EBITA. Further adjustments, which include the gain/loss on the sale of non-current assets, amortisation and impairment of assets acquired through business combinations and investments, and certain net financing costs, are made to remove their effect from adjusted profit before tax and adjusted EPS. The tax effects of all these adjustments are reflected in the adjusted tax charge. These adjustments are detailed below.

Production tax credits

The ability to access tax credits, which are rebates based on production spend, is fundamental to our Studios business when assessing the viability of investment in green-lighting decisions, especially with regards to high-end drama. ITV reports tax credits generated in the US and other countries (e.g. New Zealand, Italy, Canada and Spain) within cost of sales, whereas in the UK tax credits for high-end drama must be classified as a corporation tax item. However, in our view all tax credits relate directly to the production of programmes. Therefore, to align treatment, regardless of production location, and to reflect the way the business is managed and measured on a day-to-day basis, these are recognised in adjusted EBITA. Our cash measures, including profit to cash conversion and free cash flow are also adjusted for the impact of production tax credits. Further detail is included in the Finance Review.

Exceptional items

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. They are typically material gains or losses arising from events that are not considered part of the core operations of the business, though they may cross several accounting periods. These include, but are not limited to, costs directly related to the impact of COVID-19, impairment of sports rights, acquisition-related costs, reorganisation and restructuring costs, non-routine legal costs (e.g. legal costs related to items which are themselves considered to be exceptional items), and onerous contracts. We also adjust for the tax effect of these items. Further detail is included in note 2.2.

Acquisition-related costs

We structure our acquisitions with earnouts or put and call options, to allow part of the consideration to be based on the future performance of the business as well as to lock in and incentivise creative talent. Where consideration paid or contingent consideration payable in the future is employment-linked, it is treated as an expense (under accounting rules) and therefore part of our statutory results. However, we exclude all consideration of this type from adjusted EBITA, adjusted profit after tax and adjusted EPS as, in our view, these items are part of the capital transaction and do not form part of the Group's core operations. The Finance Review explains this further. Acquisition-related costs, including legal and advisory fees on completed deals or significant deals that do not complete, are also treated as an expense (under accounting rules) and therefore on a statutory basis form part of our reported results. In our view, these items also form part of the capital transaction or are one-off and material in nature and are therefore excluded from our adjusted measures.

Restructuring and reorganisation costs

Where there has been a material change in the organisational structure of a business area or a material initiative, these costs are highlighted and are excluded from our adjusted measures. These costs arise from significant initiatives to reduce the ongoing cost base and improve efficiency in the business to enable the delivery of our strategic priorities. We consider each project individually to determine whether its size and nature warrant separate disclosure.

COVID-19 related costs

These are direct incremental costs incurred exclusively as a result of COVID-19 and include; costs associated with closure of ITV Studios productions and their subsequent restart in a safe environment, and additional costs incurred to maintain the production of daytime and news programming during the government imposed lockdown.

Impairment of sports rights

COVID-19 has impacted our planned 2020-21 sporting schedule. This combined with the consequential impact on TAR, changing forecasts of audience mix and revenues for certain sporting events has resulted in a material impairment to our sports rights. It is not possible to split the impairment between that caused by COVID-19 and underlying market movements.

Onerous contracts

A contract is considered onerous when the unavoidable costs of the contract exceed the revenues associated with it. In 2020 we had a significant onerous transmission contract relating to committed costs of transmission capacity on a satellite transponder that is no longer used in the Broadcast business. There are no revenues associated with this capacity as there are no channels on the relevant satellite transponder.

Amortisation and impairment

Amortisation and impairment of assets acquired through business combinations and investments are not included within adjusted earnings. As these costs are acquisition-related, and in line with our treatment of other acquisition-related costs, we consider them to be capital in nature as they do not reflect the underlying trading performance of the Group. Amortisation of software licences and development is included within our adjusted results as management consider these assets to be core to supporting the operations of the business.

Net financing costs

Net financing costs are adjusted to reflect the underlying cash cost of interest for the business, providing a more meaningful comparison of how the business is managed and funded on a day-to-day basis. The adjustments made remove the impact of mark-to-market gains or losses on swaps and foreign exchange, one-off fees and premiums relating to the buyback of bonds, imputed pension interest and other financial gains and losses that do not reflect the relevant interest cash cost to the business and are not yet realised balances.

Other Alternative Performance Measures

Total revenue

As an integrated producer broadcaster, we look at the total revenue generated by the business including internal revenue, which is the sale of ITV Studios programmes to Broadcast and Direct to Consumer. ITV Studios selling programmes to the Broadcast and Direct to Consumer businesses is an important part of our strategy as an integrated producer broadcaster and it ensures we own all the rights to the content.

Twelve months to 31 December	2020 £m	2019 £m
External revenue (Reported)	2,781	3,308
Internal supply	479	577

Total revenue (Adjusted)	3,260	3,885
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Net pension deficit/surplus

This is our defined benefit pension scheme surplus or deficit under IAS 19 adjusted for other pension assets, mainly gilts, which are held by the Group as security for future unfunded pension payments for four Granada executives and over which that pension scheme holds a charge. See note 3.7 of the financial information.

Profit to cash conversion

This is the measure of our effectiveness of cash generation used for working capital management. It is calculated as our adjusted cash flow as a proportion of adjusted EBITA. Adjusted cash flow, which reflects the cash generation of our underlying business, is calculated on our statutory cash generated from operations and adjusted for exceptional items, net of capex on property, plant and equipment and intangible assets, and including the cash impact of high-end production tax credits.

Prior to 2020, any movement in our non-recourse receivables purchase agreement was included in our profit to cash conversion calculation. From 2020 onwards, any such movement will be excluded. We regard any drawing on this agreement as a form of funding and believe that cash generated from funding activities should be excluded from our profit to cash conversion calculation. This gives a better measure of the underlying working capital performance of the business. At 31 December 2019 the amount sold under the non-recourse receivables purchase agreement, and therefore included in our profit to cash conversion was £100 million. At 31 December 2020 no receivables were sold.

Adjusted free cash flow

This is our measure of adjusted free cash flow after we have met our financial obligations. It takes our adjusted cash flow and removes the impact of net interest, adjusted cash tax (which is total tax paid adjusted to exclude the receipt of production tax credits) and pension funding. A full reconciliation is included in the Finance Review.

Covenant net debt and covenant liquidity

Covenant net debt is our leverage as defined in our revolving credit facility (RCF) agreement. This calculation is materially different to how we define reported net debt and is relevant in demonstrating we have met required RCF financial covenants at our reporting date. Prior to 2020, we disclosed adjusted net debt as an APM which better reflected how credit rating agencies looked at our balance sheet. As the methodology to calculate net debt differs by credit rating agency, replicating this calculation is not deemed necessary going forward.

At 31 December	2020 £m	2019 £m
Reported net debt (including IFRS 16 lease liabilities)	(545)	(893)
Impact of IFRS 16	105	89
Long-term trade and other payables	(54)	(61)
Other pension assets	62	58
Covenant net debt	(432)	(807)
Covenant net debt to adjusted EBITDA**	0.7x	1.1x
Cash and cash equivalents	668	246
Undrawn RCF	630	630
Undrawn CDS facility	199	300
Covenant liquidity*	1,497	1,176

* Total liquidity is defined as: unrestricted cash and cash equivalents plus undrawn committed facilities.

** Adjusted EBITDA is defined per the facility agreement. The Finance Review includes further detail on our covenant ratios.

Reconciliation between statutory and adjusted results

Twelve months to 31 December	2020 Statutory £m	2020 Adjustments £m	2020 Adjusted £m	2019 Statutory £m	2019 Adjustments £m	2019 Adjusted £m
EBITA ¹	561	12	573	693	36	729
Exceptional items (operating) ²	(118)	118	–	(84)	84	–
Amortisation and impairment ³	(87)	68	(19)	(74)	63	(11)
Operating profit	356	198	554	535	183	718
Net financing costs ⁴	(44)	8	(36)	(68)	28	(40)
Share of profits on JVs and associates	9	–	9	1	–	1

Twelve months to 31 December	2020 Statutory £m	2020 Adjustments £m	2020 Adjusted £m	2019 Statutory £m	2019 Adjustments £m	2019 Adjusted £m
Gain on sale of non-current assets and subsidiaries (non-operating exceptional items) ²	4	(4)	–	62	(62)	–
Profit before tax	325	202	527	530	149	679
Tax ⁵	(44)	(51)	(95)	(52)	(67)	(119)
Profit after tax	281	151	432	478	82	560
Non-controlling interests	4	–	4	(5)	–	(5)
Earnings	285	151	436	473	82	555
Shares (million), weighted average	4,002		4,002	4,000		4,000
EPS (p)	7.1p		10.9p	11.8p		13.9p
Diluted EPS (p)	7.1p		10.8p	11.8p		13.8p

1. £12 million (2019: £36 million) adjustment relates to production tax credits which we consider to be a contribution to production costs and working capital in nature rather than a corporate tax item.
2. Exceptional items largely relate to the impairment of sports rights, COVID-19 related costs, an onerous contract provision, a settlement of the Box Clever legal case, and acquisition-related costs. Refer to the Finance Review.
3. £68 million (2019: £63 million) adjustment relates to amortisation and impairment of assets acquired through business combinations and investments. We include only amortisation on purchased intangibles, such as software within adjusted profit before tax.
4. £8 million (£28 million) adjustment is primarily for non-cash interest cost. This provides a more meaningful comparison of how the business is managed and funded on a day-to-day basis.
5. Tax adjustments are the tax effects of the adjustments made to reconcile profit before tax and adjusted profit before tax. A full reconciliation is included in the Finance Review.

Finance Review

This Finance Review focuses on the more technical aspects of our financial results while the operating and financial performance has been discussed within the Operating and Performance Review. Our Alternative Performance Measures (APMs) section, explains the adjustments we make to our statutory results. This enables focus on the key measures that we report on and use as KPIs across the business. See earlier sections for further detail.

Our adjusted and statutory results detailed below, have been significantly impacted by COVID-19. The Operating and Performance Review includes further detail on how it has impacted the operational and financial performance of our two businesses, ITV Studios and Broadcast.

Twelve months to 31 December	2020 £m	2019 £m	Change £m	Change %
Total advertising revenue	1,577	1,768	(191)	(11)
Total non-advertising revenue	1,683	2,117	(434)	(21)
Total revenue	3,260	3,885	(625)	(16)
Internal supply	(479)	(577)	98	17
Group external revenue	2,781	3,308	(527)	(16)
Group adjusted EBITA	573	729	(156)	(21)
Group adjusted EBITA margin	21%	22%		
Group statutory EBITA	561	693	(132)	(19)
Adjusted EPS	10.9p	13.9p	(3.0p)	(22)
Statutory EPS	7.1p	11.8p	(4.7p)	(40)
Dividend per share	–	8.0p	(8.0p)	–
Reported net debt as at 31 December	(545)	(893)	348	

Exceptional items

Twelve months to 31 December	2020 £m	2019 £m
Acquisition-related expenses	(13)	(75)
Restructuring and reorganisation costs	(11)	(24)
COVID-19 related costs	(11)	–
Impairment of sports rights	(23)	–
Other	(60)	15
Total operating exceptional items	(118)	(84)
Non-operating exceptional items	4	62
Total exceptional items	(114)	(22)

Total exceptional items in the period were £114 million (2019: £22 million). Acquisition-related expenses of £13 million are predominantly performance based, employment-linked consideration to former owners. This has decreased year-on-year as we approach the end of the earnout period for several of our acquisitions.

Restructuring and reorganisation costs of £11 million relate to one-off restructuring projects stemming from the Group-wide commitment to reduce the overhead cost base and reorganisation costs to deliver strategy.

COVID-19 related costs of £11 million includes direct incremental costs incurred exclusively as a result of COVID-19. These relate to the closure of ITV Studios productions and the subsequent restart in a safe environment, along with additional costs incurred to maintain the production of daytime programming during the government imposed lockdown.

Impairment of sports rights relates to the impact of COVID-19 on the planned sporting schedule for 2020 and 2021 and the consequential impact on TAR, along with changing forecasts of audience mix and revenues for certain sporting events. The Group has recognised a provision for these sporting events of £23 million, which is included in programme rights and programme commitments. It is not possible to split the impairment between that caused by COVID-19 and underlying market movements.

Other exceptional costs of £60 million include: an estimate for the settlement of the Box Clever case of £31 million; an onerous contract provision of £19 million for satellite transponder capacity no longer required (see below for further detail); past service charges on pension schemes of £6 million; and other legal costs in relation to legal matters which are considered to be outside the normal course of business (see exceptionals note 2.2 for further detail). In 2019, other exceptionals included the release the Box Clever provision, as the cost of resolving the matter at that time could not be reliably estimated. This was partly offset by the trade insurance receivables provision. See note 3.6 for further detail.

During the year, we commenced a review of the efficiency of our satellite transponder capacity usage, aimed at reducing our capacity requirements. This has allowed us to reorganise and clear all channels from one transponder, and as we are now no longer utilising it in our Broadcast business, we are including £19 million from the date the transponder was cleared, as an onerous contract provision. The review is ongoing and we expect to clear a second transponder in 2021.

Non-operating exceptional items relate to a gain on the sale of Freeview channel, Merit, during the year. In 2019, there was a gain on the sale of the London Television Centre.

Net financing costs

Twelve months to 31 December	2020 £m	2019 £m
Financing costs directly attributable to loans and bonds	(27)	(31)
Cash-related net financing costs	(9)	(8)
Amortisation of bonds	–	(1)
Adjusted financing costs	(36)	(40)
Imputed pension interest	(2)	(1)
Other net financial losses and unrealised foreign exchange	(6)	(27)
Net financing costs	(44)	(68)

Adjusted financing costs were down £4 million to £36 million (2019: £40 million) reflecting lower levels of net debt in the year. Net financing costs were £24 million lower in 2020 at £44 million (2019: £68 million) and largely due to the prior year including one-off fees and premiums in relation to the buyback of €506 million of Eurobonds, as well as the acceleration of amortisation on these bonds.

JVs and associates

Our share of profits from JVs and associates in the year was £9 million (2019: profit of £1 million). This was the net profit arising from our investments, such as BritBox US and Canada, Circle of Confusion and Blumhouse Television.

Profit before tax

Statutory profit before tax decreased by 39% to £325 million (2019: £530 million) in the year. Production tax credits decreased to £12 million (2019: £36 million) as a result of fewer high-value dramas due to the pause in productions. Adjusted profit before tax was down 22% to £527 million (2019: £679 million).

Profit before tax (PBT)

Twelve months to 31 December	2020 £m	2019 £m
Profit before tax	325	530
Production tax credits	12	36
Exceptional items	114	22
Amortisation and impairment*	68	63
Adjustments to net financing costs	8	28
Adjusted profit before tax	527	679

* In respect of assets arising from business combinations and investments.

Tax

Adjusted tax charge

The total adjusted tax charge for the year was £95 million (2019: £119 million), corresponding to an effective tax rate on adjusted profit before tax (PBT) of 18% (2019: 18%), which is lower than the standard UK corporation tax rate of 19% (2019: 19%). We expect the adjusted effective tax rate to be between 18% and 19% in 2021 and 2022, and then move to around 25% over the medium term. On a reported basis, the tax charge is £44 million (2019: £32 million tax charge) and corresponds to an effective tax rate of 13.5% (2019: 9.8%). The adjustments made to reconcile the tax charge with the adjusted tax charge are the tax effects of the adjustments made to reconcile PBT and adjusted PBT, as detailed in the table above.

Twelve months to 31 December	2020 £m	2019 £m
Tax charge	(44)	(52)
Production tax credits	(12)	(36)
Charge for exceptional items	(21)	(6)
Charge in respect of amortisation and impairment*	(16)	(19)
Charge in respect of adjustments to net financing costs	(2)	(6)
Adjusted tax charge	(95)	(119)
Effective tax rate on adjusted profits	18%	18%

* In respect of intangible assets arising from business combinations and investments. Also reflects the cash tax benefit of tax deductions for US goodwill.

Cash tax

Cash tax paid in the year was £88 million (2019: £108 million) and is net of £22 million of production tax credits received (2019: £37 million). The majority of the cash tax payments were made in the UK. Cash tax paid is lower than the prior year due to reduced payments on account resulting from a lower profit forecast. As previously guided, 2020 included six quarterly tax payments rather than four. This was a one-off and will return to four quarterly payments in 2021. A reconciliation between the tax charge for the year and the cash tax paid in the year is shown below.

Twelve months to 31 December	2020 £m	2019 £m
Tax charge	(44)	(52)
Temporary differences recognised through deferred tax	(1)	(21)
Prior year adjustments to current tax	(7)	(8)
Current tax, current year	(52)	(81)
Phasing of tax payments (including in respect of pension contribution benefits)	(46)	(28)
Production tax credits – timing of receipt	10	1
Cash tax paid	(88)	(108)

Tax strategy

ITV is a responsible business, and we take a responsible attitude to tax, recognising that it affects all of our stakeholders. To allow those stakeholders to understand our approach to tax, we have published our Global Tax Strategy, which is available on our corporate website.

www.itvplc.com/investors/governance/policies

We have four key strategic tax objectives:

1. Engage with tax authorities in an open and transparent way to minimise uncertainty
2. Proactively partner with the business to provide clear, timely, relevant and business focused advice across all aspects of tax
3. Take an appropriate and balanced approach when considering how to structure tax sensitive transactions
4. Manage ITV's tax risk by operating effective tax governance and understanding our tax control framework with a view to continuously adjusting our approach to be compliant with our tax obligations

Our tax strategy is aligned with that of the business and its commercial activities and establishes a clear Group-wide approach based on openness and transparency in all aspects of tax reporting and compliance, wherever the Company and its subsidiaries operate. The strategy confirms that ITV does not engage in or condone tax evasion or the facilitation of tax evasion in any form and that we have in place reasonable procedures to prevent the facilitation of tax evasion. Within our overall governance structure, the governance of tax and tax risk is given a high priority by the Board and Audit and Risk Committee (ARC). The ITV Global Tax Strategy, approved by the Board and ARC in September 2020, and as published on the ITV plc website, is compliant with the UK tax strategy publication requirement set out in Part 2 Schedule 19 of the Finance Act 2016.

EPS – adjusted and statutory

Overall, adjusted profit after tax was down 23% to £432 million (2019: £560 million). Non-controlling interests was a share of losses of £4 million (2019: £5 million share of profits) which is the net loss from our unowned share in entities such as BritBox UK, Work Friends, Cattleya and Tetra Media. Adjusted basic EPS was 10.9p (2019: 13.9p), down 22%, which is broadly in line with the decrease in adjusted EBITA of 21%. The weighted average number of shares increased to 4,002 million in the year (2019: 4,000 million). Diluted adjusted EPS in the year was 10.8p (2019: 13.8p) reflecting a weighted average diluted number of shares of 4,025 million (2019: 4,018 million).

Statutory EPS declined by 40% to 7.1p (2019: 11.8p), which is larger than the decline in adjusted EPS, predominantly due to the increase in exceptional costs in the period, as explained earlier.

A full reconciliation between statutory and adjusted results is included within the Alternative Performance Measures section.

Dividend per share

The Board recognises the importance of the dividend to our shareholders and intends to restore dividend payments as soon as circumstances permit. The Board will balance shareholder returns with our commitment to maintain investment grade metrics over the medium term, to continue to invest behind the strategy and with the ongoing uncertainty with COVID-19.

Acquisitions

Since 2012, we have acquired a number of content businesses in the UK, US and creative locations across Europe, developing a strong portfolio of programmes that return and travel. As we have grown in size and expanded our network relationships and distribution capability, this has helped to renew and strengthen our creative talent and build our reputation as a leading European producer and distributor and a leading unscripted independent production company in the US.

As part of our strategy, we will consider selective value-creating M&A and talent deals in both scripted and unscripted to obtain further creative talent and IP.

We have strict criteria for evaluating potential acquisitions. Financially, we assess ownership of intellectual property, earnings growth and valuation based on return on capital employed and discounted cash flow. Strategically, we ensure an acquisition target has a strong creative track record and pipeline in content genres that return and travel, namely drama, entertainment and factual, as well as retention and succession planning for key individuals in the business.

We generally structure our deals with earnouts or with put and call options in place for the remainder of the equity, capping the maximum consideration payable by basing a significant part of the consideration on future performance. In this way, not only can we lock-in creative talent and ensure our incentives are aligned, but we also reduce our risk by only paying for the actual, not expected, performance delivered over time. We believe this is the right way to structure our deals as we should not pay upfront for future performance and should incentivise and reward delivery by the business over time.

The majority of earnouts or put and call options are dependent on the seller remaining within the business. Where future payments are directly related to the seller remaining with the business, these payments are treated as employment costs and, therefore, are part of our statutory results. However, we exclude these payments from adjusted profits and adjusted EPS as an exceptional item, as in our view, for the reasons set out above, these items are part of the capital consideration reflecting how we structure our transactions and do not form part of the core operations.

The following table sets out the initial consideration payable on our acquisitions, additional consideration subsequently paid, our expected future payments based on our current view of performance and the total expected consideration payable, which is only payable if exceptional compound earnings growth is delivered.

Acquisition-related liabilities or performance-based employment-linked earnouts are amounts estimated to be payable to previous owners. The estimated future payments of £227 million are sensitive to forecast profits as they are based on a multiple of earnings. The estimated future payments, treated as employment costs, are accrued over the period the sellers are required to remain with the business, and those not linked to employment are recognised at acquisition at their time discounted value.

We closely monitor the forecast performance of each acquisition and, where there has been a change in expectations, we adjust our view of potential future commitments. Expected future payments of £227 million have decreased by £3 million since 31 December 2019 mainly due to payments made in the year being offset by an increase in expected future payments on certain acquisitions and the associated impact of foreign exchange. At 31 December 2020, £209 million of expected future payments had been recorded on the balance sheet, with the balance of £18 million to be accrued over the period in which the sellers are required to remain with the business.

A large proportion of the expected future payments relate to our best estimate of the final payment we will make in relation to the acquisition of Talpa. The amount payable will depend on the average EBITDA from 2017 to 2019 being between €75 million and €100 million. Contractually the payment is capped at €400 million if the average EBITDA for 2017-2019 is €100 million or more. See note 3.1.5 of the financial information for further detail.

There were no significant acquisitions in 2020. However, during the year we agreed a number of talent deals within ITV Studios UK and ITV Studios US to strengthen our creative talent pool.

Acquisitions – between 2012 and 2020 (undiscounted)

Company	Geography	Genre	Initial consideration £m	Additional consideration paid £m	Expected future payments* £m	Total expected consideration ** £m	Expected payment period***
Total for 2012–2020	Various	Content & Broadcast TV	957	205	227	1,389	2021-2026

* Undiscounted and adjusted for foreign exchange. All future payments are performance related.

** Undiscounted and adjusted for foreign exchange, including the initial cash consideration and excluding working capital adjustments. Total maximum consideration which was potentially payable at the time of acquisition was £2.4 billion.

*** £163 million is expected to be paid in 2021.

Cash generation

Profit to cash conversion

Twelve months to 31 December	2020 £m	2019 £m
Adjusted EBITA	573	729
Working capital movement*	237	(63)
Adjustment for production tax credits	10	1
Depreciation	57	56
Share-based compensation	6	10
Acquisition of property, plant and equipment and intangible assets**	(66)	(68)
Capex relating to redevelopment of new London headquarters	–	2
Lease liability payments (including lease interest)	(26)	(35)
Adjusted cash flow	791	632
Profit to cash ratio	138%	87%

* Working capital movement in 2020 excludes the unwind of the £100 million non-recourse receivables purchase agreement

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

One of ITV's strengths is its cash generation reflecting our ongoing tight management of working capital balances. We manage risk when making all investment decisions, particularly into scripted content and BritBox UK, through having a disciplined approach to cash and costs. This has been particularly important during the COVID-19 pandemic. Remaining focused on cash and costs means we are in a good position to continue to invest across the business in line with our strategic priorities.

In the year, we generated £791 million of adjusted operational cash (2019: £632 million) from £573 million of adjusted EBITA (2019: £729 million), resulting in a profit to cash ratio of 138% (2019: 87%). This increase was driven by a large working capital inflow arising from a reduction in programme stock (where we delivered programmes but were unable to continue producing) and the timing of VAT payments which have been deferred (see further detail below). This working capital benefit is expected to unwind in 2021.

To facilitate our working capital management, we have a £100 million non-recourse receivables purchase agreement (free of financial covenants), which gives us the flexibility to access additional liquidity when required. At 31 December 2020, no receivables were sold under this agreement (2019: £100 million). Prior to 2020, any movement in our non-recourse receivables purchase agreement was included in our profit to cash conversion calculation. From 2020 onwards, any such movement is excluded. Further detail is included in our APMs.

Adjusted free cash flow

Twelve months to 31 December	2020 £m	2019 £m
Adjusted cash flow	791	632
Net interest paid (excluding lease interest)	(17)	(54)
Adjusted cash tax*	(110)	(145)
Pension funding	(59)	(74)
Adjusted free cash flow	605	359

* Adjusted cash tax of £110 million is total cash tax paid of £88 million plus receipt of production tax credits of £22 million, which are included within adjusted cash flow from operations, as these production tax credits relate directly to the production of programmes.

Our free cash flow after payments for interest, cash tax and pension funding remained healthy in the year at £605 million (2019: £359 million). As agreed with the tax authorities and our pension trustees, we deferred £90 million of payments out of 2020, with £75 million of VAT payments payable in 2021 and £15 million of pension contributions payable across 2022 – 2025.

Overall, after acquisitions and acquisition-related costs, pension and tax payments, we ended the period with reported net debt (including IFRS 16 lease liabilities) of £545 million (31 December 2019: £893 million). This has benefited from the deferred VAT and pension payments above and is before earnout payments which we anticipate paying in 2021.

Funding and liquidity

Debt structure and liquidity

The Group's financing policy is to manage its liquidity and funding risk for the medium to long-term. ITV uses debt instruments with a range of maturities to ensure access to appropriate short-term borrowing facilities with a minimum of £250 million of cash and undrawn committed facilities available at all times. We have a number of facilities in place to preserve our financial flexibility, which includes a £630 million Revolving Credit Facility (RCF) in place until 2023. The RCF has leverage and interest cover covenants which require us to maintain a covenant net debt to adjusted EBITDA ratio of below 3.5x and interest cover (adjusted EBITDA to net finance charges) above 3.0x. As a precautionary measure, during the first half of 2020, we agreed with our banking group to replace the leverage and interest cover covenants in the RCF with a cap on covenant net debt at £1.8 billion and a minimum covenant liquidity requirement (cash plus undrawn committed funding lines) of £250 million until 30 December 2021. In addition, ITV has agreed not to pay a dividend in the period of the amendment. ITV has the right to restore its original covenants at any time should it so choose, in which case the dividend restriction would fall away. At 31 December 2020, ITV's financial position was well within its covenants.

We also have a bilateral financing facility of £300 million, which is free of financial covenants. In March 2020, the Group extended the maturity of its existing £300 million bilateral loan facility by five years to 30 June 2026.

This provides us with sufficient liquidity to meet the requirements of the business in the short to medium term under a variety of scenarios, including a severe but plausible downside scenario. At 31 December 2020, the £630 million RCF was undrawn and £199 million of the £300 million bilateral facility was available, which with unrestricted cash of £618 million, provided total liquidity at 31 December 2020 of £1,447 million.

Reported net debt

At 31 December	2020 £m	2019 £m
Gross cash*	668	246
Gross debt (including IFRS 16 lease liabilities)	(1,213)	1,139
Reported net debt	(545)	(893)

* Gross cash includes £50 million of restricted cash in relation to the LTVC Pension Funding Partnership (2019: £75 million of restricted cash).

Financing – gross debt

We are financed using debt instruments and facilities with a range of maturities. Borrowings at 31 December 2020 were repayable as follows:

Amount repayable as at 31 December 2020	£m	Maturity
£630 million Revolving Credit Facility	–	Dec 2023
€600 million Eurobond	537	Sep 2026
€335 million Eurobond	299	Sep 2022
€259 million Eurobond	232	Dec 2023
Other loans	17	Various
Total debt*	1,085	

* Net of £23 million cross-currency swaps and excluding £105 million of IFRS 16 lease liabilities.

Capital allocation and leverage

Our objective is to run an efficient balance sheet and manage our financial metrics appropriately, consistent with our commitment to investment grade metrics over the medium term. At 31 December 2020 reported net debt (including IFRS 16 liabilities) to adjusted EBITDA was 0.9x (31 December 2019: 1.2x).

Our priority remains to invest in our key assets and value drivers in line with our strategic priorities and balance this investment with the returns to shareholders.

Credit ratings

We continue to be rated investment grade by both ratings agencies: BBB- (negative outlook) by Standard and Poor's and Baa3 (stable outlook) by Moody's Investor Services. These ratings were reiterated in Q2. The factors that are taken into account in assessing our credit rating include our degree of operational gearing and exposure to the economic cycle, as well as business and geographical diversity.

Foreign exchange

As ITV continues to grow internationally, we are increasingly exposed to foreign exchange on our overseas operations. We do not hedge our exposure to revenues and profits generated overseas, as this is seen as an inherent risk. We may elect to hedge our overseas net assets, where material. To date, we have hedged a significant portion of the euro net assets arising from the Talpa Media acquisition.

ITV is also exposed to foreign exchange risk on transactions we undertake in a foreign currency. Our policy is to hedge a portion of any known or forecast transaction where there is an underlying cash exposure for the full tenor of that exposure, to a maximum of five years forward, where the portion hedged depends on the level of certainty we have on the final size of the transaction.

Finally, ITV is exposed to foreign exchange risk on the retranslation of foreign currency loans and deposits. Our policy is to hedge such exposures where there is an expectation that any changes in the value of these items will result in a realised cash movement over the short to medium term.

The foreign exchange and interest rate hedging strategy is set out in our Treasury policies which are approved by the ITV plc Board.

Foreign exchange sensitivity

The following table highlights ITV's sensitivity, on a full year basis, to translation resulting from a 10% appreciation/depreciation in sterling against the US dollar and euro, assuming all other variables are held constant. An appreciation in sterling has a negative effect on revenue and adjusted EBITA; a depreciation has a positive effect.

Currency	Revenue £m	Adjusted EBITA £m
US dollar	+/- 20-30	+/- 0-2
Euro	+/- 30-40	+/- 3-5

Pensions

The net pension deficit for the defined benefit schemes at 31 December 2020 was £26 million (31 December 2019: £87 million deficit). The movement in the year was driven by an increase in liabilities caused by a reduction in corporate bond yields and changes in the longevity swap, offset by updated inflation and demographic assumptions and our deficit funding contributions made in the year. The pension assets have increased due to a reduction in gilt yields.

The net pension assets include £62 million of gilts (2019: £58 million), which are held by the Group as security for future unfunded pension payments to four former Granada executives, the liabilities of which are included in our pension obligations.

A full reconciliation is included in note 3.7 of the financial information.

Actuarial valuation

The last triennial actuarial valuation was undertaken in 2017. On the basis agreed with the Trustee, the combined deficits of the ITV defined benefit pension scheme as at 1 January 2017 amounted to £470 million.

The Trustee is in the process of undertaking a full actuarial valuation of all sections of the scheme as at 1 January 2020, which we expect to agree during 2021.

Deficit funding contributions

The Group continues to make deficit funding contributions in line with the most recent actuarial valuation in order to eliminate the deficits in each section. The accounting deficit does not drive the deficit funding contribution.

The Group's deficit funding contributions in 2020 were £59 million. We have agreed with the pension Trustees to delay around £15 million, which will be deferred across 2022 to 2025 (subject to the new funding schedule which will be finalised as part of the Triennial valuation). Further details are included within note 3.7 of the financial information.

In 2021 we expect deficit funding contributions to be around £75 million.

SDN pension funding partnership

In 2010, ITV established a Pension Funding Partnership (PFP) with the Trustee backed by the asset of SDN which resulted in the assets of Section A of the defined benefit pension scheme being increased by £200 million. The Group is contracted to provide additional collateral to support the original value of the structure at the rate of £50.7 million each year from March 2019 to March 2022. This cash collateral would not leave the Group but would be maintained in a restricted bank account. The Trustee agreed to accept a bank guarantee as an alternative to the 2019 and 2020

collateral instalments with the result that £101 million cash collateral did not become due in March 2020. The PFP is currently being reviewed as we look to replace it with an alternative asset to SDN. If the asset in the SDN PFP structure is not replaced, the Group will pay to the pension scheme the lower of any deficit calculated on the funding basis in 2022 or £200 million.

2021 full year planning assumptions

The following planning assumptions for 2021 are based on our current best view but may change depending on how events unfold over the year.

Profit and Loss impact

- Total schedule costs are estimated to be around £1.1 billion
- Total essential investment of around £25 million in 2021, which includes £10 million as previously guided, the phasing of 2020 investments which fall into 2021 and £13 million of additional investments to accelerate the delivery of our strategy
- Total BritBox UK venture losses are expected to be around the same level as 2020 and will decline thereafter
- Overhead cost savings are expected to be around £30 million in 2021. We will deliver around £100 million of annualised permanent overhead cost savings by the end of 2022 (from 2019) compared to our previous guidance of £55 million to £60 million over that period
- Adjusted interest is expected to be around £36 million, which is in line with 2020
- The adjusted effective tax rate is expected to be between 18% and 19% in 2021 and 2022, and then move to around 25% over the medium term
- The translation impact of foreign exchange, assuming rates remain at current levels, could have an adverse impact of around £25 million on revenue and around £3 million on profit
- Exceptional items are expected to be around £25 million, mainly due to acquisition related expenses, restructuring and reorganisation costs, and reducing our transponder capacity

Cash impact

- Tax will reflect the payment of £75 million deferred VAT from 2020
- Total capex is expected to be around £75 million as we further invest in our digital transformation
- The cash cost of exceptionals are expected to be around £190 million, largely relating to accrued earnouts which includes the final earnout payment for Talpa
- Profit to cash conversion is expected to be around 30% in 2021, as the favourable working capital position in 2020 unwinds. Taking 2020 and 2021 together, cash conversion is expected to be 80% to 85% over the two year period in line with historic levels
- Total pension deficit funding contribution for 2021 is expected to be around £75 million

Chris Kennedy

Group Chief Financial Officer

Our commitment to Section 172(1)

The Directors consider that they have acted, in good faith, in a way that is most likely to promote the success of the Company for the benefit of its members as a whole, having regard (among other matters) to the matters set out in section 172(1)(a-f) of the Companies Act 2006. As the Chairman makes clear in his statement in ITV's 2020 Annual Report, the Board regularly considers stakeholder groups and their most significant issues, views and interests as well as the financial and long-term impact of key actions throughout its decision-making process. The Board also undertakes a formal assessment on an annual basis of whether the key stakeholders identified remain appropriate.

During 2020, the challenges arising from COVID-19 required the Board to act swiftly and approve measures to increase the resilience of the business and protect the interests of all stakeholders. Examples of some of the key strategic issues considered and decisions made by the Board during the year and an explanation of how the Board has had regard to the matters in section 172(1) (a-f) in reaching decisions are set out in the table below.

Maintaining the resilience of the business in the context of the significant financial and economic uncertainty caused by COVID-19 and BREXIT

Directors consideration of key factors set out in section 172(1)	Outcomes on Board decision-making and other key strategic decisions
Long-term impact: <ul style="list-style-type: none"> • In response to the uncertainty and pressures on revenue streams caused by COVID-19, the Board focused on preserving cash, which was paramount to safeguarding financial stability and longer-term sustainability 	<ul style="list-style-type: none"> • Replacement of the leverage and interest cover covenants in the Revolving Credit Facility with a cap on covenant net debt at £1.8 billion and a minimum covenant liquidity requirement of £250 million until 30 December 2021

<ul style="list-style-type: none"> • The Board has regularly considered the range of forecasts available to it, particularly in light of the uncertainties caused by COVID-19 and Brexit on the advertising market. Whilst the direct impacts of Brexit are not significant in the short-term, traditional TV spenders are contributing less towards advertising in the face of economic headwinds • The Board was mindful that the continued growth of the Studios business in 2021 would depend on how quickly COVID-19 restrictions are eased and therefore ensured that the budget and five year plan took this into account 	<ul style="list-style-type: none"> • Reductions to Executive Director and Management Board salaries and a voluntary 20% reduction in fees for Board members from April 2020 to October 2020 • Ongoing monitoring by the Board of: <ul style="list-style-type: none"> – business performance against a wide range of scenarios as well as analysis to inform planning and decision-making to ensure costs and cash are managed appropriately – the risks associated with COVID-19 and changes in regulation and impact of Brexit on the business
<p>Shareholders: The Board was mindful of shareholders' concerns regarding the impact of COVID-19 on ITV's financial and operating performance and resilience as well as its ongoing ability to pay dividends.</p>	<ul style="list-style-type: none"> • Withdrawal of the 2019 final dividend and previously announced intention to pay an 8.0p full year dividend for 2020 • Increased Chief Executive and Group CFO meetings with shareholders during the initial phase of the crisis
<p>Colleagues: The Board recognised that the economic uncertainty caused by COVID-19 could result in our colleagues worrying about their personal financial situation and was regularly updated on communications, which included the Chief Executive's vodcast and through the Workforce Engagement Director, to ensure colleagues were kept informed about cost-reduction measures that would impact them.</p>	<ul style="list-style-type: none"> • Implementation of other cost-reduction measures, including: recruitment and pay freezes across the business; the cancellation of the 2020 bonus for all colleagues; furloughing colleagues as appropriate; reducing non-essential travel and other expenses
<p>Partners and customers: The Board considered an inability to complete productions in light of global restrictions, the impact this would have on revenue and our free-to-air customers and the impact on delivering content to customers. The Board also considered business continuity risks with critical suppliers and the evolving competitor landscape due to COVID-19.</p>	<ul style="list-style-type: none"> • Ongoing monitoring of advertising trends and the impact of those trends in the medium to long-term, and the impact of COVID-19 restrictions on Studios productions and production restarts globally • Increased supplier due diligence and acceleration of initiatives in relation to enhancing partnerships

Looking after the health and safety of colleagues, programme participants and the wider community in the context of COVID-19

Directors consideration of key factors set out in section 172(1)	Outcomes on Board decision-making and other key strategic decisions
<p>Colleagues: The Board recognised that the pandemic could have a negative impact on our colleagues' physical and mental wellbeing, reinforcing that people and communications continue to be our top priority. Regular updates on colleagues are provided to the Board in the Chief Executive report. In addition, ITV took a leading role in the development of COVID-19 TV production protocols with UK government to minimise health and safety risks for colleagues - a role that has been specifically recognised by the government in Parliament.</p>	<ul style="list-style-type: none"> • Use and development of existing programmes to support the mental wellbeing of our colleagues, especially in the context of working from home • Continued investment in technology and systems to enable colleagues to optimise digital working. For more detail on measures put in place for colleagues refer to the 'Our People' section of our 2020 Annual Report. • Development of a phased approach to re-entering the office safely (to be implemented as appropriate in line with government guidelines)
<p>Customers and programme participants: In order to protect the health and safety of our talent and crew, ITV productions were paused at the start of the pandemic, whilst recognising the impact and costs for the business of having to take such actions in the long-term.</p>	<ul style="list-style-type: none"> • Implementation of new processes and protocols to minimise health and safety risks for colleagues and programme participants working on content production to allow them to work safely during the pandemic. This included working with partners to drive the government's introduction of the COVID indemnity scheme (Film & TV Production Restart Scheme)
<p>Legislators and Regulators: The UK government and industry players were consulted when agreeing measures to protect our employees and programme participants from the risk of infection. Public health (mental and physical) has been a particularly important topic over the past year. Public Health England asked ITV to help communicate critical health messages to key demographics.</p>	<ul style="list-style-type: none"> • Integration of public health messaging into our broadcasting. In addition to editorial content, we created campaigns with messages on mental health (e.g. how to combat loneliness), the importance of staying at home, handwashing, healthy eating (Eat Them To Defeat Them) for children and exercise (with the Daily Mile)
<p>Community, environment, viewers and subscribers: The pandemic presented new opportunities for ITV to further its Social Purpose priorities (Better Health, Diversity and Inclusion, Environment, and Giving Back), raise awareness of key issues and</p>	<ul style="list-style-type: none"> • Running our award-winning mental health campaign, Britain Get Talking, and Board discussion on the widening of Britain Get Talking beyond mental health to neighbourliness

shape culture for good. The Board considered ITV's responsibility as a public service broadcaster to ensure that it informs, entertains and provides companionship to viewers, in particular to help build resilience to cope with lockdown.	<ul style="list-style-type: none"> • Other examples of how we have raised awareness and delivered against our Social Purpose priorities during the pandemic are set out in the 'Social Purpose' section of the 2020 Annual Report. • Running public health messaging campaigns (as described above)
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Restructuring of the Broadcast business to establish a new Media and Entertainment division with two new business units

Directors consideration of key factors set out in section 172(1)	Outcomes on Board decision-making and other key strategic decisions
Long-term impact: The Board believes the restructuring will ensure that ITV's business model better reflects and serves changing viewing habits in the longer-term and will enable the Company to reduce the ongoing cost base, improve efficiency and accelerate delivery of ITV's strategic priorities.	<ul style="list-style-type: none"> • Review of analysis/modelling to understand the financial impact of the restructuring (following which the Board concluded that its implementation would be in the long-term interests of the Company)
Colleagues: The Board considered how best to preserve the culture of the Broadcast business, ensure transparency through communications with colleagues and minimise disruption to the business. The Board also discussed the necessary reallocation of resources between the On Demand and Broadcast business units within the Media and Entertainment division.	<ul style="list-style-type: none"> • Open and transparent communications with colleagues in relation to the restructuring, including through regular vodcasts with the Chief Executive where colleagues were able to ask questions anonymously. When necessary, we also undertook individual and collective consultations. Individuals at risk were supported by our ITV Ambassadors (our employee representatives)
Viewers and subscribers: The Board believes that the restructuring will facilitate the growth of ITV's online offering to provide new content that appeals and improves accessibility to audiences who already do most or all of their viewing on demand.	<ul style="list-style-type: none"> • Feedback from viewers, subscribers and customers indicated that this would strengthen ITV's digital offering and attract a broader demographic who would spend more time with ITV content. The impact of the restructuring on revenue will continue to be monitored
Partners and customers: The Board was mindful of how the restructuring would impact how we work with our partners. Growing our digital viewing will provide more opportunities for advertisers to reach new audiences.	<ul style="list-style-type: none"> • Discussions with advertisers to ensure they understand what the restructuring will mean for the business

Risks and Uncertainties

ITV operates in a rapidly changing business environment. Viewer behaviours, competitors and the broader industry are evolving at a significantly faster pace than before, creating an increasingly complex risk landscape.

The COVID-19 pandemic has created unprecedented challenges for ITV, impacting many of the principal risks facing our business and further highlighting to us the importance of having an effective understanding of and ability to respond quickly to changing and emerging risks.

We understand that taking certain risks is unavoidable and necessary to enable us to pursue our strategic goals. However, we must also adequately manage and respond to risks which represent a threat to our reputation, finances, the safety of our staff, contributors and the environment. Our continued success is dependent on striking the right balance between risk-taking and risk-mitigation. ITV's risk management framework is designed to support strategic and operational decision-making by providing us with the tools to identify, manage and continually review our risks.

Enhancing risk management

Throughout 2020, we have introduced enhancements to better support our teams to effectively understand and respond to risks. We will continue to build on this work in 2021.

Key enhancements in 2020

- Increasing the frequency of risk discussions at all levels of the business
- Performing deep dives with management, the Audit and Risk Committee and the Board, to further scrutinise the approach we take to our principal risks (detail of the deep dives completed in 2020 are outlined within each principal risk identified)
- Further developing the risk appetite framework for the business and articulating our risk appetite in respect of key risks
- Supporting the business with the management of risks and evolving threats created as a result of COVID-19
- Undertaking a series of workshops to identify climate-related risks and improve our related disclosures and mitigations/response

- Improving the robustness of our processes to monitor third party and supplier risks

Building on these priorities in 2021

- Continuing to embed and build risk management capability and culture within the business
- Increasing the number of risk deep dives with the Board
- Enhancing risk reporting to better support decision-making, by incorporating increased metrics and scenario modelling
- Improving quantitative and qualitative risk appetite metrics, which allow us to monitor compliance and focus on areas outside of tolerance
- Continuing to learn from our response to COVID-19 and build learnings into existing crisis management and business continuity activities
- Building on the work in 2020 by performing climate scenario analysis, to better quantify climate risks
- Further developing the third-party risk management framework and rolling this out to the business

Risk management framework

The key objective of our risk management framework is to support the achievement of our strategic goals. The framework seeks to drive clarity and proactivity and enable us to respond to threats, by defining the required governance, process and enablers for effective risk management at ITV.

Risk governance structure

Board

- Sets strategic objectives
- Reviews and evaluates principal risks and uncertainties
- Sets our strategy on risk and establishes tolerance levels and risk appetite
- Ensures the effective operation of the risk management framework and internal control systems

Management Board

Has responsibility for:

- The development and operation of the risk management framework and systems of internal control, including:
 - Reviewing and monitoring the effectiveness of internal controls and putting in place remedial plans where required. Serious control weaknesses (if any) are reported to the Board and action is taken as appropriate
- Routinely reviewing and challenging risks and migrations, including relevant reports or other performance indicators
- Continuously reviewing risk exposure and ensuring that decisions taken are in line with the organisation's risk appetite and within the defined tolerance levels
- Reviewing emerging risks

Divisional Boards and Central Functions

Have responsibility for ensuring appropriate risk management within their business area, including:

- Routinely reviewing and challenging risks and mitigations, including relevant reports or other performance indicators
- Reviewing local policies and monitoring the local implementation of key group policies and procedures
- Reviewing emerging risks identified through the risk management framework

Group Risk

Has responsibility for:

- Maintaining the risk management framework, systems and processes and supporting management in its adoption and embedding
- Coordinating all risk identification, reporting and governance forum activity
- Developing risk capability and culture in the business
- Supporting and advising the business on the development of risk management solutions

Audit and Risk Committee

Has responsibility for:

- Overseeing and advising the Board on risk exposures and future mitigation strategy
- Reviewing the effectiveness of the risk management framework and internal control systems

- Conducting in-depth reviews of high-risk business areas or processes
- Setting the internal audit plan to gain assurance of the effectiveness of key risk controls and mitigations
- Reviewing implementation of internal audit actions
- Overseeing and monitoring the business's compliance with the risk appetite set by the Board

Details of risk reviews undertaken during the year are set out in the Audit and Risk Committee Report which will be included within the Governance section of the 2020 Annual Report.

Three lines of defence

The three lines of defence model is a core enabler within our risk management framework and provides ongoing assurance over the effectiveness of our risk management activities.

Business Operations and Divisions: Divisions and Central Functions identify, assess and manage risk on an ongoing basis, including maintenance and operation of the internal control framework to mitigate key risks. These risks are reported and escalated through the risk governance structure

Group Risk and Central Functions: Where relevant, Group Risk and Central Functions support the business in their risk management activities. They are responsible for setting policies related to their remit, monitoring application of policies within the business and advising the business on risk mitigations.

Internal Audit: Internal Audit provides independent assurance over the effectiveness of the Group's internal control systems and risk management processes. The internal audit plan is driven from ITV's risk management framework and is aligned to auditable elements of the Group's principal risks.

The Board: Oversight over principal risks

Audit and Risk Committee: Oversight over risk management framework

Senior management: Oversight over all business risks

Risk appetite

In 2020, we undertook an exercise to improve the articulation of our risk appetite across key areas of the business in order to better support management's ability to identify and respond to risks as they arise and strike the right balance between taking too much or too little risk. This involved a workshop with the Management Board, facilitated by Group Risk, to define our risk appetite for each principal risk and across other key areas. This included, but was not limited to, liquidity, acquisitions, data privacy, business continuity and resilience, and people and culture. The output from this workshop was a set of risk appetite statements for Studios, Media and Entertainment, and Group. Our risk appetite reflects ITV's willingness to be innovative and open to new ideas as we pursue our strategy, whilst maintaining our low tolerance in operational areas such as compliance, duty of care, cyber and data protection.

The risk appetite statements have been approved by the Board and in 2021 we will build on this work by developing metrics to support the Management Board's role in monitoring compliance against risk appetite.

Principal risks

A member of the Management Board is responsible for monitoring and ensuring mitigation of each of the principal risks on an ongoing basis. The principal risks are reviewed on an ongoing basis by senior management, subject to periodic deep dives at the Board, Audit and Risk Committee, Management Board and Divisional Boards, and are formally reviewed and approved by the Board twice a year.

COVID-19

Despite the unprecedented challenges presented by the COVID-19 pandemic, we have continued to broadcast, serve our advertising clients and agencies, and have restarted production on the majority of our programmes internationally.

However, COVID-19 remains a risk for ITV and we continue to respond to the emerging health and safety threats the pandemic presents. During 2020, we made changes to our office and production-based health and safety protocols, which has allowed us to continue operating and safeguard our people, cast, crew and programme participants.

We have also observed changes in viewer behaviours during the pandemic, which may exacerbate many of our existing strategic risks and result in those risks materialising sooner than anticipated. We have accelerated the pace of our strategic delivery to address these shifting dynamics in the market and to respond to the increasing risk.

We have included a new COVID-19 principal risk below, which provides an overview of the broader uncertainties related to the pandemic for ITV and have provided additional context within existing principal risks, where appropriate, to reflect the impacts of COVID-19. Further detail of our response to COVID-19 can be found within the Chief Executive's Report.

Other changes in our principal risks

- We have removed the principal risk relating to legal disputes, as we no longer consider this risk as having the same level of potential long-term impact as other principal risks. We recognise that some litigation is ongoing and there remains uncertainty as to the estimations and potential final financial quantum of that litigation. As a result, we have continued to include this risk as a sensitivity factor within the assessment of going concern and long-term viability, in order to further stress test our cash and liquidity assumptions. Whilst there are certain discussions ongoing that may

lead to litigation, we continue to improve our processes to mitigate the risk of a dispute arising and track this through our internal risk management processes

- The principal risk relating to the macroeconomic environment has been removed as a standalone risk and incorporated into existing principal risks
- The principal risk in relation to structure and ways of working has been removed, as it continues to be substantially mitigated through ongoing work to restructure the business and improve ways of working
- The principal risk in relation to BritBox growth has been expanded to encompass all of our digital and On demand products, which are all fundamental to our Media and Entertainment strategy
- We have included a new principal risk relating to regulatory change, which is driven primarily by the uncertainty around the government's PSB review, advertising sector restrictions and Brexit

Emerging risks

We define emerging risks as uncertainties which originate from known or previously unconsidered sources, and which are not clearly understood, visible or possible to fully assess. These risks could impact ITV over a longer period and have the potential to significantly impact our business model and/or operations.

As part of the enhancements made to the risk management framework in 2020, we have improved our processes to identify, assess and report emerging risks. ITV's Group Risk team supports management in the identification of emerging risks by undertaking horizon scanning, maintaining ongoing dialogue with the business and keeping up-to-date with wider market movements. Emerging risks are tracked and escalated through the risk management framework and are formally reviewed by the Board twice a year.

Climate change

Throughout 2020, we undertook a series of workshops to identify climate change risks and opportunities for ITV. We identified some potential risk areas which are detailed in our TCFD report. There are some risks associated with transitioning to a low carbon economy, for example, the risk of governments introducing carbon taxation measures and or quotas on certain activities carried out in the jurisdictions in which our business operates. However, government actions to respond to climate change are evolving, and the extent of potential risks remain unclear.

We have been impacted by the physical effects of climate change on a small number of our productions, including the wildfires in California and Australia; however, to date, we have been able to deploy localised responses to mitigate against production delay or financial loss. Viewer and consumer sentiment with respect to climate change is also fragmented and continues to change.

Our initial assessment of the risks suggests we are not materially exposed to climate change or that this represents a threat to our long-term viability, liquidity or ability to operate. However, there remains some uncertainty as to the potential significance, impact or timing of these risks. These factors all limit our ability to fully assess our risk profile and as a result we continue to categorise climate change as an emerging risk for ITV.

We also recognise that there are also opportunities for ITV to use its content and platform to educate our viewers about climate change and promote sustainable behaviours. Please refer to our Social Purpose section further information on the work we are doing in this regard.

In 2021, we will complete detailed climate scenario modelling to develop a more accurate picture of our climate change risk profile and the potential impact risks may have on our strategy, operations and finances. We will also continue to monitor the risks identified to date through the existing risk management framework and develop mitigations to respond. Further detail on the risks and opportunities we identified as part of our exercise and risk management in this area is provided in the TCFD section of the report. Where relevant we have also included additional climate risk commentary in our principal risks.

Detailed Principal Risks

Strategic, External risks

External environmental risks, including macroeconomic, socio-political or market changes, that may impact ITV's strategic vision or ability to deliver the strategic initiatives

1. COVID-19 pandemic

Description	Context	Mitigating activities
The COVID-19 pandemic may have longer-term implications on the macroeconomic environment or impact our people, operations or ability to deliver our strategy.	<ul style="list-style-type: none"> • COVID-19 has had, and may continue to have a strategic, operational and financial impact on all areas of our business. • We are observing further (and potentially more serious) waves of the virus in many of the territories in which we operate, which may result in a short-term increase of all aspects of this risk, including: <ul style="list-style-type: none"> – A prolonged negative impact on the global economy, which may impact sales activity – Operational challenges associated with filming during COVID-19, resulting in further production delays 	<p>We have developed a COVID-19 response governance structure, with responsibility for managing the risks associated with the crisis. This is supported by a Project Management Office function, which regularly reports into the Management Board and the Board.</p> <p>Our focus is on managing the risks associated with COVID-19 across five fronts:</p> <ul style="list-style-type: none"> • Situational Analysis: Regular conversations with government and external advisors on the medical, political and economic impact of COVID-19 • Cash and Costs: Modelling our financial position across a range of scenarios (informed by situational analysis), developing cost mitigations (with defined

	<ul style="list-style-type: none"> – Increased health and safety risks, resulting in the need for additional steps to keep our staff, crew, cast and participants safe, and increased costs of operating – The potential for high employee absence, resulting in challenges in operational and strategic delivery – Increased costs of operating, reduced revenue and delayed payments from customers, which may have an adverse impact on our cash position <p>Changes in direction of travel The COVID-19 pandemic has affected all areas of our business, and accordingly, we have moved this risk from an emerging risk to a principal risk. The development of a planned roll out of a vaccine in the UK will lead to an overall reduction of the level of this risk. However, when balanced against the current and potential future waves of the pandemic, different timelines for the roll out of a vaccine in our international markets and the potential restrictions to activities imposed by governments, the level of this risk is increasing at present.</p>	<p>trigger points), and cash monitoring and management</p> <ul style="list-style-type: none"> • Revenue: Developing and implementing plans to continue identifying opportunities and mitigate against negative sales impacts • Technology and Operations: Invoking existing business continuity plans to ensure critical operations can continue through the crisis • People and Communications: Putting in place processes and responses that protect the health and wellbeing of our people, cast, crew, participants and support the wider community <p>We have also made improvements to our crisis management and business continuity approach across the Group. We have identified further activities to protect our critical services and have implemented those activities into business as usual. This has included implementing additional security measures on our enterprise systems; improving efficiency and resilience in production through technology and remote editing; and increasing the adoption of tools to facilitate remote working.</p> <p>Board oversight</p> <ul style="list-style-type: none"> • Monthly reports to the Board on the emerging COVID-19 situation and impact to ITV (weekly at the height of the crisis) • Risk deep dive at the Audit and Risk Committee, focused on health, safety and wellbeing during COVID-19 (April 2020)
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2. Changing viewing habits

Description	Context	Mitigating activities
<p>A failure to anticipate or respond to fast changing viewer habits and behaviours may impact total viewing and the success of our channels.</p>	<ul style="list-style-type: none"> • Content is now available across many different devices and platforms, which is impacting how viewers consume video • Viewers are watching less linear television and are increasingly accessing content through video on demand (VOD) services • Younger viewers are also engaging with alternative media, moving away from long-form video • A faster than anticipated shift towards digital viewing and alternative content would impact the reach of ITV viewing and in turn the advertising revenue we are able to realise <p>Changes in direction of travel Whilst there has been increased ITV viewing during the pandemic, the acceleration in VOD viewing results in this risk increasing.</p>	<p>Our strategy is focused on allowing our audiences to access our content wherever, whenever and however they choose to watch. In 2020, we developed an On Demand business unit to accelerate the growth of our digital viewing propositions, both in advertising video on demand (AVOD) and subscription video on demand (SVOD).</p> <p>In AVOD, this involved making all our linear content available on digital platforms, as well as investing in the enhancement of the ITV Hub product. In SVOD, we continue to invest in BritBox and will be rolling out the product to further international markets in 2021 and beyond.</p> <p>Our strategy also involves investing in alternative media products to more effectively compete for non-viewing time and allow viewers to engage with the ITV brands and formats in different ways. This includes investing in gaming, short-form content and podcasts.</p> <p>Board oversight</p> <ul style="list-style-type: none"> • Strategy session with the Board, focused on evolving viewer habits in light of COVID-19 (June 2020)

3. Advertising market changes

Description	Context	Mitigating activities
<p>Ongoing changes in the advertising market may result in reduced demand for ITV's advertising products and a longer-term decline in advertising revenue.</p>	<p>Advertising is slowly returning to pre-COVID levels. However, the advertising market was significantly impacted by COVID-19 and advertiser spend may continue to be impacted by ongoing decline of certain sectors and the UK economy more broadly, driven by COVID-19 and also Brexit.</p> <ul style="list-style-type: none"> An increasing proportion of advertising budgets is also being spent on digital offerings and with media owners with advanced features, such as audience attribution An increasing number of viewers are using advertising-skipping technology on linear products, reducing revenue <p>Certain sectors are either already or may become subject to regulatory advertising restriction, impacting the advertising they can do with ITV. Particular industries which are at higher risk of advertising restriction include gambling and food and drink. In addition, we are monitoring the potential for advertising restrictions on high carbon emitting products and services, for example air travel and motor vehicles.</p> <p>Changes in direction of travel Continued uncertainty in the economic environment means this risk is trending upwards.</p>	<p>We are closely monitoring the economic environment and tracking the potential financial impact on advertising revenues in a defined range of scenarios. We continue to demonstrate the benefits of advertising on ITV to our existing clients, whilst seeking to increase awareness of these benefits within growing sectors.</p> <p>As part of our strategy to grow our digital viewing and reach, we seek to serve advertising wherever our viewers consume our content. This includes working with technology and distribution partners to allow us to insert advertising across all platforms and investigate methods to minimise the financial impact of ad skipping.</p> <p>We are also focused on enhancing the features and attractiveness of our advertising products, including by investing in addressable advertising capability. Our Planet V product was successfully launched in 2020 and is designed to provide advertisers an easy-to-use, self-service platform to deliver highly targeted ads.</p> <p>We monitor the regulatory landscape and engage with the UK government to understand and limit the impact of advertising restrictions on our revenues. Specifically, in relation to the intended ban on advertising for high fat, salt and sugar products, we are assessing the potential financial impact and identifying approaches to mitigate the loss of revenue while we wait for further details on the scope of the ban and timing of application.</p> <p>Board oversight</p> <ul style="list-style-type: none"> Deep dive on advertising market risk with the Board (July 2020)

4. Evolving demand in the content market

Description	Context	Mitigating activities
<p>Fundamental changes in the content market may result in reduced opportunities, non-renewal of premium programmes, and/or impact the profitability of ITV Studios content.</p>	<p>COVID-19 has resulted in delays to the completion of a number of shows on the Studio's slate. Although production is resuming globally, further waves of the virus and the introduction of further restrictive measures by governments (including periods of lockdown) may continue to impact our ability to produce.</p> <ul style="list-style-type: none"> The demand for content globally continues to increase, in particular from SVOD buyers. However, there is a risk that these players will increasingly use their scale to produce content in-house. The profitability of the Studios business may be impacted by buyers seeking better terms on pricing and rights and increased costs of production as a result of new ways of working during COVID-19. <p>Costs associated with carbon offsetting and new technologies to reduce the environmental impact of our productions may also impact margins in the future.</p> <p>Changes in direction of travel Whilst there is continued risk to our production pipeline caused by COVID-19, the global demand for content remains high and we anticipate being able to</p>	<p>ITV has been actively involved in the development of industry-wide production protocols to support the industry return to work. The protocols have also been rolled out across our productions internationally, with some variances to respond to local requirements. As the situation has evolved, we have responded by rapidly flexing the protocols to continue production.</p> <p>We are also growing and maintaining relationships with a diversified set of local and global customers, with varied business models. We have continued to invest in development and in attracting creative talent throughout the pandemic in order to ensure we can continue to provide quality content to these customers.</p> <p>We believe that by taking action now to reduce the environmental impact of our productions, we are mitigating against longer-term increases in costs, e.g. arising from carbon taxation or higher prices of fossil fuel. From a cost perspective, we are also continually implementing new processes to drive efficiency in our production and project margins. These include robust procurement procedures, maximisation of tax credits and technological approaches to optimising filming.</p> <p>Board oversight</p>

	continue production with the support of our COVID-19 safety protocols.	<ul style="list-style-type: none"> Deep dive on studios market risk with the Board (September 2020)
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5. Platform relationship risk

Description	Context	Mitigating activities
<p>An inability to develop and maintain adequate relationships with major platform and distribution providers may result in viewers being unable to find our content and lack of fair value for that content.</p>	<ul style="list-style-type: none"> Video content is viewed across a very wide variety of platforms and devices and ITV needs to work with these platform providers to ensure viewers can continue to find ITV content whenever and wherever they choose to watch As a public service broadcaster (PSB), we are guaranteed prominence in the UK within the linear Electronic Program Guide (EPG) grid. However, this prominence is not guaranteed for digital viewing and other ways viewers now or will choose to consume ITV content Our commercial arrangements with platform owners are increasingly complex and, in the absence of regulatory protections, we must form strong relationships under mutually favourable terms, to allow viewers to continue to easily find our content and in order to fully monetise that content <p>Changes in direction of travel As viewing continues to shift away from linear and onto other platforms and devices, the need for strong distribution arrangements increases.</p>	<p>Our aim is to allow viewers to access our content, wherever, whenever and however they choose to watch and this is underpinned by a defined partnership and distribution strategy, which has been further developed throughout 2020. We will continue to focus on this as a priority as we transition to our new organisational structure.</p> <p>We have a dedicated team that has developed relationships with all the major distribution providers and TV platform/device manufacturers in the UK. This team is also responsible for inputting into product and commercial decision-making, to confirm ITV remains an attractive proposition from a distribution perspective. We are therefore in a position to negotiate the prominence and monetisation of ITV's content on their platform/devices.</p> <p>We also continue to actively participate in the dialogue with Ofcom and the UK government regarding the modernisation of the PSB regulatory regime and make the case for addressing the key areas of inclusion, prominence and fair value.</p> <p>Board oversight</p> <ul style="list-style-type: none"> Strategy session with the Board, focused on partnership strategy in light of platform relationship risk (June 2020)

6. Pension deficit increase

Description	Context	Mitigating activities
<p>A financial crisis or macro-economic change could impact the value of pension scheme investments and liabilities and increase the deficit.</p>	<ul style="list-style-type: none"> Changes in credit spreads could result in material movements in the Group's defined benefit pension scheme liabilities A major change in longevity, investment values or in the discount rate affecting the value of liabilities could have a material impact on the net pension liability. ITV may need to respond in such an event by increasing future contributions <p>Changes in direction of travel The pension scheme trustees' approach has always been focused on taking a conservative approach to limit the impact of uncertainty. Therefore, the wider implications of COVID-19 have not impacted the value of the scheme significantly or our ability to meet liabilities.</p>	<p>The pension scheme assets are invested in a diversified portfolio, with a significant amount of the fund held in lower risk bonds, with interest and inflation rate hedging in place. We have worked with the pension trustees to limit the potential deficits through a series of asset backed arrangements. In addition, the trustees have removed some of the mortality risk with a longevity swap and by hedging a portion of inflation and interest rate variability.</p> <p>Increased monitoring of the pensioner population and mortality rates of the schemes has taken place to assess the likely risk of a mortality shock as a result of COVID-19. This would result in a requirement to increase collateral in relation to the longevity swap and restrictions on the preferred investment strategy. However, a mortality shock would also reduce the scheme's liabilities, partly offsetting the risk of the deficit.</p> <p>We have reduced some of our exposure through the purchase of a bulk annuity policy (a 'buy-in' policy) for a section of the scheme. This contract matches the pension liabilities covered by the policy and, therefore, removes the investment, interest rate and inflation risks associated with those liabilities. In order to mitigate the risk of not being able to meet our liabilities as they</p>

		<p>arise, we have reviewed our cash matching and hedging strategies.</p> <p>Board oversight</p> <ul style="list-style-type: none"> Annual pension process and controls review at the Audit and Risk Committee (December 2020)
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7. Regulatory policy changes

Description	Context	Mitigating activities
<p>Changes to policy and regulation or a failure by the UK government to regulate may have a negative impact on the future of public service broadcast, our business model and/or the cost of operations.</p>	<ul style="list-style-type: none"> Public service broadcasters (PSB) regulation needs reform to respond to changes in viewer behaviours and the increasing scale of digital media companies. The outcomes of the ongoing PSB regime review may have a significant impact on ITV's business model and strategy Changes in advertising regulation for certain sectors may have a negative impact on the revenue we are able to generate from these sectors The agreement of a deal between the UK and EU has gone some way to managing Brexit uncertainty. Whilst there may be additional operational requirements and cost resulting from future regulation (e.g. requirements to obtain working visas), these do not present a material barrier or threat to ITV <p>Other areas of regulation and policy which could have an impact on our business, include: sustainability, child protection, broadcasting regionalism and longer-term regulation in relation to pandemic preparedness.</p> <p>Changes in direction of travel</p> <p>Reform of the PSB regime represents both a risk and an opportunity to ITV. However, a reluctance by government to intervene on key issues (such as fair value, prominence, and the influence of digital players) may have a negative impact on ITV's business model and strategy.</p>	<p>We have an experienced Policy and Regulatory Affairs team that monitors for potential policy, legal and regulatory developments. We have a systematic approach to analysing the impact of potential changes and are proactive in putting forward our position during the development of new policies, legislation and regulation.</p> <p>We continue to engage with the government and regulators on the PSB regime and other topics affecting our industry. This includes collaborating with other organisations in the industry, where appropriate and objectives align.</p> <p>From a COVID-19 perspective, we held regular CEO-led conversations with the UK government to influence decision-making on specific areas affecting our industry. We are also monitoring the emerging regulatory landscape with respect to the pandemic to understand and prepare for changes.</p> <p>Throughout 2020, our Brexit working group met regularly to consider the implications of different scenarios for Brexit. Plans were developed to mitigate the impact of Brexit and to identify any process changes required. Those processes are now being rolled out and transitioned into business as usual activities.</p> <p>Our Social Purpose team works alongside the Policy and Regulatory Affairs team to identify regulatory changes related to the environment/sustainability and to support the business to implement processes to comply with such changes. This included advising the business on requirements for TCFD, of which we were an early signatory.</p> <p>Board oversight</p> <ul style="list-style-type: none"> Regular reports to the Board on PSB reform Regular updates on emerging regulation in light of COVID-19

Strategic, Internal, Change risks

Internal risks, including culture and capability, that may impede the achievement of strategic and/or operational change goals

8. Commissioning pipeline risk

Description	Context	Mitigating activities
<p>Failure to sustain a diversified broadcast commissioning pipeline that is resilient and financially viable may reduce profitability.</p>	<ul style="list-style-type: none"> In order to protect viewing and, in turn, advertising revenues, we must develop a broadcast pipeline that is both resilient to changes in viewer preferences and is financially viable. In particular, we must commission programmes with broad appeal and that attract younger audiences 	<p>We have an experienced Commissioning team in place, which is focused on identifying programmes and formats which have national appeal. In order to increase the resilience of our pipeline and reduce reliance on historically successful programmes, we also continue to invest in new premium formats, live</p>

	<p>The COVID-19 crisis impacted producers' ability to make content, which has impacted our broadcast schedule and resulted in delays in producers delivering programmes.</p> <ul style="list-style-type: none"> The public response to the Black Lives Matter movement has further highlighted the need to respond to increasing scrutiny in relation to on-screen diversity <p>Furthermore, we also need to be conscious of the environmental impact of our programming and how environmental behaviours are presented in our content.</p> <p>Changes in direction of travel Further waves of the virus and continued challenges for producers in developing content may impact the commissioning pipeline, resulting in this risk increasing.</p>	<p>sports, high-end drama and programmes which appeal to younger audiences.</p> <p>In addition to our own Studios business, we have strong relationships with independent studios, both in the UK and internationally, from whom we commission content.</p> <p>We also have a dedicated Research team, which is responsible for providing insight on audience preferences that is used to adapt our commissioning strategy.</p> <p>We have developed a Diversity Acceleration Plan which aims to improve our on-screen diversity, develop a representative talent pipeline and better represent all communities in our programmes.</p> <p>We are also committed to reducing our environmental impact and communicating the need to respond to climate change to our viewers. We have developed plans to help us meet our environmental targets and routinely use our content to raise the profile of the climate change agenda.</p> <p>Board oversight</p> <ul style="list-style-type: none"> Deep dive with the Board on commissioning pipeline risk (July 2020)
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9. Insufficient growth in our On Demand products

Description	Context	Mitigating activities
<p>The Hub, Hub+ and Britbox do not grow at the pace required to deliver the desired strategic or financial outcomes.</p>	<ul style="list-style-type: none"> The video on demand market is highly competitive market, both in the UK and internationally The success of the Hub is dependent on maximising the number of viewers on the Hub product (reach) and then maximising the amount of content they view on Hub (consumption) The success of Hub+, BritBox UK and BritBox International is dependent on attracting new customers, converting them to paying subscribers and subsequently retaining them We need to maintain strong relationships with platforms and distributors to maximise the availability and reach of our all our on demand products <p>Content is key to the attractiveness of our On Demand products. There is a risk of delays in receiving this content due to production pauses during the COVID-19 pandemic.</p> <p>Changes in direction of travel We have seen some positive outcomes for our On Demand products, as a result of increased viewing during the COVID-19 pandemic. However, further competition in the market means this risk is increasing.</p>	<p>We invest in data driven and mass marketing campaigns to increase market awareness of our On Demand products (both in the UK and internationally).</p> <p>We continue to investigate creative ways to deliver our content on the ITV Hub and Hub+ in order to maximise viewing on the product. This has included curating short-form content specifically for the Hub; extending online catch up windows for selected content; making previous series programme box sets available in advance of new series transmission, and making current series available on ITV Hub in full directly following transmission of the first episode on our channels.</p> <p>For Britbox, COVID-19 and our first original programme, Spitting Image, have increased the rate at which we have acquired subscribers. In order to increase BritBox's appeal and optimise customer retention, we continue to invest in additional and original content for the service.</p> <p>We also assess the performance of our On Demand products on an ongoing basis, to identify and implement user experience and functionality improvements. We use data to enhance user experience and personalisation on our On Demand products and will continue to focus on this as a key priority in 2021.</p> <p>In order to maximise reach, we have developed distribution deals with hardware and software providers in order to make our On Demand products available on a growing number of major platforms and devices.</p> <p>We track and evaluate the performance of our On Demand products through a suite of KPIs. Root cause analysis is performed on subscriber growth and</p>

		<p>customer churn data for BritBox and ITV Hub+, and on registered user growth and consumption volumes for the ITV Hub.</p> <p>Board oversight</p> <ul style="list-style-type: none"> Regular On Demand performance reports to the Board
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10. Strategic and digital transformation risk

Description	Context	Mitigating activities
<p>Failure to successfully deliver key components of our strategy and digital transformation, due to the speed and extent of change required, may negatively impact our business.</p>	<ul style="list-style-type: none"> Digital transformation underpins all elements of our strategy and is a key enabler for increasing operational efficiency. Failure to effectively deliver digital transformation projects could impact ITV's ability to keep pace with changes in the market and ultimately future growth As we digitally transform the business, our exposure to cyber security and data privacy risk increases. We need to manage these risks in order to continue protecting our viewer and staff data. For further detail on these risks and mitigations, refer to the cyber security and data breach risk and the legal and regulatory non-compliance risk below <p>COVID-19 has resulted in an acceleration of previously observed viewer trends and the need to increase the pace of strategic delivery. This requires significant alignment and effort across the whole Group.</p> <p>Changes in direction of travel The move to remote working, as a result of COVID-19, has accelerated the adoption of digital tools within our business. However, further fracturing of viewing across platforms has highlighted the increasing importance of transitioning to a digitally led business. As a result, this risk is trending upwards.</p>	<p>Despite the challenges presented by COVID-19, we have continued to successfully deliver against our strategy. Our strategy is articulated through defined strategic initiatives. Each initiative is sponsored by a Management Board member and led day-to-day by a member of the ITV Executive Leadership Team. We have formal processes in place, led by the Group Strategy team, to report monthly on the performance of each of these initiatives to the CEO and CFO.</p> <p>The strategic initiatives involve the digital transformation of ITV, including enhancement of our digital viewer/customer facing products (Hub, Planet V, BritBox), as well as optimising the use of technology in our middle and back office. We have initiated the digital transformation of the middle and back office through wide adoption of agile processes and initiating a number of digital 'lighthouse' projects, aimed at improving efficiency and operations.</p> <p>Furthermore, this year we announced an organisational restructuring, which is aimed at removing barriers to strategic delivery in our operational ways of working. The creation of a new Media and Entertainment division will support us in accelerating the strategy and growing our digital products.</p> <p>Board oversight</p> <ul style="list-style-type: none"> Board Strategy session (June 2020)

11. Insufficient cultural change

Description	Context	Mitigating activities
<p>Failure to evolve the underlying culture of the business may result in an inability to deliver the level of change required to achieve our strategic objectives.</p>	<ul style="list-style-type: none"> We could be negatively impacted if we fail to create the agile and collaborative culture required to deliver our strategy During COVID-19, we have seen increased adoption of digital tools in the business, which demonstrates a positive shift towards moving to a digital culture. However, there remains a risk that the protracted period of home-working may lead to siloed working and impact collaboration <p>There is a risk that engagement and morale may be negatively impacted by fatigue as a result of additional work due to COVID-19.</p> <p>Changes in direction of travel There remains uncertainty as to how sustained home-working may impact wider culture. However, we have taken many steps to move towards our cultural vision, including the organisational restructure. As a result, this risk remains static.</p>	<p>In 2019 we developed and communicated the 'ITV Way'. The ITV Way defines the culture needed to ensure our future success and outlines the behaviours we expect from our staff to support our desired culture.</p> <p>Throughout the pandemic, we have held fortnightly all staff vodcasts, chaired by the CEO (weekly at the height of the crisis). We have also moved many events online, developed remote onboarding for new staff, and have provided training to line managers on managing remote teams. All of these initiatives are focused on ensuring that the culture we are aiming to create remains visible to and resonates with our colleagues. We have also undertaken regular Pulse and Employee Engagement Surveys throughout the COVID-19 pandemic. Learnings from these surveys have fed into short-term actions and longer-term improvement plans.</p> <p>The Board undertakes a formal programme of employee engagement (led by a Non-executive Director), in order to obtain insight into culture. We also</p>

		<p>continue to positively reinforce desired behaviours and attributes through direct links to reward and recognition.</p> <p>Board oversight</p> <ul style="list-style-type: none"> • Board Strategy session (June 2020) • Regular updates to the Board from the Non-executive Director on employee engagement and from HR on results of Pulse and Engagement Surveys
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Operational risks

Risks that could impact our operational and business as usual activities

12. Duty of care and health & safety incident

Description	Context	Mitigating activities
<p>Failure to extend an adequate duty of care, or the occurrence of a major health and safety incident or a global pandemic, could result in physical and mental harm, loss of human life and reputational damage.</p>	<ul style="list-style-type: none"> • We have a duty of care (DoC) to our staff, cast, crew, programme participants and the general public <p>COVID-19 has resulted in increased risks to health and safety (H&S), both in our offices and on our productions.</p> <ul style="list-style-type: none"> • As we continue to increase production hours, our risks in relation to health and safety continue to increase. We need to consider the duty of care across all aspects of productions, taking into account the physical health and safety risks posed by COVID-19 and broader aspects of mental wellbeing • Amongst our staff (employees, contractors and freelancers) we must monitor the impact the COVID-19 crisis is having on mental health and ensure we provide support <p>Changes in direction of travel As our production hours increase to pre COVID-19 levels and COVID-19 continues to have an impact on physical and mental health, this risk increases.</p>	<ul style="list-style-type: none"> • We have a central team with responsibility for implementing controls and processes for DoC and H&S. During the crisis, we have leveraged existing controls and implemented new processes in order to further protect our staff and individuals involved on our productions. This has included implementing a new mental health peer-to-peer platform for staff (employees, contractors and freelancers), implementation of home-working for the majority of staff and development of robust office and production safety protocols, which have been agreed with the UK government and the industry • We have also enhanced our existing DoC processes, which encompass procedures relating to both physical and mental health and safety. This has included engaging two medical professionals (a former Chief Medical Officer and a clinical psychologist) on an advisory basis, to provide ongoing support and challenge to our DoC activities. We have a Duty of Care Operating Board (DoC Board) in place, with responsibility for monitoring implementation and continuous improvement of our DoC framework and policies. This DoC Board is chaired by the Group Chief Executive Officer (CEO) and includes senior representation from our Studios, Media and Entertainment, Legal, HR, and Risk areas of the business. The DoC Board meetings are also attended by the Chair of the Audit and Risk Committee on behalf of the Board <p>Board oversight</p> <ul style="list-style-type: none"> • Deep dive on duty of care risk with the Audit and Risk Committee (July 2020) • Risk deep dive at the Audit and Risk Committee, focused on health, safety and wellbeing during the COVID-19 pandemic (April 2020)

13. Legal and regulatory non-compliance

Description	Context	Mitigating activities
<p>Failure to comply with applicable laws and regulation could result in reputational damage, financial penalties or suspension of our licences to operate.</p>	<ul style="list-style-type: none"> • We are a global business and are therefore subject to multiple local and international legal and regulatory regimes. These cover a range of areas including: broadcasting and media regulations, anti-trust and competition law, anti-bribery and corruption, data privacy, and health and safety 	<p>We have a Group Legal and Business Affairs team in place, which consists of subject matter experts who oversee and are responsible for ensuring business compliance with all elements of regulatory and legal requirements. Where appropriate we also engage specialist external legal advisers to support.</p>

	<p>During the COVID-19 pandemic, the scope of laws and regulations has increased and we have needed to respond to various government guidelines and restrictions across all the territories in which we operate.</p> <ul style="list-style-type: none"> As we develop our data and digital strategy and evolve the way we use personal data to deliver transformation in our Media and Entertainment business, we need to confirm we remain in compliance with data protection and privacy regulation. <p>Changes in direction of travel This risk is trending upwards, due to ongoing changes in the compliance landscape, as a result of increased requirements all employers have to comply with respect to COVID-19 and a potential broadening of our data privacy compliance obligations as a result of our digital and data strategy.</p>	<p>We operate a compliance programme which is embedded within our internal policy framework. Internal policies are owned by business leaders, regularly reviewed by the Management Board and the Audit and Risk Committee. The Group Legal and Business Affairs team works with the business to support the adoption and implementation of these policies.</p> <p>Our Regulatory Affairs team regularly engages with regulators such as Ofcom and the Advertising Standards Agency (ASA) in order to understand and interpret changes in policy and compliance requirements. This team has worked closely with the industry during the COVID-19 crisis in order to engage the government on a range of issues impacting the business.</p> <p>We also have a suite of mandatory compliance training and learning in place, which helps drive positive attitudes to compliance across the whole business.</p> <p>Board oversight</p> <ul style="list-style-type: none"> Deep dive on compliance framework and risk with the Audit and Risk Committee (July 2020)
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14. Cyber attack or data breach incident

Description	Context	Mitigating activities
<p>A cyber attack may result in major operational disruption, critical system outage or loss of IP, customer or business data and potentially lead to material financial fines/penalties and reputational damage.</p>	<ul style="list-style-type: none"> We operate in a highly public environment and, due to our reputation, we are at greater risk of attack (than the norm) from well organised threat groups As technology becomes increasingly more complex and we transition to a digitally led business, we are required to evolve our cyber security procedures in order to effectively protect against and respond to evolving cyber threats <p>Remote working results in increasing activity occurring outside the enterprise network and increases cyber and data breach risk.</p> <ul style="list-style-type: none"> As we continue to grow our digital product offerings, we work increasingly with third-party partners and suppliers. A failure by these partners to implement suitable security processes may result in increased risk to ITV <p>Changes in direction of travel As threats become more active and increasing activity takes place outside the network the cyber security risk facing ITV is increasing.</p>	<p>We have implemented a robust cyber security risk management framework across the organisation to address the evolving nature of the cyber security threats. Our framework incorporates a variety of technical preventative and detective measures to mitigate the risk of an incident, as well as an extensive training and awareness programme. We have strengthened and accelerated previously planned enhancements to our controls and technical measures in response to the increased risk caused by remote working.</p> <p>We actively manage cyber and data security in our supply chain and undertake due diligence assessments on key suppliers as part of procurement activities. We also have an incident response and notification process in place, which are followed in the event a cyber or data breach incident were to occur.</p> <p>The strength of our control environment is tested on an ongoing basis by independent security experts and recommendations are implemented in a prioritised manner. We also work with our security partners to undertake cyber simulation exercises at all levels of the organisation to continuously improve our response to cyber or data attacks.</p> <p>Board oversight</p> <ul style="list-style-type: none"> Deep dive on cyber risk with the Audit and Risk Committee (September 2020) Data privacy programme and risk review with the Audit and Risk Committee (September 2020)

15. Recruitment and retention of talent risk

Description	Context	Mitigating activities
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<p>An inability to attract, develop and retain key creative, commercial, technical and managerial talent could adversely affect our business.</p>	<ul style="list-style-type: none"> • The market for talent is extremely competitive. • We must be able to attract, develop and retain the best creative, technological, commercial and managerial talent in order to successfully grow our business • There is increasing scrutiny in relation to diversity and inclusion. We must commit to improving inclusivity and diversity across our business (across all aspects, including race, gender and disability) through both our recruitment and retention processes <p>Changes in direction of travel Economic and behavioural factors may mean individuals in our sector are less inclined to move jobs due to COVID-19, however, there is also opportunity for ITV if organisations let go of talent due to financial pressures. Therefore this risk remains static.</p>	<p>There is a deep understanding of the skills and capability required to deliver our strategic objectives and our HR department works closely with the business to confirm those needs are met.</p> <p>We also continue to strengthen our existing capability, through a combination of learning, development and performance. Our Board Nominations Committee reviews the skills and capability of senior leadership twice a year and supports leaders in addressing potential gaps in light of strategic requirements.</p> <p>We have developed a Diversity Acceleration Plan, which aims to improve diversity and inclusion within the ITV workforce, through a combination of development, training and recruitment initiatives.</p> <p>Whilst a certain level of attrition is inevitable, we evaluate root causes through exit interviews and declared reasons for leaving. Furthermore, succession plans have been developed and implemented for business critical and management roles (which includes nominated deputies).</p> <p>Board oversight</p> <ul style="list-style-type: none"> • Ongoing updates to and succession planning reviews with the Nominations Committee
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Viability statement

How we assess prospects and risks

The Board continually assesses ITV's prospects and risks at its meetings, including the following:

- Holding 'Strategy Days' twice a year, to oversee the delivery of the Strategy and consider changes to or new initiatives to further improve the ITV Strategy.
- Considering ad-hoc topics on strategic areas at the periodic Board meetings.
- Performing a full review of the principal and emerging risks twice a year. Further detail can be found earlier within the Principal Risks and Uncertainties section
- Performing periodic deep dives on specific risk areas, to further scrutinise the effectiveness of risk mitigation approaches and confirm operation within risk appetite. Further detail can be found earlier within the Principal Risks and Uncertainties section
- The Board and management significantly increased their focus on ITV's prospects, risks and viability in light of the evolving Covid-19 situation. This involved holding a session on the specific impact of Covid-19 on ITV's Strategy (June 2020); developing a range of Covid-19 scenarios for 2020 and beyond and modelling their potential financial impact; identifying cost interventions/mitigations to respond to severe downside scenarios; and increasing the level of financial performance reviews and reforecasting to track performance against these scenarios. (Further details of the specific measures to respond to Covid-19 are provided in the Chief Executive's Report.

How we assess viability

When assessing the longer-term viability of ITV, we considered (i) ITV's strategy and business model; (ii) the principal risks and; (iii) the Group's financing facilities, including covenant tests and future funding plans; (iv) the long range financial plan and cash forecast; and (v) other sensitivity factors or risks which have the potential to materially impact liquidity and cash in the assessment period.

Based on this review a set of hypothetical and severe but plausible scenarios were developed. We then modelled these scenarios against the long-range financial plan and cash forecast both individually and in parallel, in order to assess viability.

The output from this work was reviewed and approved by the Board and the Audit and Risk Committee. In reaching its view, the Board and Committee also considered analyst commentary, to understand the wider market and views on the Group's future prospects, and the external auditor's findings and conclusions on this matter. Further detail of the work performed by the Audit and Risk Committee to consider assumptions applied in the assessment viability will be set out in our 2020 Annual Report.

Assessment period for viability

The Board reviewed the long range financial and strategic planning horizon and is of the view that a three year assessment period (1 January 2021 to 31 December 2023) continues to be most appropriate. The factors the Board considered in adopting this timeframe were as follows:

- The situation with respect to the COVID-19 pandemic remains uncertain and is likely to continue impacting ITV in the medium term. We are closely monitoring the external environment and continue to manage the risks associated with the pandemic to support us in returning to pre-

COVID performance levels. Further detail of our response to COVID-19 is provided within the Chief Executive's Report and in the COVID-19 principal risk mitigations detailed earlier.

- Visibility over ITV's broadcast advertising business is relatively short term. Advertising remains cyclical and closely linked to the UK economic growth, which may continue to be impacted by the COVID-19 pandemic, Brexit and other uncertainties in the UK macroeconomic climate
- The commissioning process and life cycle of programming gives the ITV Studios division more medium-term outlook. However, while non-returning brands are replaced with new commissions, over time there is less visibility as programmes can experience changes in viewer demand or come to a natural expiration
- Technology and innovation in the media industry continues to change the demand for content and also how it is consumed
- Pension funding, which is one of ITV's key funding obligations, is agreed triennially with the Trustees of the pension schemes
- ITV's business model does not necessitate investment in large capital projects that would require a longer-term horizon assessment or returns

Assumptions applied

We applied the following assumptions when assessing viability in the scenarios below:

- A vaccine is not rolled out to a substantial number of the population in territories in which we operate until the end of 2022, which delays businesses returning to normal operations
- Consequently, there is the possibility of national and local lockdowns during this period
- Ongoing additional production costs associated with COVID-19 protocols and health and safety measures until the vaccine is rolled out
- Ongoing access to the UK bond market, but with an increased interest rate on bonds renewed in the period to reflect a potential decrease in credit rating
- Ongoing availability of the financing facilities, but at increased interest rates. This comprises of; an undrawn Revolving Credit Facility of £630 million expiring on 15 December 2023; and a bilateral financing facility of £300 million expiring in June 2026, of which £199 million is available as at 9 March 2021

Taking into account current operational and financial performance, the Board has analysed the impact of following hypothetical scenarios. These scenarios were assessed in isolation and in parallel to further stress test viability:

Scenario modelled	Link to Principal risks
Scenario 1	
<p>A significant and sustained downturn in the advertising market when compared to 2019, as a result of further COVID-19 lockdowns, the possible impact of Brexit or other macro economic factors. In this scenario we also fail to replace the advertising revenue lost as a result of the government's announced restriction on HFSS advertising, which is due to come into force from the beginning of 2023.</p> <p>Based on our experiences during the initial 2020 COVID-19 lockdown the scenario assumes total advertising revenues continuing to remain significantly below 2019 level (2021 versus 2019: -9%); (2022 versus 2021: 1%*); (2023 versus 2022: -4%)</p> <p><small>*1% year-on-year increase, reflects marginal macroeconomic recovery in 2022 versus 2021, but still represents a significantly reduced position when compared to 2019. 2023 is further impacted by HFSS regulation.</small></p> <p>Business area impacted Broadcast (to become Media and Entertainment)</p>	<ul style="list-style-type: none"> • Advertising market changes • Policy and regulatory changes • COVID-19 pandemic • Changing viewer habits <p>Further detail of how we are mitigating these risks are included in the earlier Risks and Uncertainties section</p>
Scenario 2	
<p>A number of key programme brands within the ITV Studios division are not recommissioned and new format growth does not materialise.</p> <p>Although 2021 would typically be too imminent for commissioners to make a decision to cancel a show, we have included the scenario from 2021 onwards to reflect ongoing risk of decreased production activity/delivery due to COVID-19. The scenario assumes key shows come to an end from 2021 (2021 impact: c. £45 million; 2022 and 2023 impact: c. £65 million p.a.)</p> <p>Business area impacted Studios</p>	<ul style="list-style-type: none"> • Evolving demand in the content market • COVID-19 pandemic <p>Further detail of how we are mitigating these risks are included in the earlier Risks and Uncertainties section</p>
Scenario 3	
<p>A significant change in ITV's pension funding obligations, following the triennial valuation in March 2021 resulting in a significant increase in pension deficit funding payments.</p>	<ul style="list-style-type: none"> • Pension deficit increases

<p>This scenario assumes that pension funding payments increase from £75 million p.a. to £115 million p.a. in 2021 and remain flat in the following two years.</p> <p>Business area impacted Group</p>	<p>Further detail of how we are mitigating these risks are included in the earlier Risks and Uncertainties section</p>
Scenario 4	
<p>Settlements for ongoing litigation and earnouts for our larger acquisitions are significantly higher than estimated, resulting in large one-off cash payments.</p> <p>This scenario assumes increased acquisition earnout payouts in 2021 (see note 3.1.5 of the financial information) and payments in 2023 (see note 4.3 of the financial information).</p> <p>Business area impacted Group</p>	<ul style="list-style-type: none"> • The complexity and potential scale of the ongoing litigation settlements and earnout negotiations, results in a lack of certainty in the final liabilities and payments <p>Further detail of the accounting judgements and estimates applied to ongoing litigation and earnouts are provided in Section 1 of the Financial Information. An overview the assessments performed by the Audit and Risk Committee with respect to these accounting judgements will be included in the Audit and Risk Committee report in the 2020 Annual Report.</p>

We have considered the impact of climate change risks and do not believe they represent a material threat to the long-term viability, liquidity or operations of the business in the assessment period.

Viability assessment

If any of the above scenarios were to occur in isolation we would maintain sufficient liquidity and would not breach any banking covenants.

Management and the Board are of the view that the likelihood of all the above scenarios and sensitivities occurring concurrently is remote. If this situation were to occur and no action was taken to mitigate the financial losses sustained, we would still have sufficient liquidity to remain viable, but would risk breaching our revolving credit facility banking covenant in December 2022, June 2023 and December 2023.

Potential mitigations

In the event that these scenarios occur simultaneously, there are reasonable options at the disposal of the Board to maintain liquidity to continue operations and to avoid breaching banking covenants. These include but are not limited to, reducing capital and investment expenditure, suspending payment of discretionary bonuses, reducing the programming budget, further reductions in operational and overhead costs, and refinancing the pension asset.

Viability statement

Based on the above, the Board has a reasonable expectation that ITV will be able to continue operations and meet its liabilities as they fall due over the three year-period ending 31 December 2023. The assessment has been made with reference to ITV's strategy and the current position and prospects and risks.

The Strategic Report was approved by the Board and signed on its behalf by:

Chris Kennedy

Group CFO
9 March 2021

Financial Information

In this section

The financial information has been presented in a style that attempts to make them less complex and more relevant to shareholders and other stakeholders. 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 information provide information required by statute, accounting standards or Listing Rules to explain a particular feature of the financial information. The notes are a part of the financial information and will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the Annual Report and the financial information.

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REPORT OF KPMG LLP TO ITV PLC ("THE COMPANY") IN RELATION TO THE COMPANY'S PRELIMINARY ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The UK Listing Rules require that we, as independent auditor, agree to the publication of the Company's preliminary announcement of results for the year ended 31 December 2020 which comprises Highlights, Chief Executive's Report, Key Performance Indicators, Operating and Performance Review, Alternative Performance Measures, Finance Review, Commitment to Section 172(1), Risks and Uncertainties, Viability Statement and the Financial Information.

At your request we have provided this report to set out the procedures performed by us to agree to the publication, the status of the audit report on the statutory financial statements, and the key audit matters addressed in that audit report in respect of the consolidated financial statements of the group.

Our audit of the statutory financial statements is complete and we have issued an unmodified audit opinion

The annual report and statutory financial statements of ITV plc for the year ended 31 December 2020 were approved by the board on 9 March 2021.

Our audit of those financial statements is complete and we signed our auditor's report on 9 March 2021. Our opinion in that report is not modified and does not include a material uncertainty related to going concern, or emphasis of matter paragraph.

This report is in addition to, and should not be regarded as a substitute for, our auditor's report on the statutory financial statements, which has been released to the Company and will be available when the Company publishes its annual report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

Key audit matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters. The overall materiality applied in the audit of the consolidated financial statements as a whole was £19 million.

In our auditor's report on the statutory financial statements of the Company, we reported on the key audit matters in respect of the consolidated financial statements of the group below. No additional work in relation to key audit matters has been undertaken for the purpose of this report.

Going concern: Risk vs 2019: New Refer to accounting policy and financial disclosures in Note 1	
The risk	Our response
<p>Disclosure quality</p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>The risks most likely to adversely affect the Group's and Company's available financial resources and/or metrics relevant to debt covenants over this period were:</p> <ul style="list-style-type: none"> • A prolonged downturn in the television advertising market; • Cancellation or inability to re-commission a number of key formats, alongside a lack of growth in the new formats in the Studios business; • Significant increase in the Group's pension funding obligations; • Significantly larger than estimated cash settlements for ongoing litigations and earnout payments. <p>The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the Group's ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p>	<p>We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.</p> <p>Our procedures also included:</p> <ul style="list-style-type: none"> • Funding assessment: assessment of the financing arrangements currently in place and the actions taken by the Group, including covenant waivers, and headroom in existing facilities; • Historical comparisons: assessment of the directors' track record of forecasts vs actual cashflows by analysing actual results for the past five years against forecasts for those periods; • Key dependency assessment: identification of critical factors in determining whether there is a risk of failure with reference to our knowledge of the business and the audit work performed on the areas such as revenue, earnout liabilities, pensions, litigation and principal risks. We used our knowledge of inter-dependencies in our assessment of the severe but plausible downside. • Sensitivity analysis: considering sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of plausible (but not unrealistic) adverse effects that could arise from these risks individually and collectively; • Benchmarking assumptions: critically assessing the key assumptions in the base and downside scenarios in relation to specific risks with reference to market trends (for advertising, as well as scripted and non-scripted Studios productions), third-party economic forecasts and ITV's performance in period, assessment of secured bookings underpinning revenue forecasts, and our findings in relation to the work performed on other areas of the audit such as pensions, earnout liabilities and litigations.

	<ul style="list-style-type: none"> • Evaluating directors' intent: evaluating the achievability of the actions the directors consider they would take to improve the position should the risks materialise, which included: reducing the programming budget, capital and investment expenditure; suspending payment of discretionary bonuses; and further reductions in operational and overhead costs, taking into account the extent to which the directors can control the timing and outcome of these. • Assessing transparency: considering whether the going concern disclosure in Section 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities. <p>Our results:</p> <p>We found the going concern disclosure indicating no material uncertainty to be acceptable (2019 result: acceptable)</p>
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Total Advertising Revenue: £1,577 million (2019: £1,768 million) Risk vs 2019: ◀▶, Refer to accounting policy and financial disclosures in Note 2.1	
The risk	Our response
<p>Accounting treatment</p> <p>The majority of the Group's advertising revenue is subject to regulation under Ofcom's Contract Rights Renewal system ('CRR'). CRR works by ensuring that the annual share of TV advertising that will be placed with the Group by each advertising agency can change in relation to the viewing figures for commercial television that it delivers. The CRR system, the pricing of the annual contractual arrangements with advertising agencies and the details of each advertising campaign, together with the related processes and controls, are complex.</p> <p>Our risk relates to the largest component of total advertising – spot advertising.</p> <p>In particular, the complexity of the pricing mechanism means it is possible for a difference to arise between the price received by the Group for an advertising campaign and the value it delivered, mainly as a result of the actual viewing figures differing from the expected level for the campaign. Where the Group has over-delivered viewers this is referred to as a 'deal credit', or a 'deal debt' where delivery has fallen short. Rather than the price paid for that campaign being adjusted at the end of the campaign, these differences are accumulated for each agency and then taken into account when agreeing either future campaigns or the annual contract. A net deal debt position with an agency is recorded in the Group's accounts, as a liability reflecting the agency's contractual entitlement to an airtime credit. Net deal credit positions are not recognised.</p> <p>Spot advertising as the main component of total advertising is therefore considered a significant risk due to:</p> <ul style="list-style-type: none"> • The complexity of contractual agreements with advertising agencies; • The complexity of the systems and processes of control used to record revenue; and • The judgement involved in determining any deal debt liability at the period end. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Control operation: testing of controls, assisted by our own IT specialists, including those over: segregation of duties; input of annual deal terms with agencies; input of individual campaigns' terms and pricing; link to transmission/viewer data; invoicing post transmission and the system generated calculation of deal debt for each campaign. • Tests of details: challenging the year-end deal debt positions based on comparison with customers' correspondence, contracts and agreed terms of business. • Tests of details: agreeing invoices to subsequent cash receipts on a sample basis. • Assessing disclosures: assessing the adequacy of the Group's disclosures in respect of the accounting policy on revenue recognition. <p>Our results:</p> <ul style="list-style-type: none"> • From the evidence we obtained we found the resulting amount of recorded spot advertising to be acceptable (2019: acceptable).

Earnout liability: £164m (2019: £165m) Risk vs 2019: ◀▶ Refer to accounting policy and financial disclosures in Note 3.1.5	
The risk	Our response
<p>Subjective estimate</p> <p>Acquisition-related liabilities include performance based, employment-linked earnouts which are estimated future payments to previous owners of the businesses acquired by the Group (the "earnout liability"). The estimated future payments are often based on a multiple of profits of the acquired entity. The most significant earnout relates to the acquisition of Talpa Media in 2015. The earnout period ended on 31 March 2020, with the liability for the final payout calculated based on a multiple of average EBITDA for the three year period ended 31 December 2019 under the terms of the Sales & Purchase Agreement (the "SPA").</p>	<p>We performed the tests below rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> • Enquiry of external advisors: assessing correspondence and discussions with the Group's external advisors in relation to the merits of the treatments of items under discussion with the previous owners in the calculation of the estimated liability, and whether there is any new information which indicates that the assumptions used in the calculation of the estimate are no longer appropriate.

<p>Due to the size of the business and the multiple applied, the earnout liability at 31 December 2020 is material to the Group financial statements. There is judgement involved in relation to the interpretation under the SPA of certain transactions for the purposes of the earnout calculation including the treatment of the insured trade receivable.</p> <p>Whilst the earnout period has ended, the final payment has not yet been made as the parties are still in dispute over the treatment of certain transactions under the SPA, an external arbiter was appointed in the year.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the Talpa earnout liability has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 3.1.5) disclose the range estimated by the Group.</p>	<ul style="list-style-type: none"> • Tests of details: assessing whether the basis of the calculation of the earnout payment remains appropriate with reference to the terms of the Sale and Purchase Agreement and latest correspondence between the parties on the matter. We challenged the directors on their treatment of certain transactions including the insured trade receivable for the purpose of the calculation with reference to the contract terms. • Assessing transparency: assessing the adequacy of the Group's disclosures in relation to the earnout liability. <p>Our results:</p> <p>We found the resulting estimate of the earnout liability and the related disclosures to be acceptable (2019: acceptable).</p>
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Gross defined benefit pension scheme obligations £4,120 million (2019: £4,037 million) Risk vs 2019: ◀▶ Refer to accounting policy and financial disclosures in Note 3.7	
The risk	Our response
<p>Subjective valuation</p> <p>Significant estimates are made in determining the key assumptions used in valuing the Group's gross defined benefit pension scheme obligations. When making these assumptions the directors take independent actuarial advice relating to their appropriateness.</p> <p>The valuation of the gross defined benefit pension scheme obligations is considered a significant risk given the quantum of the gross defined benefit pension scheme obligations and that a small change in assumptions can have a material financial impact on the Group.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the gross defined benefit pension scheme obligations have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 3.7) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Benchmarking assumptions: challenging the key assumptions applied in determining the Group's gross defined benefit pension scheme obligations, being the discount rate, inflation rate and mortality/life expectancy against externally derived data, with the support of our own actuarial specialists. • Assessing disclosures: assessing the adequacy of the Group's disclosures in respect of the sensitivity of the gross defined benefit pension scheme obligations to these assumptions. <p>Our results:</p> <p>From the evidence we obtained we found the resulting valuation of the gross defined benefit pension scheme obligations to be acceptable (2019: acceptable).</p>
Recoverability of the parent Company's investment in, and amounts due from, its subsidiaries Investment carrying value £2,733 million (2019: £2,733 million), and amounts due from subsidiaries £4,291 million (2019: £4,541 million) Risk vs 2019: ◀▶ Refer to accounting policy and financial disclosures in Note iii	
The risk	Our response
<p>Low risk, high value</p> <p>The carrying amount of the parent Company's investments in, and amounts due from, its subsidiaries represents 36% and 57% (2019: 37% and 61%) of the Company's total assets respectively. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.</p>	<p>We performed the tests below rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> • Tests of details: comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount; assessing 100% of amounts due from subsidiaries to identify, with reference to the relevant debtors' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, and assessing, where relevant, whether those subsidiaries have historically been profit-making. <p>Our results:</p> <ul style="list-style-type: none"> • We found the carrying amounts of investments and the of intercompany receivables to be acceptable (2019: acceptable).

Procedures performed to agree to the preliminary announcement of annual results

In order to agree to the publication of the preliminary announcement, we conducted procedures having regard to the Financial Reporting Council's Bulletin: *The auditors' association with preliminary announcements made in accordance with the requirements of the UK Listing Rules*. Our work included considering whether:

- the financial information included in the preliminary announcement has been accurately extracted from the audited statutory financial statements, and that it reflects the presentation adopted in the audited statutory financial statements;
- based on our statutory financial statements audit work, the financial information included in the preliminary announcement is materially misstated;
- the information included in the preliminary announcement (including the management commentary) is materially consistent with the content of the annual report;
- based on our statutory financial statements audit work, the assessment of the Company's position and prospects in the preliminary announcement is fair, balanced and understandable; and
- the preliminary announcement includes the disclosures required under the UK Listing Rules and s435 of the Companies Act 2006.

Directors' responsibilities

The preliminary announcement is the responsibility of, and has been approved by, the directors. The directors are responsible for: preparing, presenting and publishing the preliminary announcement in accordance with the Listing Rules of the UK FCA; ensuring that its content is consistent with the information included in the annual report and audited statutory financial statements; and, as required under the UK Corporate Governance Code, for ensuring that the assessment of the Company's position and prospects in the preliminary announcement is fair, balanced and understandable.

Our responsibility

Our responsibility under the Listing Rules is to agree to the publication of the preliminary announcement based on our work. In addition, under the terms of our engagement our responsibility is to report to the Company setting out the procedures performed by us to agree to the publication, the status of the audit report on the statutory financial statements, and the key audit matters addressed in that audit report.

We do not express an audit opinion on the preliminary announcement.

We are not required to agree to the publication of presentations to analysts.

This report is made solely to the Company in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the Company those matters we have agreed to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our work, for this report, or for the conclusions we have reached.

This report is not the auditor's report on the Company's statutory financial statements. It relates only to the matters specified and does not extend to the Company's statutory financial statements taken as a whole.

Paul Sawdon (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

9 March 2021

Consolidated Income Statement

For the year ended 31 December	Note	2020 £m	2019 £m
Revenue	2.1	2,781	3,308
Operating costs		(2,425)	(2,773)
Operating profit		356	535
Presented as:			
Earnings before interest, tax and amortisation (EBITA) before exceptional items	2.1	561	693
Operating exceptional items	2.2	(118)	(84)
Amortisation and impairment	3.3, 3.5	(87)	(74)
Operating profit		356	535
Financing income	4.4	2	12
Financing costs	4.4	(46)	(80)
Net financing costs	4.4	(44)	(68)
Share of profits of joint ventures and associated undertakings	3.5	9	1
Gain on sale of non-current assets (exceptional items)	2.2, 3.2	4	62
Profit before tax		325	530
Taxation	2.3	(44)	(52)
Profit for the year		281	478
Profit attributable to:			
Owners of the Company		285	473
Non-controlling interests	4.7.6	(4)	5
Profit for the year		281	478
Earnings per share			
Basic earnings per share	2.4	7.1p	11.8p
Diluted earnings per share	2.4	7.1p	11.8p

Consolidated Statement of Comprehensive Income

For the year ended 31 December	Note	2020 £m	2019 £m
Profit for the year		281	478
Other comprehensive loss:			
Items that are or may be reclassified to profit or loss			
Revaluation of financial assets	4.7.4	4	9
Net loss on cash flow hedges and costs of hedging	4.7.3	(6)	(17)
Exchange differences on translation of foreign operations (net of hedging)	4.7.3	(19)	(11)
Items that will never be reclassified to profit or loss			
Remeasurement gains/(losses) on defined benefit pension schemes	3.7	5	(134)
Income tax (charge)/credit on items that will never be reclassified	2.3	(1)	20
Other comprehensive loss for the year, net of income tax		(17)	(133)
Total comprehensive income for the year		264	345
Total comprehensive income attributable to:			
Owners of the Company		268	340
Non-controlling interests	4.7.6	(4)	5
Total comprehensive income for the year		264	345

Consolidated Statement of Financial Position

	Note	31 December 2020 £m	31 December 2019 £m
Non-current assets			
Property, plant and equipment	3.2	285	269
Intangible assets	3.3	1,545	1,592
Investments in joint ventures, associates and equity investments	3.5	77	52
Derivative financial instruments	4.3	2	–
Distribution rights	3.1.2	18	22
Contract assets	3.1.6	7	3
Defined benefit pension surplus	3.7	22	17
Other pension asset	3.7	62	58
Deferred tax asset	2.3	34	47
		2,052	2,060
Current assets			
Programme rights and other inventory	3.1.1	308	323
Trade and other receivables due within one year	3.1.3	458	413
Trade and other receivables due after more than one year	3.1.3	46	63
Trade and other receivables		504	476
Contract assets	3.1.6	409	442
Current tax receivable	2.3	6	15
Derivative financial instruments	4.3	6	6
Cash and cash equivalents	4.1	668	246
		1,901	1,508
Current liabilities			
Borrowings	4.1, 4.2	(7)	(10)
Lease liabilities	4.6	(22)	(25)
Derivative financial instruments	4.3	(7)	(5)
Trade and other payables due within one year	3.1.4	(959)	(917)
Trade payables due after more than one year	3.1.5	(54)	(61)
Trade and other payables		(1,013)	(978)
Contract liabilities	3.1.6	(271)	(219)
Current tax liabilities	2.3	(25)	(81)
Provisions	3.6	(59)	(2)
		(1,404)	(1,320)
Net current assets		497	188
Non-current liabilities			
Borrowings	4.1, 4.2	(1,078)	(1,016)
Lease liabilities	4.6	(83)	(64)
Derivative financial instruments	4.3	(24)	(43)
Defined benefit pension deficit	3.7	(110)	(162)
Deferred tax liabilities	2.3	(20)	(29)
Other payables	3.1.5	(61)	(51)
Provisions	3.6	(22)	(5)
		(1,398)	(1,370)
Net assets		1,151	878
Attributable to equity shareholders of the parent company			
Share capital	4.7.1	403	403
Share premium	4.7.1	174	174
Merger and other reserves	4.7.2	224	224
Translation reserve	4.7.3	7	32
Fair value reserve	4.7.4	18	14
Retained earnings	4.7.5	296	1
Total equity attributable to equity shareholders of the parent company		1,122	848
Non-controlling interests	4.7.6	29	30
Total equity		1,151	878

The accounts were approved by the Board of Directors on [•] March 2021 and were signed on its behalf by:

Chris Kennedy
Group Chief Financial Officer

Consolidated Statement of Changes in Equity

	Note	Attributable to equity shareholders of the parent company						Total £m	Non- controlling interests £m	Total equity £m
		Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Fair value reserve £m	Retained earnings £m			
Balance at 1 January 2020	4.7	403	174	224	32	14	1	848	30	878
Total comprehensive income/(loss) for the year										
Profit/(loss) for the year		–	–	–	–	–	285	285	(4)	281
Other comprehensive income/(loss)										
Revaluation of financial assets	4.7.4	–	–	–	–	4	–	4	–	4
Net loss on cash flow hedges and costs of hedging	4.7.3	–	–	–	(6)	–	–	(6)	–	(6)
Exchange differences on translation of foreign operations (net of hedging)	4.7.3	–	–	–	(19)	–	–	(19)	–	(19)
Remeasurement gains on defined benefit pension schemes	3.7	–	–	–	–	–	5	5	–	5
Income tax charge on other comprehensive income	2.3	–	–	–	–	–	(1)	(1)	–	(1)
Total other comprehensive (loss)/income		–	–	–	(25)	4	4	(17)	–	(17)
Total comprehensive (loss)/income for the year		–	–	–	(25)	4	289	268	(4)	264
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	–	–	(1)	(1)
Movements due to share-based compensation	4.8	–	–	–	–	–	6	6	–	6
Tax on items taken directly to equity	2.3	–	–	–	–	–	3	3	–	3
Purchase of own shares via employees' benefit trust	4.8	–	–	–	–	–	–	–	–	–
Total transactions with owners		–	–	–	–	–	9	9	(1)	8
Changes in non-controlling interests	4.7.6	–	–	–	–	–	(3)	(3)	4	1
Balance at 31 December 2020	4.7	403	174	224	7	18	296	1,122	29	1,151

	Note	Attributable to equity shareholders of the parent company						Total £m	Non- controlling interests £m	Total equity £m
		Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Fair value reserve £m	Retained earnings £m			
Balance at 1 January 2019	4.7	403	174	206	60	5	(33)	815	34	849
Total comprehensive income/(loss) for the year										
Profit for the year		–	–	–	–	–	473	473	5	478
Other comprehensive income/(loss)										
Revaluation of financial assets	4.7.4	–	–	–	–	9	–	9	–	9
Net loss on cash flow hedges and costs of hedging	4.7.3	–	–	–	(17)	–	–	(17)	–	(17)
Exchange differences on translation of foreign operations (net of hedging)	4.7.3	–	–	–	(11)	–	–	(11)	–	(11)
Remeasurement losses on defined benefit pension schemes	3.7	–	–	–	–	–	(134)	(134)	–	(134)
Income tax credit on other comprehensive income	2.3	–	–	–	–	–	20	20	–	20
Total other comprehensive (loss)/income		–	–	–	(28)	9	(114)	(133)	–	(133)
Total comprehensive (loss)/income for the year		–	–	–	(28)	9	359	340	5	345
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	(320)	(320)	(2)	(322)
Movements due to share-based compensation	4.8	–	–	–	–	–	10	10	–	10
Tax on items taken directly to equity	2.3	–	–	–	–	–	–	–	–	–
Purchase of own shares via employees' benefit trust	4.8	–	–	–	–	–	(4)	(4)	–	(4)
Total transactions with owners		–	–	–	–	–	(314)	(314)	(2)	(316)
Changes in non-controlling interests ^(a)	4.7.6	–	–	18	–	–	(11)	7	(7)	–
Balance at 31 December 2019	4.7	403	174	224	32	14	1	848	30	878

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

Consolidated Statement of Cash Flows

For the year ended 31 December	Note	£m	2020 £m	£m	2019 £m
Cash flows from operating activities					
Cash generated from operations before exceptional items	2.1		761		696
Cash flow relating to operating exceptional items:					
Operating exceptional items	2.2	(118)		(84)	
Increase in exceptional payables		47		98	
Decrease/(increase) in exceptional prepayments and other receivables		3		(2)	
Cash (outflow)/inflow from exceptional items			(68)		12
Cash generated from operations			693		708
Defined benefit pension deficit funding		(59)		(74)	
Interest received		13		30	
Interest paid on bank, other loans and lease liabilities*		(34)		(88)	
Net taxation paid		(88)		(108)	
			(168)		(240)
Net cash inflow from operating activities			525		468
Cash flows from investing activities					
Acquisition of subsidiary undertaking, net of cash acquired	3.4	–		(11)	
Acquisition of property, plant and equipment		(35)		(30)	
Acquisition of intangible assets		(31)		(38)	
Acquisition of investments		(18)		(18)	
Proceeds from sale of property, plant and equipment		4		–	
Proceeds from sale of assets held for sale		–		146	
Proceeds from sale of subsidiaries and available for sale investments		5			
Loans granted to associates and joint ventures		(2)		(5)	
Loans repaid by associates and joint ventures		5		1	
Dividends received from investments		–		1	
Net cash (outflow)/inflow from investing activities			(72)		46
Cash flows from financing activities					
Bank and other loans – amounts repaid		(7)		(931)	
Bank and other loans – amounts raised		5		968	
Payment of lease liabilities		(22)		(31)	
Equity dividends paid		–		(320)	
Acquisition of non-controlling interests		(2)		(41)	
Dividends paid to non-controlling interests		(1)		(2)	
Purchase of own shares via employees' benefit trust		(1)		(4)	
Net cash outflow from financing activities			(28)		(361)
Net increase in cash and cash equivalents			425		153
Cash and cash equivalents at 1 January	4.1		246		95
Effects of exchange rate changes and fair value movements			(3)		(2)
Cash and cash equivalents at 31 December	4.1		668		246

* Included in Interest paid on bank, other loans and lease liabilities is £4 million relating to lease liabilities (2019: £4 million)

Notes to the Financial Information

Section 1: Basis of Preparation

In this section

This section sets out the Group's accounting policies that relate to the financial information 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 2020 or later years. We explain how these changes are expected to impact the financial position and performance of the Group.

The financial information consolidates those of ITV plc ('the Company') and its subsidiaries (together referred to as the 'Group') and the Group's interests in associates and jointly controlled entities. The Company is domiciled in the United Kingdom.

This Group financial information was prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The financial information is principally prepared on the basis of historical cost. Where other bases are applied, these are identified in the relevant accounting policy.

The parent company financial information has been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101').

The notes form part of the financial information.

Going concern

The management and Board of Directors of ITV plc continue to closely monitor the COVID-19 situation and its impact on business performance and the Group's liquidity position.

As at 31 December 2020, the Group was in a reported net debt position of £545 million (2019: £893 million) with a positive gross cash position. The Group had £618 million of unrestricted cash, a £630 million committed and undrawn Revolving Credit Facility expiring in December 2023 and a £300 million committed bilateral facility expiring in June 2026, of which £199 million was available at 31 December 2020, providing £1,447 million of liquidity. In addition, bond repayments only commence in September 2022 and there are no financial covenants in relation to the bonds in issue although there are cross default provisions.

The Revolving Credit Facility (RCF) is subject to leverage and interest cover semi-annual covenant tests that require the Group to maintain a leverage ratio of below 3.5x and interest cover above 3.0x (as defined in the RCF documentation), however, as a precautionary measure, the Group was granted replacement covenants for the tests at June 2020, December 2020 and June 2021. During this period two replacement covenants apply: a covenant net debt cap of £1.8 billion and a minimum covenant liquidity requirement of £250 million, which will be tested quarterly. As at 31 December 2020, the Group had covenant net debt of £432 million (30 June 2020: £679 million) and covenant liquidity of £1,497 million (30 June 2020: £1,264 million). The leverage and interest cover tests will be tested again on 31 December 2021.

The Directors have prepared forecasts for three cash flow scenarios (mid, high, and low cases), for the period of one year from the date of approval of this consolidated financial information. The mid case scenario is the basis for the 2021 budget. The key assumptions in the scenarios relate to the degree of recovery of the advertising market and the scale and timing of productions for ITV Studios. All scenarios assume an impact from lockdowns and continued structural changes in the advertising market and to viewing habits.

The Directors have also considered a number of sensitivities to the mid case scenario to arrive at a severe but plausible scenario that has been used to assess the appropriateness of preparing these consolidated financial information using the going concern concept. These sensitivities include an increase in acquisition-related items, increased pension contributions, lost and/or delayed Studios productions, and an increased rate of decline in advertising revenue in comparison to 2019.

In the severe but plausible downside scenario the Group experiences significant loss of profit and cash outflows but remains able to operate within its financial covenants and has adequate covenant liquidity available throughout the period of review.

The Directors will continue to monitor the changing impact of COVID-19 and the Group's performance against the scenarios. Management continue to manage costs and cash appropriately. The Directors recognise the importance of the dividend to our shareholders and intends to restore dividend payments as soon as circumstances permit. The Directors will balance shareholder returns with our commitment to maintain investment grade metrics over the medium term, to continue to invest behind the strategy and with the ongoing uncertainty with COVID-19. In 2020, no dividend payments were made (2019: £320 million). The Directors do not currently intend to pay any dividends during 2021.

Consequently, the Directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of this consolidated financial information and therefore have prepared the consolidated financial information on a going concern basis.

Subsidiaries, joint ventures, associates and investments

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 a joint arrangement 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.

Investments are entities where the Group concludes it does not have significant influence and are held at fair value unless the investment is a start-up business, in which case it is valued at cost and assessed for impairment.

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 IFRS 9 'Financial Instruments':

- Loans and receivables – separately disclosed as cash and cash equivalents and trade and other receivables
- Financial assets/liabilities at fair value through OCI – measured at fair value through other comprehensive income – separately disclosed as derivative financial instruments in assets/liabilities
- Financial assets/liabilities at fair value through profit or loss – separately disclosed as derivative financial instruments in assets/liabilities and included in other payables (put option liabilities and contingent consideration)
- 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. Where unconditional rights to set off financial instruments exist, the Group presents the relevant instruments net in the statement of financial position.

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

Foreign currencies

The primary economic environment in which the Group operates is the UK and therefore the consolidated financial information is 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 the transaction date. 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 is 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 revenue, expenses and other comprehensive income 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 other comprehensive income.

The Group's net investments in companies outside the UK may be hedged where the currency exposure is considered to be material. Hedge accounting is implemented on certain foreign currency firm commitments, for which the effective portion of any foreign exchange gains or losses is recognised in other comprehensive income (note 4.3).

Where a forward currency contract is used to manage foreign exchange risk and hedge accounting is not applied, any impact of movements in currency for both the forward currency contracts and the assets and liabilities is taken to the income statement.

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

On disposal of a foreign subsidiary, 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 information 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 material judgement or complexity are set out below. Additional detail on the judgements applied by Management are set out in the accounting policies section of the relevant notes:

- Revenue recognition (note 2.1)
- Acquisition-related liabilities (note 3.1.4 and note 3.1.5)
- Defined benefit pension (note 3.7)
- Provisions related to Box Clever (note 3.6)
- Impairment of intangible assets (note 3.3)

A summary of the key sources of estimation uncertainty is detailed below. Additional detail on the estimates, underlying assumptions and related sensitivities (where applicable) is given in the relevant notes.

Defined benefit pension and acquisition-related liabilities are most sensitive to estimation, where the assumptions applied could have a material impact on the financial information in the next 12 months. Details of the estimation sensitivity are disclosed in the related notes. In determining the estimate for the Box Clever provision, management has provided for the initial offer made to the Pensions Regulator (tPR), which is the Directors' and Management's current best estimate (see note 3.7). No provision was held at 31 December 2019 as the Financial Support Direction (FSD) had not yet been issued and Management could not reliably estimate the provision.

In addition to the above, there are a number of areas which involve a high degree of estimation and are significant to the financial information but are not expected to have a material impact on them in the next 12 months. These areas include the reviews of the carrying value of goodwill and intangible assets, onerous contract and impairment provisions in relation to sports rights reviewed as a result of the COVID-19 pandemic and its economic effects and taxation. More detail on each of these items is given in the relevant notes.

New or amended EU endorsed accounting standards

The following new standards and/or amendments are effective 1 January 2020:

Changes in significant accounting policies

Accounting standard	Requirement
IFRS 3 'Business combinations'	The amendment provides entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3.
IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors'	The amendment clarifies the definition of material throughout IFRSs and the Conceptual Framework for Financial Reporting.
IFRS 9, IAS 39 and IFRS 17: – Interest rate benchmark reform	The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.
Amendments to the Conceptual framework	The revised Framework will be used in future standard-setting decisions, but no changes will be made to current IFRS. Preparers might also use the Framework to assist them in developing accounting policies where an issue is not addressed by an IFRS.
IFRS 16 'Leases'	In response to the COVID-19 coronavirus pandemic, the amendments to IFRS 16 'Leases' to allow lessees not to account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions.

EU endorsed accounting standards effective in future periods

The above changes in accounting policies have been effective throughout 2020 but have not had a significant impact on the Group's results or Statement of Financial Position.

The Directors have also considered the impact on the Group of new and revised accounting standards, interpretations or amendments that are currently endorsed but not yet effective and do not expect them to have a significant impact on the Group's results and Statement of Financial Position.

Notes to the Financial Information

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.

2.1 Profit before tax

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.

Adjusted earnings before interest, tax and amortisation (EBITA) (as defined in the APMs) is 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 adjusted EBITA.

Accounting policies

Revenue recognition

The Group derives revenue from the transfer of goods and services. Revenue recognition is based on the delivery of performance obligations and an assessment of when control is transferred to the customer. Revenue is recognised either when the performance obligation in the contract has been performed ('point in time' recognition) or 'over time' as control of the performance obligation is transferred to the customer.

Customer contracts can have a wide variety of performance obligations, from production contracts to format licences and distribution activities. For these contracts, each performance obligation is identified and evaluated. Under IFRS 15 the Group needs to evaluate if a format or licence represents a right to access the content (revenue recognised over time) or represents a right to use the content (revenue recognised at a point in time). The Group has determined that most format and licence revenues are satisfied at a point in time due to there being limited ongoing involvement in the use of the licence following its transfer to the customer.

The transaction price, being the amount to which the Group expects to be entitled and has rights to under the contract is allocated to the identified performance obligations. The transaction price will also include an estimate of any variable consideration where the Group's performance may result in additional revenues based on the achievement of agreed targets such as audience targets. Variable consideration is not recognised until the performance obligations are met.

Revenue is stated exclusive of VAT and equivalent sales taxes.

Complexity in advertising revenue recognition is driven by a combination of automated and manual processes involved in measuring the value delivered to the customer. Complex one-off contracts in all classes of revenue are assessed individually and judgement is exercised in identifying performance obligations and allocating price to them. Timing of revenue recognition is another area of judgement in such contracts.

Revenue recognition criteria for the Group's key classes of revenue are as follows:

Segment	Major classes of revenue	Payment terms
ITV Studios		
Programme production	<ul style="list-style-type: none"> Revenue generated from the programmes produced for broadcasters and OTT platforms in the UK, US and internationally is recognised at the point of delivery of an episode and acceptance by the customer. Revenue from producer for hire contracts, where in an event of cancellation cost is recovered plus a margin, is recognised over time 	<ul style="list-style-type: none"> Payment term is over the term of the contract
Format licences	<ul style="list-style-type: none"> A licence is granted for the exploitation of a format in a stated territory, media and period. Licence revenue is recognised when the licence period has commenced (point in time) 	<ul style="list-style-type: none"> Payment term is over the term of the contract
Programme distribution rights	<ul style="list-style-type: none"> A licence is granted for the transmission of a programme in a stated territory, media and period and revenue is recognised at the point when the contract is signed, the content is available for download and the licence period has started (point in time) 	<ul style="list-style-type: none"> Payment term is over the term of the contract

Segment	Major classes of revenue	Payment terms
Broadcast		
Total advertising revenue	<ul style="list-style-type: none"> Net advertising revenue is generated from selling spot airtime on linear TV and is recognised at the point of transmission Online advertising revenue from video on demand (VOD) is generated from selling advertising on the ITV Hub and is recognised at the point of delivery Revenue from the sponsorship of programmes across ITV linear channels and online is recognised over the period of transmission 	<ul style="list-style-type: none"> Received in the month after transmission Received in the month after campaign is delivered Received prior to transmission
Direct to Consumer	<ul style="list-style-type: none"> Pay revenue is generated from the provision of HD channels, catch up content and licences to ready-made programmes in the form of box sets to third parties and is recognised either over the term of the contract or per subscriber or download (point in time) Interactive revenue is earned from entries to competitions and is recognised as the event occurs (point in time) Revenue from subscription services is recognised over the subscription period 	<ul style="list-style-type: none"> Payment term is over the term of the contract or subscription period
SDN	<ul style="list-style-type: none"> Revenue is generated from the carriage fee or capacity of the digital multiplex and is recognised over the term of the contract 	<ul style="list-style-type: none"> Payment term is over the term of the contract

The results for the year aggregate these classes of revenue into the following categories:

	2020 £m	2020 % of total	2019 £m	2019 % of total
ITV Studios UK	535		725	
ITV Studios US	234		271	
ITV Studios International	343		508	
Global Formats and Distribution	258		318	
Total ITV Studios*	1,370	42%	1,822	47%
Total advertising revenue ('TAR')	1,577	48%	1,768	46%
Direct to consumer	87		84	
SDN	73		69	
Other	153		142	
Total Broadcast	1,890	58%	2,063	53%
Total revenue**	3,260		3,885	

* Studios UK, ITV Studios US and Studios International revenues are mainly programme production. Global Formats and Distribution revenue is from programme distribution rights and format licences.

** Includes internal supply as discussed in the APMs.

Segmental information

Operating segments, which have not been aggregated, are determined in a manner that is consistent with how the business is managed and reported to the Board of Directors. The Board is regarded as the chief operating decision-maker. The Board considers the business primarily from an operating activity perspective.

The reportable segments for the years ended 31 December 2020 and 31 December 2019 are, therefore, ITV Studios and Broadcast, the results of which are outlined in the following tables:

	ITV Studios ⁽ⁱ⁾ 2020 £m	Broadcast 2020 £m	Consolidated 2020 £m
Total segment revenue	1,370	1,890	3,260
Intersegment revenue	(472)	(7)	(479)
Revenue from external customers	898	1,883	2,781
Adjusted EBITA⁽ⁱⁱ⁾	152	421	573

	ITV Studios ⁽ⁱ⁾ 2019 £m	Broadcast 2019 £m	Consolidated 2019 £m
Total segment revenue	1,822	2,063	3,885
Intersegment revenue	(573)	(4)	(577)
Revenue from external customers	1,249	2,059	3,308
Adjusted EBITA⁽ⁱⁱ⁾	267	462	729

(i) Revenue of £312 million (2019: £394 million) was generated in the US during the year; the US represented £346 million (2019: £312 million) of non-current assets at year end. Intersegment revenue originates mainly in the UK.

(ii) Adjusted EBITA is reported EBITA adjusted to exclude exceptional items and includes the benefit of production tax credits. It is stated after the elimination of intersegment revenue and costs.

The Group's principal operations are in the United Kingdom. Revenue from external customers in the United Kingdom is £1,985 million (2019: £2,213 million), and revenue from external customers in other countries is £796 million (2019: £1,095 million). The Operating and Performance Review provides further detail on ITV's international revenues.

Intersegment revenue, which is earned on arm's length terms, is mainly generated from the supply of ITV Studios programmes to Broadcast for transmission primarily on the ITV network. This revenue stream is a measure that informs the Group's strategic priority of building a strong international content business, as producing and retaining rights to the shows broadcast on the ITV network benefits the Group further from subsequent international content and format sales.

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

There are two media buying agencies (2019: one) acting on behalf of a number of advertisers that represent the Group's major customers. These agencies are the only customers that individually represent over 10% of the Group's revenue. Revenue of approximately £775 million (2019: £551 million) was derived from these customers. This revenue is attributable to the Broadcast segment.

In October 2020, the Group announced a restructure within its Broadcast segment to better reflect and serve the changing viewing habits. Broadcast will be renamed Media and Entertainment and will continue to include Broadcast and On-Demand services. The restructure will be effective from 1 April 2021 and is, therefore, not reflected in this financial information.

Timing of revenue recognition

The following table includes classes of revenue from contracts disaggregated by the timing of recognition:

	2020 £m	2019 £m		2020 £m	2019 £m
	Products and services transferred at a point in time			Products and services transferred over time	
Total advertising revenue, DTC, SDN	1,585	1,771		298	288
Programme production, programme distribution rights	684	944		114	200
Format licences	94	92		6	13
Total external revenue	2,363	2,807		418	501

Forward bookings

The following table includes revenue from contracts signed before the reporting date that is to be recognised in periods after the reporting date (i.e. the performance obligations remain unsatisfied or partially unsatisfied at the reporting date):

	2021 £m	2022 £m	2023 £m	Beyond £m
Broadcast	125	101	23	19
ITV Studios *	240	162	21	26
Revenue	365	263	44	45

* Includes internal supply.

The Group applies the practical expedients in IFRS 15 and, therefore, does not disclose information about remaining performance obligations that have original expected durations of less than one year or where the price is not yet known (e.g. NAR).

ITV Studios

ITV Studios is the Group's international content business, creating and producing programmes and formats that return and travel, namely drama, entertainment and factual entertainment.

ITV Studios UK is the largest commercial producer in the UK and produces programming for the Group's own channels, accounting for 68% of ITV main channel spend on commissioned programming (2019: 65%). Programming is also sold to other UK broadcasters and OTT platforms.

ITV Studios US is the leading unscripted independent producer of content in the US and is growing its scripted presence by increasing investment in high-profile dramas.

ITV Studios also operates in ten other international locations, together called ITV Studios International, being Australia, Germany, France, Italy, the Netherlands, Sweden, Norway, Finland and Denmark where content is produced for local broadcasters and international OTT platforms. This content is either locally created IP or formats that have been created elsewhere by ITV, primarily in the UK, the Netherlands and in Israel.

ITV's distribution and commercial division was reorganised, with effect from 1 January 2020, into three centres of excellence – The Creative Network, Global Distribution and Global Entertainment. This enables the Group to create more hits, to better build brands and formats internationally and to monetise them more effectively. Global Formats and Distribution license ITV's finished programmes, formats and third-party content internationally. Within this business, the Group also finances productions both on and off ITV to acquire global distribution rights.

Broadcast

The Group operates the largest commercial family of channels in the UK and delivers content through multiple platforms. In addition to linear television broadcast, the Group delivers its content on the ITV Hub, catch up services on pay platforms, and through direct content deals. Content commissioned and scheduled by this segment is funded primarily by advertising, where revenue is generated from the sale of audiences for advertising spot airtime, online advertising, sponsorship, and licensing.

Other sources of revenue are from: Direct to Consumer revenue (which includes interactive sales from competitions, ITV Hub+, BritBox UK, and Gaming, live events and merchandise); SDN revenue (which generates licence sales for DTT Multiplex A); HD digital channels on pay platforms (e.g. Sky and Virgin); and the ITV Choice subscription service in other countries.

In November 2019, we launched our new SVOD service with the BBC, BritBox UK. The service provides UK audiences with an unrivalled collection of British box sets all in one place. BritBox UK includes both ITV and BBC box sets and has content partnerships with Channel 4 (including Film4 content) and Channel 5, and distribution partnerships with BT and EE.

Adjusted EBITA

The Directors assess the performance of the reportable segments based on a measure of adjusted EBITA. The Directors use this non-IFRS measurement basis as it excludes the effect of transactions that could distort the understanding of the Group's performance for the year and comparability between periods. See the Operating and Performance Review for the detailed explanation of the Group's use of adjusted performance measures. A reconciliation of adjusted EBITA to reported profit before tax is provided as follows:

	Ref.	2020 £m	2019 £m
Adjusted EBITA		573	729
Production tax credits		(12)	(36)
EBITA before exceptional items		561	693
Operating exceptional items	2.2	(118)	(84)
Amortisation and impairment		(87)	(74)
Net financing costs	4.4	(44)	(68)
Share of profits of joint ventures and associated undertakings		9	1
Gain on sale of non-current assets (exceptional items)		4	62
Reported profit before tax		325	530

Cash generated from operations

A reconciliation from profit before tax to cash generated from operations before exceptional items is as follows:

	Ref.	2020 £m	2019 £m
Cash flows from operating activities			
Reported profit before tax		325	530
Add back:			
Gain on sale of non-current assets (exceptional items)		(4)	(62)
Share of profits of joint ventures and associated undertakings		(9)	(1)
Net financing costs	4.4	44	68
Operating exceptional items	2.2	118	84
Depreciation of property, plant and equipment	3.2	57	56
Amortisation and impairment		87	74
Share-based compensation	4.8	6	10
Decrease/(increase) in programme rights and distribution rights		16	(18)
Decrease/(increase) in receivables and contract assets		2	(37)
Increase/(decrease) in payables and contract liabilities		119	(8)
Movement in working capital		137	(63)
Cash generated from operations before exceptional items		761	696

Operating costs

The major components of operating costs of £2,425 million (2019: £2,773 million) are network schedule costs of £935 million (2019: £1,091 million), staff costs of £473 million (2019: £491 million), depreciation, amortisation and impairment of £144 million (2019: £130 million) and operating exceptional items of £118 million (2019: £84 million). During the year, the Group received £21 million income under government support schemes resulting from the Covid-19 pandemic. This income is netted against staff costs.

Staff costs

Staff costs before exceptional items can be analysed as follows:

	2020 £m	2019 £m
Wages and salaries	382	400
Social security and other costs	55	53
Share-based compensation (see note 4.8)	6	10
Pension costs	30	28
Total staff costs	473	491
Less: staff costs allocated to productions	(191)	(199)
FTEE staff costs (non-production)	282	292

Exceptional staff costs are disclosed separately in note 2.2.

Full-time equivalent employees (FTEE) include those FTEEs that are allocated to the cost of productions during the year, however they exclude short-term contractors and freelancers who are engaged on productions. The weighted average FTEE over the year is:

	2020	2019
ITV Studios	3,893	4,205
Broadcast	2,380	2,211
	6,273	6,416

The decrease in full-time equivalent employees is primarily driven by restructuring activities in ITV Studios. Details of Directors' emoluments, share options, pension entitlements and long-term incentive scheme interests are set out in the Remuneration Report. ITV plc Executive Directors' gains on share options for 2020 are set out in the ITV plc Company financial information.

Depreciation

Depreciation in the year was £57 million (2019: £56 million), of which £36 million (2019: £35 million) relates to ITV Studios and £21 million (2019: £21 million) to Broadcast. See note 3.2 for further details.

Audit fees

The Group engages KPMG LLP (KPMG) on assignments additional to its statutory audit duties where its expertise and experience with the Group are important and are in line with Group's policy on auditor independence. Fees paid to KPMG and its associates during the year are set out below:

	2020 £m	2019 £m
For the audit of the Group's annual accounts	0.9	0.9
For the audit of subsidiaries of the Group	0.9	0.7
Audit-related assurance services	0.3	0.1
Total audit and audit-related assurance services	2.1	1.7
Other assurance services	–	0.1
Total non-audit services *	–	0.1
Total fees paid to KPMG	2.1	1.8

* See details of non-audit services in the Audit and Risk Committee Report.

There were no fees payable in 2020 or 2019 to KPMG and associates for the auditing of accounts of any associate or pension scheme of the Group, internal audit, and 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 excluded from management's assessment of profit because by their size or 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. 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 highlighted on the face of the income statement. See the Operating and Performance Review for the detailed explanation of the Group's use of adjusted performance measures. 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.	2020 £m	2019 £m
Operating exceptional items:			
Acquisition-related expenses	A	(13)	(75)
Restructuring and property-related costs	B	(11)	(24)
Pension related (costs) /credit	C	(6)	1
COVID-19 directly related net costs	D	(11)	–
Sports rights	E	(23)	–
Other	F	(54)	14
Total operating exceptional items		(118)	(84)
Tax on operating exceptional items		22	6
Total operating exceptional items net of tax		(96)	(78)
Non-operating exceptional items:			
Gain on sale of non-current assets	G	4	62
Total non-operating exceptional items		4	62
Tax on non-operating exceptional items		(1)	–
Total exceptional items net of tax		(93)	(16)

A – Acquisition-related expenses

Acquisition-related expenses of £13 million (2019: £75 million) relate to performance-based, employment-linked expected payments to former owners. In 2019, the expense also includes professional fees (mainly financial due diligence and legal costs in respect of potential acquisitions during the year).

B – Restructuring and property-related costs

Restructuring costs of £11 million (2019: £18 million) relate to one-off significant restructuring projects of the business. In 2019, property-related costs of £6 million related to the Group's former headquarters at The London Television Centre, which was sold in November 2019.

C – Pension related (costs)/credit

On 20 November 2020, a High Court ruling determined that pension schemes need to address inequalities between men and women in Guaranteed Minimum Pension (GMP) for those members that transferred out of the Schemes between May 1990 and October 2018. A past service cost for GMP Equalisation in transfers out of £1 million (2019: £nil) was recognised. Also during 2020, the Group completed the rectification of historical benefits of the members of the Network Section of Section A of the ITV Pension Scheme. The change in benefits of £5 million (2019: £nil) have been recognised as a past service cost in the current year. Further details are provided in section 3.7.

The UTV Pension Scheme was closed to future benefit accruals in March 2019. This resulted in a one-off, non-cash £1 million curtailment credit in 2019.

D – COVID-19 directly related net costs

Costs directly related to the COVID-19 pandemic have been recognised as exceptional items. These include £11 million related to the costs incurred in productions shutting down and restarting in a safe environment and additional one-off costs to maintain production during the lockdown for certain daytime shows.

E – Sports rights

As a result of the impact of COVID-19 on the planned sporting schedule for 2020 and 2021 and the consequential impact on TAR, along with changing forecasts of audience mix and revenues for certain sporting events, the Group has recognised an impairment for these sporting events included in programme rights and programme commitments of £23 million. It is not possible to split the impairment between that caused by the COVID-19 pandemic and underlying market movements.

F – Other

Included in other costs for the current year, is an estimate of the settlement in relation to the Box Clever case (£31 million (2019: £nil)), a provision of £19 million (2019: £nil) for an onerous transmission supply contract for excess satellite transponder capacity and £4 million (2019: £4 million) of other costs in relation to legal matters outside the normal course of business. See note 3.6 for further details.

During the year, we commenced a review of the efficiency of our transponder capacity usage with a view to reducing our capacity requirements. This has allowed us to reorganise our channels over fewer transponders with the result that we have cleared all channels from one transponder and are no longer utilising it. We have provided for an onerous contract of £19 million from the date the transponder was cleared. The transponder efficiency review is ongoing and we expect to clear a second transponder in 2021.

In 2019, following the Supreme Court's decision to refuse to hear the Group appeal in relation to Box Clever, the provision previously held was released as the Group could not reliably estimate the cost of resolving the matter at that time. This was offset by movements in the insured trade receivables provision and costs in relation to the cancellation of The Jeremy Kyle show.

G – Gain on sale of non-current assets

The gain on sale of non-current assets in 2020 arose primarily as a result of the sale of Freeview channel Merit.

The gain on sale of non-current assets in 2019 arose primarily as a result of the sale of the London Television Centre. Further details are provided in note 3.2. The tax charge on the gain is £nil, as a result of the significant tax base cost of the asset, and the availability of capital losses to offset the remaining chargeable gain.

2.3 Taxation

Keeping it simple

This section sets out the Group's 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 for the period and the movements in deferred tax assets and liabilities.

Accounting policies

The tax charge for the year is recognised in the income statement, the statement of comprehensive income and directly in equity, according to the accounting treatment of the related transactions. The tax charge comprises both current and deferred tax. The calculation of the Group's tax charge involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be fully determined until a resolution has been reached by the relevant tax authority.

Current tax

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

Deferred tax

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
- Differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Deferred tax is calculated using tax rates that are enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that sufficient taxable profit will be available to utilise the temporary difference. Recognition of deferred tax assets, therefore, involves judgement regarding the timing and level of future taxable income.

Deferred tax assets and liabilities are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set-off.

Taxation – Income statement

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

	2020 £m	2019 £m
Current tax:		
Current tax charge on profit before exceptional items	(73)	(84)
Current tax credit on exceptional items	21	3
	(52)	(81)
Adjustments related to prior periods	7	8
	(45)	(73)
Deferred tax:		
Origination and reversal of temporary differences	3	7
Deferred tax credit on exceptional items	–	3
Impact of changes to statutory tax rates	(2)	5
	1	15
Adjustments related to prior periods	–	6
	1	21
Total taxation charge in the income statement	(44)	(52)

In order to understand how, in the income statement, a tax charge of £44 million (2019: £52 million) arises on a profit before tax of £325 million (2019: £530 million), the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2020 £m	2019 £m
Profit before tax	325	530
Notional taxation charge at UK corporation tax rate of 19% (2019: 19%) on profit before tax	(62)	(101)
Non-taxable income/non-deductible expenses	2	(16)
Sale of the London Television Centre	–	12
Prior year adjustments	7	14
Other taxes	(4)	(4)
Previously unrecognised deferred tax assets	–	3
Current year losses not recognised	(3)	(1)
Impact of overseas tax rates	3	–
Impact of changes in tax rates	(2)	5
Production tax credits	15	36
Total taxation charge in the income statement	(44)	(52)

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

Adjustments to 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 current tax charge includes a £7 million credit relating to prior years. This adjustment has arisen following changes in estimates of taxes that have already become due, or will become due in the future.

Previously unrecognised deferred tax assets in the prior year are in relation to capital losses utilised against gains on sale of property.

The impact of overseas tax rates reflects the fact that some of our profits are earned in territories other than the UK and taxed at rates different from the UK corporation tax rate. In 2020, the total impact is £3 million credit (2019: £nil credit) due to losses arising in higher taxed jurisdictions, which were recognised through deferred tax, giving rise to a reconciling benefit.

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was announced on 3 March 2021. This will increase the Group's future current tax charge accordingly and have minimal impact on deferred tax.

The production tax credits included within the reconciliation above are UK High-End Television (HETV) tax credits and Children's Television tax credits, which are part of a group of incentives provided to support the creative industries in the UK. The ability to access these tax credits is fundamental when assessing the viability of investment decisions in the production of high-end drama and children's programmes. Under IFRS, these production tax credits are reported within the total taxation charge in the income statement. However, ITV considers them to be a contribution to production costs, and therefore working capital in nature, and excludes them from its adjusted tax charge, including them instead within Adjusted EBITA.

The effective tax rate is 13.5% (2019: 9.8%), and is the tax charge on the face of the income statement expressed as a percentage of the profit before tax. The tax rate is higher than in 2019 primarily because the 2019 tax rate was reduced by the disposal of the London Television Centre. As explained in the Finance Review, the Group uses an adjusted tax rate to show how tax impacts total adjusted earnings in a way that is more aligned with the Group's cash tax position. The adjusted tax rate is 18.0% (2019: 18.0%).

In 2020, the current year movement recognised in the income statement on origination and reversal of temporary differences (excluding exceptional items) is a credit of £3 million, compared with a credit of £7 million in 2019.

Taxation – Other comprehensive income (OCI) and equity

As analysed in the table below, a deferred tax charge of £8 million (2019: £22 million credit) on actuarial movements on pensions and a deferred tax credit of £5 million (2019: £nil) on derivative financial instruments has been recognised in other comprehensive income. A deferred tax credit of £3 million (2019: £nil) has been recognised in equity in respect of share-based payments.

A current tax credit of £2 million on foreign exchange movements net of hedging has been recognised in other comprehensive income (2019: £2 million charge). There is no current tax recognised in equity in relation to share-based payments (2019: £nil).

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 2020 £m	Other movements £m	Recognised in the income statement £m	Recognised in OCI and equity £m	Business acquisitions £m	Foreign exchange £m	At 31 December 2020 £m
Tangible assets	7	–	1	–	–	–	8
Intangible assets	(50)	–	10	–	–	(1)	(41)
Programme rights	1	–	(1)	–	–	–	–
Pension scheme deficits	8	–	(5)	(8)	–	–	(5)
Tax losses	37	–	–	–	–	(2)	35
Share-based compensation	6	–	(1)	3	–	–	8
Other temporary differences	9	–	(3)	5	–	(2)	9
	18	–	1	–	–	(5)	14

	At 1 January 2019 £m	Other movements £m	Recognised in the income statement £m	Recognised in OCI and equity £m	Business acquisitions £m	Foreign exchange £m	At 31 December 2019 £m
Tangible assets	5	–	2	–	–	–	7
Intangible assets	(66)	–	15	–	(1)	2	(50)
Programme rights	–	–	1	–	–	–	1
Pension scheme deficits	(6)	–	(8)	22	–	–	8
Tax losses	37	–	1	–	–	(1)	37
Share-based compensation	–	–	6	–	–	–	6
Other temporary differences	4	1	4	–	–	–	9
	(26)	1	21	22	(1)	1	18

At 31 December 2020, total deferred tax assets are £22 million (2019: £74 million) and total deferred tax liabilities are £8 million (2019: £56 million). After netting off balances within countries, there is a deferred tax asset of £34 million and a deferred tax liability of £20 million (2019: deferred tax liability of £29 million and a deferred tax asset of £47 million) recognised in the Consolidated Statement of Financial Position.

The deferred tax balances relate to:

- Property, plant and equipment temporary differences arising on assets qualifying for tax depreciation
- Temporary differences on intangible assets, including those arising on business combinations
- Programme rights – temporary differences on intercompany profits on stock
- Pension scheme deficit temporary differences on the IAS 19 pension deficit
- Temporary differences arising from the timing of the use of tax losses
- Share-based compensation temporary differences on share schemes
- Other temporary differences on provisions and derivative financial instruments

The deferred tax balance associated with the pension deficit reflects the current tax benefit obtained in 2020 following the employer contributions to the Group's defined benefit pension scheme. The adjustment in other comprehensive income to the deferred tax balance relates to the actuarial gain recognised in the year and a prior year adjustment.

A deferred tax asset of £425 million (2019: £458 million) in respect of capital losses of £2,237 million (2019: £2,696 million) has not been recognised due to uncertainties as to whether capital gains will arise in the appropriate form and relevant territories against which such losses could be utilised. The decrease in capital losses compared to the prior year has arisen due to a company with substantial capital losses being liquidated during the period. For the same reasons, total deferred tax assets of £17 million (2019: £16 million) in respect of overseas losses have not been recognised (including £4 million in respect of losses that expire between 2020 and 2027).

In line with our accounting policy on current tax, provisions are held on the balance sheet within current tax liabilities in respect of uncertain tax positions where management believes that it is probable that future payments of tax will be required. At the balance sheet date, these tax provisions were not material for the Group.

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 £285 million (2019: £473 million) divided by 4,002 million (2019: 4,000 million), being the weighted average number of shares in issue during the year, which excludes EBT shares held in trust (see note 4.8).

Diluted EPS reflects any commitments made by the Group to issue shares in the future and so it includes the impact of share options.

Adjusted EPS is presented in order to 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 reflects the impact of operating and non-operating exceptional items on Basic EPS. Other items excluded from Adjusted EPS are amortisation and impairment of intangible assets acquired through business combinations; net financing cost adjustments; and the tax adjustments relating to these items. Each of these adjustments is explained in detail in the section below.

The calculation of Basic EPS and Adjusted EPS, together with the diluted impact on each, is set out below:

Basic earnings per share

	2020 £m	2019 £m
Profit for the year attributable to equity shareholders of ITV plc	285	473
Weighted average number of ordinary shares in issue – million	4,002	4,000
Basic earnings per ordinary share	7.1p	11.8p

Diluted earnings per share

	2020 £m	2019 £m
Profit for the year attributable to equity shareholders of ITV plc	285	473
Weighted average number of ordinary shares in issue – million	4,002	4,000
Dilution due to share options	23	18
Total weighted average number of ordinary shares in issue – million	4,025	4,018
Diluted earnings per ordinary share	7.1p	11.8p

Adjusted earnings per share

	Ref.	2020 £m	2019 £m
Profit for the year attributable to equity shareholders of ITV plc		285	473
Exceptional items (net of tax)	A	93	16
Profit for the year before exceptional items		378	489
Amortisation and impairment of acquired intangible assets	B	52	44
Adjustments to net financing costs	C	6	22
Adjusted profit		436	555
Total weighted average number of ordinary shares in issue – million		4,002	4,000
Adjusted earnings per ordinary share		10.9p	13.9p

Diluted adjusted earnings per share

	2020 £m	2019 £m
Adjusted profit	436	555
Weighted average number of ordinary shares in issue – million	4,002	4,000
Dilution due to share options	23	18
Total weighted average number of ordinary shares in issue – million	4,025	4,018
Diluted adjusted earnings per ordinary share	10.8p	13.8p

Details of the adjustments to earnings are as follows:

A. Exceptional items (net of tax) £93 million (2019: £16 million)

Exceptional items of £114 million (2019: £22 million), net of related tax credit of £21 million (2019: £6 million). See note 2.2 for the detailed composition of exceptional items

B. Amortisation and impairment of acquired intangible assets of £52 million (2019: £44 million)

Amortisation and impairment of assets acquired through business combinations and investments of £87 million (2019: £74 million), excluding amortisation of software licences and development of £19 million (2019: £11 million), net of related tax credit of £16 million (2019: £19 million)

C. Adjustments to net financing costs £6 million (2019: £22 million)

Adjustments to net financing costs includes foreign exchange, pension interest charges and the unwind of discounting on acquisition related liabilities of £8 million (2019: £28 million), net of related tax credit of £2 million (2019: £6 million)

Notes to the Financial Information

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

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

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, trade and other receivables, trade and other payables and contract assets and liabilities.

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 ratio, a key performance indicator for the Group. For those subsidiaries acquired during the year, working capital at the date of acquisition is excluded from the profit to cash calculation so that only subsequent working capital movements in the period controlled by ITV are reflected in this metric.

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

3.1.1 Programme rights and commitments

Accounting policies

Rights are recognised when the Group controls the respective rights and the risks and rewards associated with them.

Programme rights not yet utilised 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.

Broadcast programme rights

Acquired programme rights (which include films) and sports rights are purchased for the primary purpose of broadcasting on the ITV family of channels, including VOD and SVOD platforms. These are recognised within current assets the earlier of when payments are made or when the rights are ready for exploitation. The Group generally expenses these rights through operating costs over a number of transmissions reflecting the pattern and value in which the right is consumed.

Commissions, which primarily comprise programmes purchased, based on editorial specification and over which the Group has some control, are recognised in current assets as payments are made and are generally expensed to operating costs in full on first transmission. Where a commission is repeated on any platform, incremental costs associated with the broadcast are included in operating costs.

The net realisable value assessment for acquired and commissioned rights (excluding sports rights) is based on estimated airtime value, with consideration given to whether the number of transmissions purchased can be efficiently played out over the licence period. The net realisable value is assessed on a portfolio basis unless specific indicators of impairment are identified.

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

As a result of the impact of COVID-19 on the planned sporting schedule for 2020 and 2021 and the consequential impact on TAR, along with changing forecasts of audience mix and revenues for certain sporting events, the Group has recognised an impairment for certain sporting events included in programme rights as well as onerous contract provisions for future commitments. Further details are provided in section 3.6.

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

	2020 £m	2019 £m
Acquired programme rights	169	173
Commissions	69	106
Sports rights	70	44
	308	323

£19 million relates to stock that will be transmitted in 2022 and beyond (2019: £3 million transmitted in 2021 and beyond)

Broadcast programme and transmission commitments

Transmission commitments are the contracted future payments under transmission supply agreements that require the use of transponder capacity for a period of up to ten years with payments increasing over time, limited by specific RPI caps. In 2020, we have recognised an onerous contract provision for £19 million in respect of transmission commitments. See note 3.6 for further details.

Programming commitments are transactions 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 and on BritBox UK.

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

2020	Transmission £m	Programme £m	Total £m
Within one year	35	479	514
Later than one year and not more than five years	95	465	560
	130	944	1,074
2019	Transmission £m	Programme £m	Total £m
Within one year	35	376	411
Later than one year and not more than five years	126	609	735
	161	985	1,146

3.1.2 Distribution rights

Accounting policies

Distribution rights are programme rights the Group buys from producers to derive future revenue, principally through licensing to other 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 period not exceeding five years, reflecting the value and pattern in which the right is consumed. 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.

The net book value of distribution rights at the year end is as follows:

	2020 £m	2019 £m
Distribution rights	18	22

During the year, £19 million was charged to the income statement (2019: £49 million).

3.1.3 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 information at their net present value to reflect the economic cost of delayed payment. The Group provides goods and services to substantially all of 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 expected loss model was applied to trade and other receivables and contract assets and the impact was not material.

The carrying value of trade receivables is considered to approximate fair value. Trade and other receivables can be analysed as follows:

	2020 £m	2019 £m
Due within one year:		
Trade receivables	360	309
Other receivables	49	55
Prepayments	49	49
	458	413
Due after more than one year:		
Trade receivables	33	34
Other receivables	13	29
	46	63
Total trade and other receivables	504	476

£393 million (2019: £343 million) of total trade receivables, stated net of provisions for impairment, are aged as follows.

	2020 £m	2019 £m
Current	357	280
Up to 30 days overdue	16	35
Between 30 and 90 days overdue	19	25
Over 90 days overdue	1	3
	393	343

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

	2020 £m	2019 £m
At 1 January	38	39
Charged during the year	12	1
Unused amounts reversed	(4)	(2)
At 31 December	46	38

Of the provision total, £45 million relates to balances overdue by more than 90 days (2019: £36 million) and less than £1 million relates to current balances (2019: £2 million).

3.1.4 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 current and non-current trade payables is considered to approximate fair value. Trade and other payables due within one year can be analysed as follows:

	2020 £m	2019 £m
Trade payables	54	66
VAT and social security	132	77
Other payables	237	238
Acquisition-related liabilities – employment-linked contingent consideration	157	151
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	6	–
Accruals	373	385
	959	917

3.1.5 Trade and other payables due after more than one year

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

	2020 £m	2019 £m
Trade payables	54	61
Other payables	15	5
Acquisition-related liabilities – employment-linked contingent consideration	7	14
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	39	32
	61	51
Total trade and other payables due after more than one year	115	112

Trade payables due after more than one year, relate primarily to film creditors of £35 million (2019: £33 million) and royalties of £19 million (2019: £28 million).

Acquisition-related liabilities or performance-based employment-linked earnouts are the estimated amounts payable to previous owners.

The estimated future payments, treated as exceptional employment costs (see note 2.2), are accrued over the period the sellers are required to remain with the business. Those amounts not linked to employment are estimated and recognised at acquisition at their time discounted value, with the unwind of the discount recorded as part of finance costs.

Acquisition related liabilities at 31 December 2020 were £209 million (2019: £197 million) which represents the amount accrued to date at their time discounted value. The total estimated future payments of £227 million (2019: £230 million) are sensitive to forecast profits as they are based on a multiple of earnings. The range of reasonably possible outcomes for the liability is between £139 million and £427 million. To arrive at ITV's current best estimate of the accrued liability at 31 December 2020, total future payments and the possible range of outcomes for the liability, the Directors have taken into account the views of external advisors. The liabilities due after more than one year are expected to be settled between 2022 and 2026.

The most material payable is to the previous owner of the shares in Talpa Media B.V (now known as ITV Studios Holding B.V.), purchased in 2015 for the initial cash consideration of €500 million (£362 million) with further payments dependent on Talpa's future performance, up to a maximum consideration, including the initial payment, of €1.1 billion across three earnouts. The first earnout was paid in 2017 (€100 million), the second earnout (in respect of the 2017, 2018 and 2019 years) is payable following determination of the earnout calculation for that period and the final payment will not fall due given that John de Mol did not exercise his option to extend the earnout to 2022. The determination of the second earnout is currently undergoing an assessment by the independent arbiter. Payment will be made following the conclusion of that process. The other significant earnouts included within our expected future payments include Tomorrow Studios and Cattleya.

All earnouts are sensitive to forecast profits as they are based on a multiple of earnings and judgement is required where there may be adjustments to forecasted profits or when earnouts are negotiated, hence the reason for the range noted above. In the case of Talpa's earnout, the outcome of the ongoing review in relation to funds received for the insured trade receivable could have a material impact. The treatment of this receipt could increase the earnout by £150 million, within the range noted above (see note 5.2).

3.1.6 Contract assets and liabilities

Contract assets (accrued income) primarily relate to the Group's right to consideration for work completed but not billed at the reporting date. Many of the programmes the Studios division produces are sold internationally and also used within the ITV network. Production work in progress is treated as a contract asset until the point the programme is completed.

Contract liabilities (deferred income) primarily relate to the consideration received from customers in advance of transferring a good or service. The following table provides movements in contract assets and liabilities in the period:

	2020		2019	
	Contract assets £m	Contract liabilities £m	Contract assets £m	Contract liabilities £m
Balance at 1 January	445	(219)	470	(255)
Decrease due to balance transferred to trade receivables	(409)	–	(462)	–
Increases as a result of the changes in the measure of progress	380	–	437	–
Decreases due to revenue recognised in the period	–	208	–	255
Increase due to cash received	–	(260)	–	(217)
Business combination	–	–	–	(2)
Balance at 31 December	416	(271)	445	(219)

Non-current contract assets of £7 million (2019: £3 million) is included in the above reconciliation.

3.1.7 Working capital management

Cash and working capital management has been a critical area of focus during 2020 and will continue to be in 2021. During the year, the cash inflow from working capital was £137 million (2019: outflow of £63 million) derived as follows:

	2020 £m	2019 £m
Decrease/(increase) in programme rights and distribution rights	16	(18)
Decrease/(increase) in receivables and contract assets	2	(37)
Increase/(decrease) in payables and contract liabilities	119	(8)
Working capital inflow/(outflow)	137	(63)

The working capital inflow/(outflow) excludes the impact of balances acquired on the acquisition of subsidiaries during the period (see note 3.4).

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 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.

Right of use assets

A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. These assets are called right of use assets and have been included on the Group's balance sheet at a value equal to the discounted future lease payments. For leases recognised on transition to IFRS 16 'Leases' the value is also adjusted by any prepayments or lease incentives recognised immediately before the date of initial application.

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*	3 to 20 years
Right of use assets	over the term of the lease

* Equipment includes studio production and technology assets.

Assets under construction are not depreciated until the point at which the asset comes into use by the Group.

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 and, in respect of 2020, the longer-term implications of the disruption caused by COVID-19. No impairments identified were linked directly to the pandemic.

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	Right of use assets*	Total
	£m	Long £m	Short £m	Owned £m	£m	£m
Cost						
At 1 January 2019	9	69	26	237	–	341
IFRS 16 transition	–	–	–	–	112	112
Additions	3	1	1	25	–	30
Foreign exchange	–	–	–	(4)	–	(4)
Disposals and retirements	–	–	–	(18)	–	(18)
At 31 December 2019	12	70	27	240	112	461
Additions	1	15	1	20	40	77
Foreign exchange	–	(1)	–	–	(1)	(2)
Disposals and retirements	(1)	(4)	–	(38)	(4)	(47)
At 31 December 2020	12	80	28	222	147	489
Depreciation						
At 1 January 2019	–	21	16	113	–	150
Charge for the year	1	2	–	28	25	56
Foreign exchange	–	–	–	3	–	3
Disposals and retirements	–	–	–	(17)	–	(17)
At 31 December 2019	1	23	16	127	25	192
Charge for the year	1	3	–	26	27	57
Foreign exchange	–	–	–	–	(1)	(1)
Disposals and retirements	–	(4)	–	(36)	(4)	(44)
At 31 December 2020	2	22	16	117	47	204
Net book value						
At 31 December 2020	10	58	12	105	100	285
At 31 December 2019	11	47	11	113	87	269

* Under the modified retrospective approach in IFRS 16 'Leases', the 1 January 2019 numbers are not restated.

Included within property, plant and equipment are assets in the course of construction of £17 million (2019: £14 million).

Included in net book value of right of use assets is £99 million (2019: £85 million) related to properties and £1 million (2019: £2 million) relating to vehicles, equipment and fittings.

Capital commitments

There is £1 million of capital commitments at 31 December 2020 (2019: £1 million).

3.3 Intangible assets

Keeping it simple

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

These assets include formats and 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 the '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, including goodwill, to ensure they have not fallen below their amortised value. Should an asset's value fall below its amortised value, an additional 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. Goodwill is stated at its recoverable amount being cost less any accumulated impairment losses and is allocated to the business to which it relates.

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 part of the business not yet owned (non-controlling interests)), less the fair value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. Any contingent consideration expected to be transferred in the future is 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 initially recognised in equity at fair value, which is established based on the value of the put option. 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 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. The Directors consider these costs to reflect the cost of acquisition and to form a part of the capital transaction, and highlight them separately as exceptional items.

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.

Other intangible assets

Intangible assets other than goodwill are those that are distinct and can be sold separately or which arise from legal rights.

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

Within ITV, there are two types of other intangible assets: those assets directly purchased by the Group for day-to-day operational purposes (such as software licences and development) and intangible assets identified as part of an acquisition of a business.

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

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

Class of intangible asset	Amortisation method	Estimated useful life	Valuation method
Brands	Straight-line	8 to 14 years	Applying a royalty rate to the expected future revenue over the life of the brand.
Formats	Straight-line	up to 8 years	Expected future cash flows from those assets 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.
Customer contracts	Straight-line or reducing balance as appropriate	up to 6 years	
Customer relationships	Straight-line	5 to 10 years	
Contractual arrangements	Straight-line	up to 10 years depending on the contract terms	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.
Licences	Straight-line	11 to 29 years depending on term of licence	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. PSB licences are valued as a start-up business with only the licence in place.
Libraries and other	Sum of digits or straight-line as appropriate	up to 20 years	Initially at cost and subsequently at cost less accumulated amortisation.
Software licences and development	Straight-line	1 to 10 years	Initially at cost and subsequently at cost less accumulated amortisation.

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, 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 ('CGU'), or group of CGUs, related to the goodwill. Total assets (which include goodwill) are grouped at the lowest levels for which there are separately identifiable cash flows.

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.

In testing for impairment, estimates are used in deriving cash flows and the discount rates. 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 associated with long-term forecasting. 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 information.

Impairment losses in respect of goodwill cannot be 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.

In the light of the uncertainty caused by the COVID-19 outbreak, the Group has assessed goodwill and other assets for impairment as at 31 December 2020.

There is a wide range of potential outcomes regarding the possible future performance of each of ITV Group's cash-generating units, Broadcast, ITV Studios and SDN. The Directors, however, do not consider that any reasonably possible changes in the key assumptions would cause the value in use of the Group's cash-generating units to fall below their carrying values.

Other non-current and current assets were also reviewed for impairment in light of the disruption caused by COVID-19 as at 31 December 2020. Impairments identified, which were linked directly to the pandemic, have been treated as exceptional items discussed in detail in note 2.2.

Intangible assets

Intangible assets can be analysed as follows:

	Goodwill £m	Formats and brands £m	Customer contracts and relationships £m	Contractual arrangements £m	Licences £m	Libraries and other £m	Software licences and development £m	Total £m
Cost								
At 1 January 2019	3,904	551	438	11	176	103	164	5,347
Additions	–	–	–	–	–	1	57	58
Acquisitions	9	–	6	–	–	–	–	15
Foreign exchange	(16)	(21)	(3)	–	–	(1)	–	(41)
Disposals, retirements and impairment	–	–	–	–	–	–	(14)	(14)
At 31 December 2019	3,897	530	441	11	176	103	207	5,365
Additions	–	–	–	–	–	1	21	22
Foreign exchange	(2)	17	–	–	–	(1)	–	14
At 31 December 2020	3,895	547	441	11	176	103	228	5,401
Amortisation and impairment								
At 1 January 2019	2,654	349	418	11	112	89	100	3,733
Charge for the year	–	44	7	–	6	4	11	72
Foreign exchange	–	(11)	(3)	–	–	(2)	(2)	(18)
Disposals, retirements and impairment	–	–	–	–	–	–	(14)	(14)
At 31 December 2019	2,654	382	422	11	118	91	95	3,773
Charge for the year	–	42	6	–	6	1	20	75
Foreign exchange	–	11	(1)	–	–	(1)	(1)	8
At 31 December 2020	2,654	435	427	11	124	91	114	3,856
Net book value								
At 31 December 2020	1,241	112	14	–	52	12	114	1,545
At 31 December 2019	1,243	148	19	–	58	12	112	1,592

Goodwill impairment tests

The carrying amount of goodwill for each CGU is represented as follows:

	2020 £m	2019 £m
ITV Studios	779	781
Broadcast	386	386
SDN	76	76
	1,241	1,243

There has been no impairment charge for any CGU during the year (2019: £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 long-term plan. Beyond the plan, these projections are extrapolated using an estimated nominal long-term growth rate of 1% (2019: 1.5%). The growth rate used is consistent with the long-term average growth rates for both the industry and the countries in which the CGUs are located and is appropriate because these are long-term businesses.

The discount rate has been updated 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.

ITV Studios

The goodwill for ITV Studios has arisen as a result of the acquisition of production businesses since 1999. Significant balances were created from the acquisition by Granada of United News and Media's production businesses in 2000 and the merger of Granada and Carlton in 2004 to form ITV plc. ITV Studios goodwill also includes the goodwill arising from acquisitions since 2012, with the largest acquisitions being Leftfield in 2014, followed by Talpa in 2015.

The key assumptions on which the forecast cash flows for the whole CGU were based include revenue (including international revenue and the ITV Studios share of ITV output, growth in commissions and hours produced), margins 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. No impairment was identified.

As part of the impairment review, sensitivity was applied to the main assumptions with no impairment identified (profit reduction between 12% and 23% in the five year outlook). The Directors believe that currently no reasonably possible change in the cash flow assumptions would reduce the headroom in this CGU to zero.

A pre-tax market discount rate of 7.7% (2019: 8.8%) has been used in discounting the projected cash flows.

Following the organisational redesign by ITV Studios, the Directors considered how assets and resources are shared across the ITV Studios division and the level of integration within the management structure for the purposes of reporting and strategic decision-making. They concluded that a single ITV Studios CGU continues to remain appropriate.

Broadcast

The goodwill in this CGU arose as a result of the acquisition of broadcasting businesses since 1999, the largest of which was the merger of Carlton and Granada in 2004 to form ITV plc, which was treated as an acquisition of Carlton for accounting purposes. Broadcast goodwill also includes the goodwill arising on acquisition of UTV Limited in February 2016.

The main assumptions on which the forecast cash flow projections for this CGU are based include: the performance and 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 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. No impairment was identified. Also as part of the impairment review, a sensitivity of a significant decline in the advertising market with no subsequent recovery was applied, with no impairment identified. The Directors believe that currently no reasonably possible change in these assumptions would reduce the headroom in this CGU to zero.

An impairment charge of £2,309 million was recognised in the Broadcast CGU in 2008, as a result of the downturn in the short-term outlook for the advertising market. The current year impairment review, set out above, results in significant headroom in excess of the 2008 impairment amount. Even though the advertising market has improved since then and the impaired assets are still owned and operated by the Group, due to accounting rules the impairment cannot be reversed.

A pre-tax market discount rate of 7.8% (2019: 8.7%) has been used in discounting the projected cash flows.

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. The licence is due for renewal in 2022.

The main assumptions on which the forecast cash flows are based are: income to be earned from renewals of medium-term contracts; the market price of available multiplex video streams; 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. No impairment was identified.

As part of the impairment review, sensitivity was applied to the main assumptions with no impairment identified (2020: -10% growth, 2021: -10% growth, no renewal of the licence to operate in 2022). The Directors believe that currently no reasonably possible change in the cash flow assumptions would reduce the headroom in this CGU to zero.

A pre-tax market discount rate of 11.4% (2019: 13.6%) has been used in discounting the projected cash flows.

3.4 Acquisitions

Keeping
it simple

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

Most of the deals are structured so that a large part of the payment made to the sellers ('consideration') is determined based on future performance. This is done so that the Group can both align incentives for growth, while reducing risk so that total consideration reflects actual performance, not expected.

IFRS accounting standards require some of this consideration to be included in the purchase price used in determining goodwill ('contingent consideration'). Examples of contingent consideration include top-up payments and recoupable performance adjustments. Any remaining consideration is required to be recognised as a liability or expense outside of acquisition accounting (put option liabilities and employment-linked contingent payments known as 'earnout' payments).

The Group considers the income statement impact of all consideration to be capital in nature and so excludes it from adjusted profit. Therefore, for each acquisition below, the distinction between the types of consideration has been explained in detail.

Acquisitions in the current year – 2020

There have been no acquisitions in 2020.

Acquisitions in the prior year – 2019

In 2019, the Group made payments totalling £11 million for two acquisitions within the ITV Studios operating segment. The businesses fit with the strategy of strengthening the Group's existing position as a producer and global distributor of world-class content.

Armoza International Media Limited

On 31 July 2019, the Group purchased 100% of the share capital of Armoza International Media Ltd, one of Israel's leading television developers and distributors.

Monumental Television Limited

On 18 July 2019, the Group increased its stake in Monumental Television from 26% to a 51% majority in the UK production company.

Acquisition accounting:

Put and call options over the non-controlling interest and performance-related top up payments have been granted, with payments expected in the next five years. The total maximum consideration for the two acquisitions in 2019 is capped at £62 million (undiscounted). All future payments are dependent on future performance of the businesses and linked to ongoing employment.

	2020 Total £m	2019 Total £m*
Consideration transferred:		
Initial consideration (net of cash acquired) (Note A)	–	11
Total consideration	–	11
Fair value of net assets acquired:		
Intangible assets	–	6
Deferred tax liabilities	–	(1)
Inventory	–	9
Trade and other receivables	–	6
Trade and other payables	–	(14)
Borrowings	–	(3)
Net assets held for sale	–	–
Fair value of net assets	–	3
Non-controlling interest measured at fair value (Note B)	–	1
Goodwill	–	9
Other information		
Present value of the expected liability on put options	–	–
Present value of the expected earnout payment at acquisition	–	7
Contributions to the Group's performance:		
From date of acquisition		
Revenue	–	9
EBITA before exceptionals	–	1
Proforma – January to December		
Revenue	–	19
EBITA before exceptionals	–	1

* Provisional values as the acquisition accounting is finalised in the 12 month period following acquisition.

Note A: Consideration for all acquisitions is net of cash acquired and estimated debt and working capital settlements. Cash acquired during the period is nil (2019: £4 million).

Note B: Non-controlling interest arises where the Group acquires less than 100% of the equity interest in a business, but obtains control.

3.5 Investments

Keeping it simple

The Group holds non-controlling interests in a number of different entities. Accounting for these investments, and the Group's share of any profits and losses, depends on the level of control or influence the Group is granted via its interest. The three principal types of non-consolidated investments are: joint arrangements (joint ventures or joint operations), associates, and equity investments.

A joint arrangement is an investment where the Group has joint control, with one or more third parties. An associate is an entity over which the Group has significant influence (i.e. power to participate in the investee's financial and operating decisions). Any other investment is an equity investment.

Accounting policies

For joint ventures and associates, the Group applies equity accounting. Under this method, it recognises the investment in the entity at cost and subsequently adjusts this for its share of profits or losses, which are recognised in the income statement within non-operating items and included in adjusted profit.

Where the Group has invested in associates by acquiring preference shares or convertible debt instruments, the share of profit recognised is usually £nil as no equity interest exists.

Equity investments are held at fair value unless the investment is a start-up business, in which case it is valued at cost and assessed for impairment.

The carrying amount of each category of our investments is represented as follows:

	2020 £m	2019 £m
Joint ventures	24	1
Associates	52	43
Equity investments	1	8
	77	52

Investments have increased during the year primarily due to an increase in investment in BritBox US (to increase our investment to 50%) and an investment in Bedrock Entertainment, a US Studios business which develops and produces premium television content. Further smaller investments have been made in line with Group's strategy to grow the international content business. The Group also recognised share of profits in equity accounted investments of £9 million.

In 2020, following the closure of Quibi the Group's investment was fully written down.

Significant investments in associates include £30 million (2019: £30 million) relating to a 45% investment Blumhouse TV Holdings LLC, a film and television production company in the US.

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	Property provisions £m	Legal and Other provisions £m	Total £m
At 31 December 2019	2	2	3	7
Additions	56	1	38	95
Utilised	(12)	–	–	(13)
Released	(9)	–	–	(8)
At 31 December 2020	37	3	41	81

Provisions of £59 million are classified as current liabilities (2019: £2 million). Unwind of the discount is £nil in 2020 and 2019.

- Contract provisions of £41 million (2019: £2 million) represent liabilities in respect of onerous contracts in relation to individual sports rights of £22 million (2019: £nil) and transmission capacity supply contract of £19 million (2019: £2 million).

The provision for sports rights is sensitive to the changes in the sporting schedule and consequential impact on TAR. As a result of the impact of COVID-19 and consequential changes to the sporting schedule, along with resulting changing forecasts of audience mix and revenues for certain sporting events, the Group has recognised a provision for the sporting events directly impacted by these changes. In calculating the provision, management has made estimates and used assumptions in determining the nature, amount and timing of potential outflows including the commercial impacts of the target audience that will be generated by those rights, scheduling of the events and revenue forecasts. A provision is recognised for rights where the estimated revenues are less than the obligation held. An initial provision was raised during the year for £37 million, of which £11 million has been utilised during the year and £8 million was released.

The onerous contract for the transmission supply contract of £19 million has been recognised in the current year as the capacity on the satellite transponder is no longer used by the Group. £2 million of the provision was utilised during the year. Management have applied judgement in their assessment that the individual element of the contract is separable from the remaining elements of the contract which are not considered onerous. The capacity on the satellite transponder is no longer used by the Broadcast business and is therefore not generating revenues. The contracted future commitment has therefore been recognised as a provision as there are no future economic benefits expected.

- Property provisions primarily relate to expected dilapidation costs at rental properties.
- Legal and Other provisions of £40 million (2019: £3 million) includes a provision of £31 million for the potential liability that may arise as a result of the Box Clever Financial Support Directions ('FSDs') being issued by the Pensions Regulator ('tPR').

The Box Clever Pension Scheme ('the Scheme') was managed from its establishment by an independent trustee and the Group has not had any commercial connection with the Box Clever business since it went into administrative receivership in 2003. After court proceedings in the Upper Tribunal and Court of Appeal were dismissed, certain companies within ITV were issued with FSDs by tPR on 17 March 2020. An FSD does not set out what form any financial support should take, nor its amount, and those issues have not yet been resolved as part of the legal process.

The legislation provides that any contribution that ITV may make must be considered reasonable and have regard to the Group's financial circumstances. If an agreement is reached with tPR there may not be an immediate cash flow impact. If an agreement cannot be reached then settlement may be protracted and subject to further legal proceedings over several years.

At 2003, the Scheme was estimated to have had a deficit on a buyout basis of £25 million. The most recent estimate of the deficit in the Box Clever Group Pension Scheme is £110 million as at 30 April 2020 and remains management's best estimate of the required provision. This estimate was calculated on a buyout basis, using membership data and benefits currently being provided in that Scheme, and based on membership data as of February 2020. Both of these valuations were of the whole Scheme, encompassing liabilities in respect of former employees of Granada's joint venture partner, Thorn, as well as former employees of the Group. Given the significant number of undecided issues as to the quantum and form of financial support, the Group will strongly contest any attempt to impose liability in an amount the Directors consider unreasonable.

The Directors continue to believe there are many important factors which need to be taken into account in any decision and therefore there remains a great deal of uncertainty around the quantum and form of financial support to be provided. The provision of £31 million is based on our proposal issued to the regulator on 31 July 2020 and represents the IAS 19 valuation, using market conditions at 30 April 2020. That proposal has not been accepted but it is expected that the Company and tPR will have discussions to try to resolve the matter on a consensual basis. No provision was held at 31 December 2019 as the Financial Support Direction (FSD) had not yet been issued and Management could not reliably estimate the provision as sufficient data around Scheme participants had not yet been received.

3.7 Pensions

Keeping it simple

In this note, we explain the accounting policies governing the Group's pension schemes, followed by analysis of the components of the net defined benefit pension deficit, including assumptions made, and where the related movements have been recognised in the financial information. In addition, we have placed text boxes to explain some of the technical terms used in the disclosure.

What are the Group's pension schemes?

There are two types of pension schemes. A 'Defined Contribution' scheme that is open to ITV employees, and a number of 'Defined Benefit' schemes that have been closed to new members since 2006 and closed to future accrual in 2017. In 2016, on acquisition of UTV Limited, the Group took over the UTV Defined Benefit Scheme, which closed to future accrual at the end of March 2019.

What is a Defined Contribution scheme?

The Defined Contribution scheme is where the Group makes fixed payments into a separate fund on behalf of those employees participating in saving for their retirement. ITV has no further obligation to the participating employee and the risks and rewards associated with this type of scheme are assumed by the members rather than the Group. Although the Trustee of the scheme makes available a range of investment options, it is the members' responsibility to make investment decisions relating to their retirement benefits.

What is a Defined Benefit scheme?

In a Defined Benefit scheme, members receive payments during retirement, the value of which is dependent on factors such as salary and length of service. The Group makes contributions to the scheme, a separate trustee-administered fund that is not consolidated in this financial information, but is reflected on the defined benefit pension deficit line in the consolidated statement of financial position.

The Trustee, appointed according to the terms of the Schemes' documentation, is required to act in the best interest of the beneficiaries and is responsible for managing and investing the assets of the Scheme and its funding position.

Schemes can be funded, where regular cash contributions are made by the employer into a fund which is invested. In the event of poor investment returns or increases in liabilities, the Group may need to address this through increased levels of contribution. Alternatively, schemes can be unfunded, where no regular money or assets are required to be put aside to cover future payments but in some cases security is required.

The accounting defined benefit pension deficit (IAS 19) is different from the actuarial valuation deficit as they are calculated on the basis of different assumptions, such as discount rate. The accounting defined benefit pension deficit (IAS 19) figure is calculated as at the balance sheet date, and the actuarial deficit was calculated for the last triennial valuation as of 1 January 2017 for the ITV Pension Scheme and 30 June 2017 for the UTV Pension Scheme. The 2020 Triennial valuations for each of the schemes are under way. The valuations are expected to be agreed during 2021.

Accounting policies

Defined contribution scheme

Obligations under the Group's defined contribution schemes are recognised as an operating cost in the income statement as incurred. For 2020, total contributions expensed were £25 million (2019: £23 million).

Defined benefit scheme

The Group's obligation in respect of the Defined Benefit Scheme is calculated by estimating the amount of future retirement benefit that eligible employees ('beneficiaries') have earned during their services. That benefit payable in the future is discounted to today's value and then the fair value of scheme assets is deducted to measure the defined benefit pension position.

Unless otherwise stated, references to Defined Benefit Schemes ('the Schemes') within this note refer to the ITV Pension Scheme, the unfunded scheme and the UTV Scheme combined. Details on each scheme are provided below.

The liabilities of the Schemes are measured by discounting the best estimate of future cash flows to be paid using the 'projected unit' method. These calculations are complex and are performed by a qualified actuary. There are many judgements and estimates necessary to calculate the Group's estimated liabilities, the main assumptions are set out later in this section. Movements in assumptions during the year are called 'actuarial gains and losses' and these are recognised in the period in which they arise through the statement of comprehensive income.

The accounting defined benefit pension surplus or deficit (IAS 19) is different from the actuarial valuation deficit as they are calculated on the basis of different assumptions, such as discount rate. The accounting defined benefit pension surplus or deficit (IAS 19) figure is calculated as at the balance sheet date, and the actuarial valuation deficit is calculated per the last triennial valuation.

The latest triennial valuation of the ITV Pension Scheme was undertaken as at 1 January 2017 by an independent actuary appointed by the Trustee of the Scheme and agreed in early 2018. The combined funding deficits of the ITV Pension Scheme as at 1 January 2017 amounted to £470 million.

The Trustee is in the process of undertaking a full actuarial valuation of the ITV Pension Scheme as at 1 January 2020, which we expect to agree during 2021. This valuation will drive subsequent contribution rates.

The Group continues to make deficit funding contributions in line with the most recent actuarial valuation in order to eliminate the deficits in each section. The IAS 19 deficit does not drive the deficit funding contribution.

An unfunded scheme in relation to former beneficiaries who accrued benefits in excess of the maximum allowed for tax purposes is accounted for under IAS 19 and the Group is responsible for meeting the pension obligations as they fall due. For the four former Granada executives within the unfunded scheme, there is additional security in the form of a charge over £62 million of securitised gilts held by the Group, which are classified as other pension assets to reflect the Group's net pension deficit.

Due to the size of the UTV Pension Scheme, the Directors present the results and position of the UTV Scheme within this note combined with the existing ITV Schemes. The latest triennial valuation was undertaken as at 30 June 2017. The Trustee is in the process of undertaking a full actuarial valuation as at 30 June 2020, which we expect to agree during 2021.

The principal employer of the ITV Pension Scheme is ITV Services Limited, the unfunded scheme is Granada Group Limited and the UTV Scheme is UTV Limited.

The defined benefit pension deficit

Net pension deficit of £26 million at 31 December 2020 (2019: £87 million) is stated after including the unfunded scheme security asset of £62 million (2019: £58 million).

The totals recognised in 2020 and 2019 are:

	2020 £m	2019 £m
Total defined benefit scheme obligations	(4,120)	(4,037)
Total defined benefit scheme assets	4,032	3,892
Defined benefit pension deficit (IAS 19)	(88)	(145)
Presented as:		
Defined benefit pension surplus*	22	17
Defined benefit pension deficit	(110)	(162)
Defined benefit pension deficit (IAS 19)	(88)	(145)
Other pension asset	62	58
Net pension deficit	(26)	(87)

* The defined benefit pension surplus relates solely to the UTV Scheme. The defined benefit scheme assets in the UTV Scheme were £142 million as at 31 December 2020 (2019: £133 million) and the defined benefit scheme obligations were £120 million (2019: £116 million).

The remaining sections provide further detail of the value of the Schemes' assets and liabilities, how these are accounted for and the impact on the financial information.

Defined benefit scheme obligations

Keeping it simple

What causes movements in the defined benefit pension obligations?

The areas that impact the defined benefit obligation (the pension scheme liabilities) position at the year end are as follows:

- **Past service cost** – is a change in present value of the benefits built up by the beneficiaries in the prior periods; can be positive or negative resulting from changes to the existing plan as a result of an agreement between ITV and employees or legislative change (including legal rulings) or as a result of significant reduction by ITV in the number of employees covered by the plan (curtailment)
- **Interest cost** – the pension obligations payable in the future are discounted to the present value at year end. A discount factor is used to determine the current value today of the future cost. The interest cost is the unwinding of one year's movement in the present value of the obligation. It is broadly determined by multiplying the discount rate at the beginning of the period by the updated present value of the obligation during the period. The discount rate is a key assumption explained later in this section. This interest cost is recognised through net financing costs in the income statement (see note 4.4)
- **Actuarial gains or losses** – there are broadly two causes of actuarial movements: 'experience' adjustments, which arise when comparing assumptions made when estimating the liabilities and what has actually occurred, and adjustments resulting from changes in actuarial assumptions e.g. movements in corporate bond yields or change in mortality. Key assumptions are explained in detail later in this section. Actuarial gains or losses are recognised through other comprehensive income
- **Benefits paid** – any cash benefits paid out by the Scheme will reduce the obligation
- **One-off events** – for example, the acquisition of UTV Limited

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

	2020 £m	2019 £m
Defined benefit obligation at 1 January	4,037	3,719
Past service cost		
– GMP equalisation	1	–
– ITV A rectification	5	–
– Curtailment credit for the UTV scheme closure to future accrual	–	(1)
Interest cost	81	103
Actuarial loss	183	410
Benefits paid	(187)	(194)
Defined benefit obligation at 31 December	4,120	4,037

Of the above total defined benefit obligation at 31 December 2020, £60 million relates to the unfunded schemes (2019: £60 million).

On 20 November 2020, a High Court ruling determined that pension schemes need to address inequalities between men and women in Guaranteed Minimum Pension (GMP) for those beneficiaries that transferred out of the Schemes between May 1990 and October 2018. An allowance of £1 million (2019: £nil) for GMP Equalisation was recognised as a past service cost in the current year.

During 2020, the Group completed the rectification of historical benefits for the members of the Network Section of Section A of the ITV Pension Scheme. The review, which involved detailed individual member calculations, amended the benefits of the Network Section members accrued between 1991 and 1997 in accordance with an agreement approved by the High Court in February 2019. As part of the review, changes to membership data were also identified. The change in benefits of £5 million (2019: £nil) have been recognised as a past service cost in the current year. The change in membership data of £7 million (2019: £nil) has been included within the actuarial loss in Other Comprehensive Income.

In March 2019, the UTV scheme closed to future accrual which resulted in a past service credit or curtailment credit of £1 million.

Assumptions used to estimate the Scheme obligations

Keeping it simple

What are the main assumptions used to estimate the Scheme obligations?

The main assumptions are:

- An estimate of increases in pension payments
- The life expectancy of beneficiaries
- The effect of inflation on all these factors and
- The discount rate used to estimate the present day fair value of these obligations

How do we determine the appropriate assumptions?

The Group takes independent actuarial advice relating to the appropriateness of the assumptions used.

IFRS requires that we estimate a discount rate by reference to high-quality fixed income investments in the UK that match the estimated term of the pension obligations.

The inflation assumption has been set by looking at the difference between the yields on fixed and index-linked Government bonds. The inflation assumption is used as a basis for the remaining financial assumptions, except where caps have been implemented.

The discount rate has therefore been obtained using the yields available on AA rated corporate bonds, which match projected cash flows. The Group's estimate of the weighted average term of the liabilities is 16 years (2019: 16 years).

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

	2020	2019
Discount rate	1.35%	2.05%
Inflation assumption (RPI) – before 2030	2.95%	3.00%
Inflation assumption (RPI) – post 2030	2.70%	3.00%
Rate of increase in pension payment (LPI ¹ 5% pension increases)	2.75%	2.90%
Rate of increase to deferred pensions (CPI)	2.05%	2.20%

1. Limited Price Index.

The Retail Prices Index ('RPI') reform consultation outcome was announced on 25 November 2020. The announcement means that from February 2030 onwards, increases in the RPI will be aligned with those under the Consumer Prices Index ('CPI'). For Defined Benefit schemes, it means that members with RPI-linked pension increases will see future retirement benefits increase more slowly from 2030 than they otherwise would. The Group updated its approach to setting RPI and CPI inflation assumptions as follows:

- The Group continued to set RPI inflation in line with the market break-even expectations less an inflation risk premium. The inflation risk premium has been increased from 0.25% at 31 December 2019 to 0.25% per annum pre-2030 and 0.5% per annum post-2030 at 31 December 2020. The estimated impact of the change in inflation risk premium in respect of Section A of the ITV Pensions Scheme is a reduction in the defined benefit obligation of approximately £40 million to £50 million. Section C of the ITV Pension Scheme, the Unfunded Scheme and the UTV Scheme is not expected to have a material change in the defined benefit obligations.
- For CPI, the Group changed the assumed difference between the RPI and CPI from 0.8% at 31 December 2019 to 1.00% per annum pre-2030 and 0% post-2030 at 31 December 2020. The change in approach is intended to be broadly equivalent to the prior year end.

The table below reflects published mortality investigation data in conjunction with the results of investigations into the mortality experience of Scheme beneficiaries. The assumed life expectations on retirement are:

	2020	2020	2019	2019
Retiring today at age	60	65	60	65
Males	26.3	21.7	27.3	22.6
Females	28.9	24.1	29.4	24.6
Retiring in 20 years at age	60	65	60	65
Males	27.6	22.8	28.9	24.1
Females	30.4	25.5	31.0	26.1

The net pension deficit is sensitive to changes in assumptions. These are disclosed further in this section.

Total defined benefit scheme assets

Keeping it simple

The Scheme holds assets across a number of different classes, which are managed by the Trustee, who consults with the Group on changes to its investment policy.

What are the pension Scheme assets?

At 31 December 2020, the Schemes' assets were invested in a diversified portfolio that consisted primarily of debt securities, infrastructure, property and insurance policies matching the pensions due to certain beneficiaries. The tables below set out the major categories of assets.

Financial instruments are in place in order to provide protection against changes in market factors (interest rates and inflation), which could act to increase the net pension deficit.

One such instrument is the longevity swap, which the Scheme transacted in 2011 to obtain protection against the effect of increases in the life expectancy of the majority of pensioner beneficiaries at that date. Under the swap, the Trustee agreed to make pre-determined payments in return for payments to meet the specified pension obligations as they fall due, irrespective of how long the beneficiaries and their dependants live. The difference in the present values of these two streams of payments is reflected in the Scheme assets. The swap had a nil valuation at inception and, using market-based assumptions, is subsequently adjusted for changes in the market life expectancy and market discount rates, in line with its fair value.

How do we measure the pension Scheme assets?

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

- Interest income on scheme assets – this is determined by multiplying the fair value of the Scheme assets by the discount rate, both taken as of the beginning of the year. This is recognised through net financing costs in the income statement
- Return on assets arise from differences between the actual return and interest income on Scheme assets and are recognised through other comprehensive income
- Employer's contributions are paid into the Scheme to be managed and invested and
- Benefits and administrative expenses paid out by the Schemes will lower the fair value of the Schemes' assets

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

	2020 £m	2019 £m
Fair value of Scheme assets at 1 January	3,892	3,632
Interest income on Scheme assets	78	102
Return on assets, excluding interest income	188	276
Employer contributions	67	82
Benefits paid	(187)	(194)
Administrative expenses paid	(6)	(6)
Fair value of Scheme assets at 31 December	4,032	3,892

How are the Schemes' assets invested?

At 31 December 2020, the Schemes' assets were invested in a diversified portfolio that consisted primarily of debt securities, infrastructure, property and insurance policies matching pensions due to certain beneficiaries. The Trustee is responsible for deciding the investment strategy for the Schemes' assets, although changes in investment policies require consultation with the Group. The assets are invested in different classes to hedge against unfavourable movements in the funding obligation. When selecting the mix of assets to hold, and considering their related risks and returns, the Trustee will weigh up the variability of returns against the target long-term rate of return on the overall portfolio.

The fair value of the Schemes' assets is shown in the following table by major category:

	Market value 2020 £m		Market value 2019 £m	
Liability hedging assets				
Fixed interest gilts	591		689	
Index-linked interest gilts	1,142		886	
Interest rate and inflation hedging derivatives (swaps and repos)	57		127	
	1,790	44%	1,702	43%
Other bonds	1,815	45%	1,425	37%
Return seeking investments				
Quoted equities	–		76	
Infrastructure	181		161	
Property	144		134	
Hedge funds/alternatives	2		49	
	327	8%	420	11%
Other investments				
Cash and cash equivalents	149		140	
Insurance policies	553		544	
Longevity swap fair value	(602)		(339)	
	100	2%	345	9%
Total Scheme assets	4,032		3,892	

Included in the above are overseas assets of £275 million (2019: £404 million), comprised of quoted equities of £nil (2019: £72 million) and other assets of £275 million (2019: £338 million).

In November 2018, the Pension Trustee entered into a bulk annuity insurance contract in respect of the benefits of two sections of the ITV Pension Scheme. This type of deal is also known as a 'Buy-in'. A buy-in is where the Trustee purchases an insurance policy which is effectively a Scheme asset which pays the members benefits. The ultimate obligation to pay the members benefits still remains with the scheme. The assets in respect of the buy-in are included in the insurance policies listed above

The Trustee entered into a longevity swap in 2011, which hedges the risk of increasing life expectancy over the next 70 years for 11,700 current pensioners at inception covering £1.7 billion of the pension obligation. The fair value of the longevity swap is negative due to declining mortality assumptions and equals the discounted value of the projected net cash flows resulting from the contract. The fair value loss has increased in 2020.

Defined pension deficit sensitivities

Keeping it simple

Which assumptions have the biggest impact on the Scheme?

It is important to note that comparatively small changes in the assumptions used may have a significant effect on the consolidated income statement and statement of financial position. This 'sensitivity' to change is analysed below to demonstrate how small changes in assumptions can have a large impact on the estimation of the defined benefit pension obligation. The Trustee manages the investment, mortality and inflation risks to ensure the pension obligations are met as they fall due.

The investment strategy is aimed at the Trustee's actuarial valuation deficit rather than IAS 19 defined pension deficit value. As such, the effectiveness of the risk hedging strategies on a valuation basis will not be the same as on an accounting basis. Those hedging strategies have significant impact on the movement in the net pension deficit as assumptions change, offsetting the impacts on the obligation disclosed below.

In practice, changes in one assumption may be accompanied by offsetting changes in another assumption (although this is not always the case). Changes in the assumptions may occur at the same time as changes in the market value of Scheme assets, which may or may not offset the changes in assumptions.

Changes in assumptions have a different level of impact as the value of the net pension deficit fluctuates, because the relationship between them is not linear.

The analysis below considers the impact of a single change in principal assumptions on the defined benefit obligation while keeping the other assumptions unchanged and does not take into account any risk hedging strategies:

Assumption	Change in assumption	Impact on defined benefit obligation
Discount rate	Increase by 0.1%	Decrease by £60 million
	Decrease by 0.1%	Increase by £60 million
Rate of inflation (Retail Price Index)	Increase by 0.1%	Increase by £30 million
	Decrease by 0.1%	Decrease by £30 million
Rate of inflation (Consumer Price Index)	Increase by 0.1%	Increase by £10 million
	Decrease by 0.1%	Decrease by £10 million
Life expectancies	Increase by one year	Increase by £185 million

The sensitivity analysis has been determined by extrapolating the impact on the defined benefit obligation at the year end with changes in key assumptions that might reasonably occur.

While the Schemes' risk hedging strategy is aimed at a valuation basis, the Directors estimate that on an accounting basis it would significantly reduce the above impact on the defined benefit obligation.

In particular, while an increase in assumption of life expectancies by one year would increase the defined benefit obligation by £185m, the assets would benefit from an estimated increase of the value of the longevity swap by £105 million and the value of the bulk annuity insurance contracts by £20 million, resulting in a net increase in the defined pension deficit of £60 million.

The insured assets in respect of the buy-in will move in line with the change to the defined benefit obligation, partially offsetting the change to the impacts in the table above.

Further, the ITV Pension Scheme invests in UK Government bonds and interest rate and inflation swap contracts and therefore movements in the defined benefit obligation are typically offset, to an extent, by asset movements.

What was the impact of movements on the Schemes' assets and liabilities?

The sections above describe how the Scheme obligations and assets are comprised and measured. The following section sets out the impact of various movements and expenses on the Scheme on the Group's financial information.

Amounts recognised through the income statement

Amounts recognised through the income statement are as follows:

	2020 £m	2019 £m
Amount charged to operating costs:		
Scheme administration expenses	(6)	(6)
	(6)	(6)
Amount charged to exceptional costs:		
Past service (cost)/credit	(6)	1
Amount charged to net financing costs:		
Net interest on net pension deficit	(2)	(1)
Total charged in the consolidated income statement	(14)	(6)

Amounts recognised through the consolidated statement of comprehensive income

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

	2020 £m	2019 £m
Remeasurement gains/(losses):		
Return on scheme assets excluding interest income	188	276
Actuarial gains/(losses) on liabilities arising from change in:		
– experience adjustments	35	7
– financial assumptions	(355)	(402)
– demographic assumptions	137	(15)
	(183)	(410)
Total recognised in the consolidated statement of comprehensive income	5	(134)

The £183 million actuarial loss on the Schemes' liabilities was principally due to changes in bond yields offset by updated demographic assumptions. The £188 million gain on the Schemes' assets follows a fall in the gilts yields. This has been partially offset by a fall in market implied inflation, reducing the value of the inflation-linked assets, and a fall in the value of the longevity swap.

Addressing the defined benefit pension deficit

Keeping it simple

The Group works closely with the Trustee to agree appropriate levels of funding for the Scheme. This involves agreeing a Schedule of Contributions at each triennial valuation, which specifies the contribution rates for the employer and, where relevant, scheme beneficiaries and the date these contributions are due. A recovery plan setting out the steps that will be taken to address a funding shortfall is also agreed.

In the event that the Group's defined benefit scheme is in a net liability position, the Directors must take steps to manage the size of the deficit. Apart from the funding agreements mentioned above, this could involve pledging additional assets to the Scheme, as was the case in the SDN and London Television Centre pension funding partnerships.

The levels of ongoing contributions to the Scheme are based on the expected future cash flows of the Scheme. Contributions in 2021 for administration expenses are expected to be in the region of £6 million (2020: £6 million) and deficit funding contributions for the main ITV scheme in 2021 are expected to be £60 million (2020: £45 million), assuming current contribution rates continue as agreed with the Trustee.

The Group's deficit funding contributions for the year was £45 million (2019: £60 million). As part of the action to tighten cash flows as a result of COVID-19, we agreed with the pension Trustees to defer £15 million of the 2020 funding contributions across 2022 to 2025. This is subject to the new funding schedule which will be finalised as part of the Triennial valuation in 2021.

The Group has two asset-backed pension funding agreements with the Trustee and makes annual payments of £11 million for 12 years from 2011, and also £3 million, increasing by 5% per annum until 2038. In 2021, a payment of £14 million is expected as a result of those agreements.

SDN Pension funding partnership

In 2010, ITV established a Pension Funding Partnership (PFP) with the Trustees backed by SDN which resulted in the assets of Section A of the defined benefit pension scheme being increased by £200 million. The Group is contracted to provide additional collateral to support the original value of the structure at the rate of £50.7 million each year from March 2019 to March 2022. The Trustee agreed to accept a letter of credit as an alternative to the 2019 and 2020 collateral instalment with the result that £152.1 million becomes due in March 2021, however if required we would look to agree with the Trustee a similar approach in respect of that payment. The pension funding agreement is currently being reviewed as the Group looks to replace it with an alternative asset. If the asset in the SDN structure is not replaced, the Group will pay to the pension scheme the lower of any deficit calculated on the funding basis in 2022 or £200 million.

London Television Centre pension funding partnership

In 2014, ITV established a Pension Funding Partnership with the Trustees backed by the London Television Centre which resulted in the assets of Section A of the defined benefit pension scheme being increased by £50 million. In November 2019 the London Television Centre was sold. £50 million of the proceeds has been held in a restricted bank account as a replacement asset in the pension funding arrangement.

Both these structures continue to be reviewed in 2021.

IFRIC 14 clarifies how the asset ceiling rules should be applied if the Schemes are expected to be in surplus, for example as a result of deficit funding agreements. The Group has determined that it has an unconditional right to a refund of any surplus assets if the Schemes are run off until the last member dies. On this basis, IFRIC 14 rules do not cause any change in the pension deficit accounting or disclosures.

Notes to the Financial Information

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. Maintaining capital discipline and balance sheet efficiency remains important to the Group. Any potential courses of action in relation to this will take into account the Group's liquidity needs, flexibility to invest in the business, pension deficit initiatives and impact on credit ratings.

The Directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results. The Directors take into account the available realised distributable reserves from which a dividend would be paid in addition to liquidity and solvency of the Group. The Directors also consider the capital structure and dividend policy in the context of the Group's ability to continue as a going concern, to execute the strategy and to invest in opportunities to grow the business and enhance shareholder value. The ITV plc Board oversees governance and approves tax and treasury related policies and procedures.

The emphasis throughout 2020 has been on the liquidity of the Group and, therefore, the Board withdrew the 2019 final dividend, decided not to pay a 2020 interim dividend and is not recommending the payment of a final 2020 dividend in light of the ongoing impact of the COVID-19 pandemic leading to continued economic uncertainty.

4.1 Net debt

Keeping it simple

Reported net debt is the Group's key measure used to evaluate total cash resources net of the current outstanding debt including our discounted lease liabilities. A full analysis and discussion of reported net debt and covenant net debt is included in the Operating and Performance Review.

The tables below analyse movements in the components of reported net debt during the year:

	1 January 2020 £m	Net cash flow £m	Acquisitions £m	Currency and non-cash movements £m	31 December 2020 £m
Cash	93	205	–	(2)	296
Cash equivalents	153	220	–	(1)	372
Total cash and cash equivalents	246	425	–	(3)	668
Loans and facilities due within one year	(10)	7	–	(4)	(7)
Loans and facilities due after one year	(1,016)	(5)	–	(57)	(1,078)
Total debt	(1,026)	2	–	(61)	(1,085)
Currency component of swaps held against euro denominated bonds	(24)	–	–	1	(23)
Net debt	(804)	427	–	(63)	(440)
Lease liabilities	(89)	26	–	(42)	(105)
Reported net debt including lease liabilities	(893)	453	–	(105)	(545)

	1 January 2019 £m	Net cash flow £m	Acquisitions* £m	Currency and non-cash movements £m	31 December 2019 £m
Cash	85	7	4	(3)	93
Cash equivalents	10	143	–	–	153
Total cash and cash equivalents	95	150	4	(3)	246
Loans and facilities due within one year	(54)	47	(3)	–	(10)
Loans and facilities due after one year	(993)	(84)	–	61	(1,016)
Total debt	(1,047)	(37)	(3)	61	(1,026)
Currency component of swaps held against euro denominated bonds	25	(25)	–	(24)	(24)
Net debt	(927)	88	1	34	(804)
Lease liabilities	(121)	35	–	(3)	(89)
Reported net debt including lease liabilities	(1,048)	123	1	31	(893)

* Balances as at acquisition date

Cash and cash equivalents

Included within cash equivalents is £50 million (2019: £50 million), the use of which is restricted to meeting the commitments under the asset-backed pension agreements, and £nil (2019: £25 million) restricted money market funds. See note 3.7 for further details on the asset-backed pension arrangements.

Loans and facilities due within one year

At various periods during the year, the Group drew down on the £630 million Revolving Credit Facility ('RCF') to meet short-term funding requirements. At 31 December 2020, the Group had drawings of £nil under the RCF (2019: £nil), leaving £630 million available to draw down. The maximum draw down of the RCF during the year was £210 million (2019: £400 million).

Loans and loan notes due after one year

The Group has in issue the following Eurobonds:

- €335 million at a fixed coupon of 2.125%, which matures in September 2022
- €259 million at a fixed coupon of 2.0%, which matures in December 2023
- €600 million at a fixed coupon of 1.375%, which matures in September 2026

The €600 million bond issued in September 2019 has been swapped back to sterling using a number of cross-currency interest rate swaps. The resulting fixed rate payable in sterling is c. 2.9%.

Available facilities

The Group has taken a series of steps to strengthen the Group's liquidity:

- In March 2020 the Group extended the maturity of its existing £300 million bilateral loan facility by 5 years to 30 June 2026. Utilisation requests are subject to the lender's ability to source ITV Credit Default Swaps (CDS) in the market at the time the utilisation request is made. The facility remains free of financial covenants and at 31 December 2020 £101 million of the facility was utilised as a letter of credit to support the Group's asset-backed pension scheme arrangement currently in place in respect of the defined benefit pension scheme. See section 3.7 for details.
- As noted above, the Group has £630 million of committed funding through a Revolving Credit Facility ('RCF') with a group of relationship banks which is available until 2023. The RCF documentation defines a leverage covenant (which has to be maintained at less than 3.5x) and an interest cover covenant (which has to be maintained at greater than 3.0x). Both are tested at 30 June and 31 December each year. During the first half of 2020, as a precautionary measure, these financial covenants were replaced with two new covenants requiring covenant net debt to be maintained below £1,800 million and covenant liquidity (defined as cash and cash equivalents plus unused committed credit lines) to be maintained at greater than £250 million. Both of these financial covenants are tested on a quarterly basis from 30 June 2020 through to 30 December 2021 when the testing of the leverage and interest cover financial covenant tests will be reinstated and the two new but temporary covenants fall away. All financial covenants were met and the facility remains available at 31 December 2020.
- The Group has £100 million available under a non-recourse receivables purchase agreement. As at 31 December 2020 £100 million was available under the agreement (31 December 2019: £nil).

4.2 Borrowings

The Group borrows money from financial institutions in the form of bonds, bank facilities and other financial instruments. The interest payable on these instruments is shown in the net financing costs note (note 4.4).

There are Board-approved policies in place to manage the Group's financial risks. Macroeconomic market risks, which impact currency transactions and interest rates, are discussed in note 4.3. Credit and liquidity risks are set out below.

- Credit risk: the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations and
- Liquidity risk: the risk that the Group will not be able to meet its financial obligations as they fall due

The Group is required to disclose the fair value of its debt instruments. The fair value is the amount the Group would pay a third party to transfer the liability. This estimation of fair value is consistent with instruments valued under level 1 in note 4.5.

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 rate basis.

Managing credit and liquidity risk

Credit risk

The Group's maximum exposure to credit risk is represented by the carrying amount of derivative financial assets (see note 4.3), trade receivables (see note 3.1.3), and cash and cash equivalents (see note 4.1).

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.

The Group also reviews other significant receivables and will seek to take out credit insurance on an individual basis where appropriate.

In 2016, the Group entered into a £100 million non-recourse receivables purchase agreement. As at 31 December 2020, this was not utilised with £100 million remaining available under the agreement (2019: £nil).

Any receivables in relation to the invoices sold are derecognised and the Group collects cash on behalf of the counterparty as payments fall due.

Cash

The Group operates investment guidelines with respect to surplus cash that emphasise preservation of capital. The guidelines set out procedures and limits on counterparty risk and maturity profile of cash placed. Counterparty limits for cash deposits are largely based upon long-term ratings published by the major credit rating agencies.

Borrowings

ITV is rated as investment grade by Moody's and S&P. 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.

Liquidity risk

The Group's financing policy is to fund itself for the medium to long-term by using debt instruments with a range of maturities and to ensure access to appropriate short-term borrowing facilities with a minimum of £250 million of undrawn facilities available at all times.

Long-term funding comes from the UK and European capital markets, while any short to medium-term debt requirements are provided through bank credit facilities totalling £930 million (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 any possible future impact on credit ratings and headroom and takes into account the accessibility of cash and cash equivalents.

The Group has a £630 million Revolving Credit Facility with a group of relationship banks. This facility matures in 2023 and is committed with leverage and interest cover financial covenants. In addition, the Group has £300 million of financial covenant free financing, which runs to June 2026.

Fair value versus book value

The tables below provide fair value information for the Group's borrowings:

	Maturity	Book value			Fair value	
		2020 £m	2019 £m		2020 £m	2019 £m
Loans due within one year						
Other short-term loans	Various	7	10		7	10
		7	10		7	10
Loans due in more than one year						
€335 (previously €600) million Eurobond	Sept 2022	299	283		308	297
€259 (previously €500) million Eurobond	Dec 2023	232	219		240	231
€600 million Eurobond	Sept 2026	537	508		553	511
Other long-term loans	Various	10	6		10	6
		1,078	1,016		1,111	1,045
		1,085	1,026		1,118	1,055

4.3 Managing market risks: derivative financial instruments

Keeping
it simple

What is a derivative?

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 exposure in an underlying variable.

The Group is exposed to certain market risks. In accordance with Board-approved policies, which are set out in this note, the Group manages these risks by using derivative financial instruments to hedge the underlying exposures.

Why do we need them?

The key market risks facing the Group are:

- Currency risk arising from:
 - i. Translation risk, that is the risk in the period of adverse currency fluctuations in the translation of foreign currency profits, assets and liabilities ('balance sheet risk') and non-functional currency monetary assets and liabilities ('income statement risk') and
 - ii. Transaction risk, that is the risk that currency fluctuations will have a negative effect on the value of the Group's non-functional currency trading cash flows. A non-functional currency transaction is a transaction in any currency other than the reporting currency of the subsidiary
- Interest rate risk to the Group arises from significant changes in interest rates on borrowings issued at or swapped to floating rates

How do we use them?

The Group mainly employs three types of derivative financial instruments when managing its currency and interest rate risk:

- Foreign exchange swap contracts are derivative instruments used to hedge income statement translation risk arising from short-term intercompany loans denominated in a foreign currency
- Forward foreign exchange contracts are derivative instruments used to hedge transaction risk so they enable the sale or purchase of foreign currency at a known fixed rate on an agreed future date and
- Cross-currency interest rate swaps are derivative instruments used to exchange the principal and interest coupons in a debt instrument from one currency to another

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

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the income statement, except where derivatives qualify for cash flow hedge accounting. In this case, the effective portion of a cash flow hedge is recognised in other comprehensive income and presented in the hedging reserve within equity. The cumulative gain or loss is later reclassified to the income statement in the same period as the relevant hedged transaction is realised. Derivatives with positive fair values are recorded as assets and negative fair values as liabilities.

Determining fair value

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 from third parties. 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 our current creditworthiness, as well as that of our swap counterparties.

Third-party valuations are used to fair value the Group's interest rate derivatives. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs.

How do we manage our currency and interest rate risk?

Currency risk

As the Group expands its international operations, the performance of the business becomes increasingly sensitive to movements in foreign exchange rates, primarily with respect to the US dollar and the euro.

The Group's foreign exchange policy is to use forward foreign exchange contracts to hedge material non-functional currency denominated costs or revenue for up to five years forward.

The Group ensures that its net exposure to foreign currency denominated cash balances is kept to a minimal level by using foreign currency swaps to exchange balances back into sterling or by buying or selling foreign currencies at spot rates when necessary.

The Group also utilises foreign exchange swaps and cross-currency interest rate swaps both to manage foreign currency cash flow timing differences and to hedge foreign currency denominated monetary items.

The Group's net investments in overseas subsidiaries may be hedged where the currency exposure is considered to be material. The Group designated a portion of its euro borrowings into a net investment hedge against its euro denominated assets following the acquisition of Talpa Media.

The following table highlights the Group's sensitivity to translation risk resulting from a 10% strengthening/weakening in sterling against the US dollar and euro, assuming all other variables are held constant:

	2020				2019			
	Revenue £m	Adjusted EBITA £m	Profit after tax £m	Equity £m	Revenue £m	Adjusted EBITA £m	Profit after tax £m	Equity £m
US dollar	±20-30	±0-2	±1	±36	±50-60	±7-9	±1	±38
Euro	±30-40	±3-5	±4	±16	±35-45	±4-6	±2	±17

The key difference between the foreign currency sensitivity for adjusted EBITA and profit after tax is the impact on the US dollar and euro denominated exceptional costs, including acquisition-related costs, acquired intangible amortisation and net financing cost.

Interest rate risk

The Group's interest rate policy is to allow fixed rate gross debt to vary between 20% and 100% of total gross debt to accommodate floating rate borrowings under the Revolving Credit Facility.

At 31 December 2020, the Group's fixed rate debt represented 99% of total gross debt (2019: 99%). Consequently, a 1% movement in interest rates on floating rate debt would impact the 2020 post-tax profit for the year by less than £1 million (2019: less than £1 million).

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.

What is the value of our 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.

At 31 December 2020	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	4	(2)
Foreign exchange forward contracts and swaps – fair value through profit or loss	2	(5)
Non-current		
Cross-currency interest swaps – cash flow hedges	–	(23)
Foreign exchange forward contracts and swaps – cash flow hedges	2	(1)
Foreign exchange forward contracts and swaps – fair value through profit or loss	–	–
	8	(31)

At 31 December 2019	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	3	(3)
Foreign exchange forward contracts and swaps – fair value through profit or loss	3	(2)
Non-current		
Cross-currency interest swaps – cash flow hedges	–	(39)
Foreign exchange forward contracts and swaps – cash flow hedges	–	(4)
Foreign exchange forward contracts and swaps – fair value through profit or loss	–	–
	6	(48)

Cash flow hedges

The Group applies hedge accounting for certain foreign currency firm commitments and highly probable cash flows where the underlying cash flows are payable within the next seven years. In order to fix the sterling cash outflows associated with the commitments and interest payments – which are mainly denominated in AUD or euros – the Group has taken out forward foreign exchange contracts and cross-currency interest rate swaps for the same foreign currency amount and maturity date as the expected foreign currency outflow.

The amount recognised in other comprehensive income during the period all relates to the effective portion of the revaluation loss associated with these contracts. There was less than £1 million (2019: less than £1 million) of ineffectiveness taken to the income statement and less than £1 million of cumulative gain (2019: £21 million loss) was recycled to the income statement in the year.

Under IFRS 9, the Group has adopted the 'cost of hedging' approach which allows the recognition of the value of the currency basis at inception of the hedge to be recorded on the Consolidated Statement of Financial Position and amortised through net financing costs in the Consolidated Income Statement over the life of the bond. Any mark-to-market change in fair value of the currency basis is recognised in 'cost of hedging' in the Consolidated Statement of Comprehensive Income.

Net investment hedges

The Group uses euro denominated debt to hedge against the change in the sterling value of its euro denominated net assets due to movements in foreign exchange rates. The fair value of debt in a net investment hedge was £216 million (2019: £209 million). A foreign exchange loss of £11 million (2019: gain of £12 million) relating to the net investment hedges has been netted off within exchange differences on translation of foreign operations as presented on the consolidated statement of comprehensive income.

Undiscounted financial liabilities

**Keeping
it simple**

The Group is required to disclose the expected timings of cash outflows for each of its financial liabilities (including derivatives). 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 2020	Carrying value £m	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	(1,085)	(1,155)	(26)	(318)	(261)	(550)
Lease liabilities	(105)	(118)	(27)	(29)	(31)	(31)
Trade and other payables	(850)	(850)	(796)	(43)	(11)	–
Contract liabilities	(271)	(271)	(271)	–	–	–
Other payables – non-current	(15)	(15)	–	(8)	(7)	–
Other payables – commitments on acquisitions	(209)	(227)*	(166)	(22)	(17)	(22)
Derivative financial instruments						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	6	170	113	50	7	–
Outflow	(3)	(169)	(113)	(49)	(7)	–
Cross-currency swaps – cash flow hedges						
Inflow	–	580	7	7	22	544
Outflow	(23)	(627)	(16)	(16)	(47)	(548)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	2	370	367	3	–	–
Outflow	(5)	(388)	(385)	(3)	–	–
	(2,558)	(2,700)	(1,313)	(428)	(352)	(607)

At 31 December 2019	Carrying value £m	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	(1,026)	(1,095)	(18)	(17)	(539)	(521)
Lease liabilities	(89)	(103)	(26)	(27)	(30)	(20)
Trade and other payables	(828)	(828)	(767)	(36)	(25)	–
Contract liabilities	(219)	(219)	(219)	–	–	–
Other payables – non-current	(5)	(5)	–	(4)	(1)	–
Other payables – commitments on acquisitions	(197)	(230)*	(162)	(2)	(59)	(7)
Derivative financial instruments						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	3	199	128	45	26	–
Outflow	(7)	(203)	(129)	(46)	(28)	–
Cross-currency swaps – cash flow hedges						
Inflow	–	557	7	7	21	522
Outflow	(39)	(642)	(16)	(16)	(47)	(563)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	3	339	335	4	–	–
Outflow	(2)	(338)	(334)	(4)	–	–
	(2,406)	(2,568)	(1,201)	(96)	(682)	(589)

* Undiscounted expected future payments depending on performance of acquisitions; the total maximum consideration is discussed in the Finance Review.

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

Our rationale for adjustments made to financing costs is set out in the Finance Review.

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, unwinding of the discount on provisions, unwinding of the discount on liabilities to non-controlling interest, foreign exchange gain/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.

Net financing costs

Net financing costs can be analysed as follows:

	2020 £m	2019 £m
Financing income		
Interest income	2	4
Foreign exchange gain	-	8
	2	12
Financing costs		
Interest expense on financial liabilities measured at amortised cost	(27)	(31)
Net pension interest (see note 3.7)	(2)	(1)
Foreign exchange loss	(3)	-
Other finance expense	(14)	(48)
	(46)	(80)
Net financing costs	(44)	(68)

Interest on financial liabilities relates to the interest incurred on the Group's borrowings in the year.

Other finance expense includes lease interest payments, interest on acquisition-related contingent liabilities and bank charges.

In 2019, the Group completed the buyback of €506 million of the Eurobonds and closed out the portfolio of cross-currency interest rate swaps taken out in 2016. This transaction resulted in the acceleration of amortisation of previously capitalised transaction costs on the bonds as well as one-off fees and premiums paid to the bond holders and was also recognised in other finance expense.

4.5 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). The different valuation methods are called 'hierarchies' and are described below.

Level 1

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

Level 2

Fair values are measured using inputs, other than quoted prices included within Level 1, which 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 are measured using inputs for the asset or liability that are not based on observable market data.

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

	Fair value 31 December 2020 £m	Level 1 31 December 2020 £m	Level 2 31 December 2020 £m	Level 3 31 December 2020 £m
Assets measured at fair value				
Financial instruments				
Other pension assets – gilts (see note 3.7)	62	62	–	–
Equity investments (see note 3.5)	1	–	–	1
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	2	–	2	–
Financial assets at fair value through reserves				
Cash flow hedges	6	–	6	–
	71	62	8	1

	Fair value 31 December 2020 £m	Level 1 31 December 2020 £m	Level 2 31 December 2020 £m	Level 3 31 December 2020 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts and swaps	(5)	–	(5)	–
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	(45)	–	–	(45)
Financial liabilities at fair value through reserves				
Cash flow hedges	(26)	–	(26)	–
	(76)	–	(31)	(45)

	Fair value 31 December 2019 £m	Level 1 31 December 2019 £m	Level 2 31 December 2019 £m	Level 3 31 December 2019 £m
Assets measured at fair value				
Financial instruments				
Other pension assets – gilts (see note 3.7)	58	58	–	–
Equity investments (see note 3.5)	8	–	–	8
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	3	–	3	–
Financial assets at fair value through reserves				
Cash flow hedges	3	–	3	–

	Fair value 31 December 2019 £m	Level 1 31 December 2019 £m	Level 2 31 December 2019 £m	Level 3 31 December 2019 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts and swaps	(2)	–	(2)	–
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	(32)	–	–	(32)
Financial liabilities at fair value through reserves				
Cash flow hedges	(46)	–	(46)	–

Refer to note 4.3 for how we value interest rate swaps and forward foreign currency contracts. The equity investments are valued at cost and assessed for impairment.

4.6 Lease liabilities

Keeping it simple

From 1 January 2019, the Group accounts for operating leases under IFRS 16 'Leases'. Lease liabilities representing the discounted future lease payments and right of use assets are recognised in the Statement of Financial Position. Lease costs such as property rent are now recognised in the form of depreciation and interest.

Accounting policies

Lease liabilities represent the discounted future lease payments. Discount rates are calculated for similar assets, in similar economic environments, taking into account the length of the lease. The unwinding of the discounting is recognised in net financing costs in the Income Statement. The following table outlines the maturity analysis of the lease liabilities:

	2020 £m	2019 £m
Contractual discounted cash flows		
Less than one year	22	25
Two to five years	42	50
More than five years	41	14
Lease liabilities at 31 December	105	89

	1 January 2020 £m	Net cash flow £m	Currency and non-cash movements £m	31 December 2020 £m
Lease liabilities	(89)	26	(42)	(105)
Total lease liabilities	(89)	26	(42)	(105)

The following amounts have been included in the Income Statement:

	2020 £m	2019 £m
Interest expense on lease liabilities	(4)	(4)
Operating costs relating to short-term leases and low value assets	—	—
Amounts recognised in the Income Statement	(4)	(4)

The Group has elected not to recognise right of use assets and lease liabilities for short-term leases (i.e. lease term less than 12 months) or low-value assets (i.e. under £5,000). The Group will continue to expense the lease payments associated with these leases on a straight-line basis over the lease term. At 31 December 2020, this was less than £1 million.

Variable lease payments that depend on an index or a rate are also less than £1 million.

Some property leases contain extension options beyond the non-cancellable period. The Group assesses at the lease commencement date whether it is reasonably certain to exercise the extension options. The lease liability at 31 December 2020 does not include such extensions however the Group estimated that the future lease payments, should it exercise the extension option, would result in an increase in the lease liability of £2 million.

4.7 Equity

Keeping it simple

This section explains material movements recorded in shareholders' equity, presented in the Consolidated Statement in Changes in Equity, which are not explained elsewhere in the financial information.

Accounting policies

Fair value reserve

Financial assets are stated at fair value, with any gain or loss recognised directly in the fair value 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. Dividends are distributed based on the realised distributable reserves (within retained earnings) of ITV plc (the Company) and not based on the Group's retained earnings.

4.7.1 Share capital and share premium

The Group's share capital at 31 December 2020 of £403 million (2019: £403 million) and share premium of £174 million (2019: £174 million) is the same as that of ITV plc. Details of this are given in the ITV plc Company financial information section.

4.7.2 Merger and other reserves

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

	2020 £m	2019 £m
Merger reserves	98	98
Capital reserves	112	112
Capital redemption reserves	36	36
Revaluation reserves	2	2
Put option liabilities arising on acquisition of subsidiaries	(24)	(24)
Total	224	224

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
- The gains or losses on the portion of cash flow hedges that have been deemed effective and costs of hedging under IFRS 9 (see note 4.3)
- The net loss on cash flow hedges in the period was £6 million (2019: net loss £17 million) and included a movement in the cost of hedging of £6 million (2019: £8 million)

4.7.4 Fair value reserve

The fair value reserve comprises all movements arising on the revaluation of gilts accounted for at fair value through OCI financial instruments. The movement in 2020 is a £4 million gain (2019: £9 million gain). See note 3.7.

4.7.5 Retained earnings

The retained earnings reserve comprises profit for the year attributable to owners of the Company of £285 million (2019: £473 million) and other items recognised directly through equity as presented in the consolidated statement of changes in equity. Other items include the credit for the Group's share-based compensation schemes and the charge for the purchase of ITV shares via the ITV Employees' Benefit Trust, which are described in note 4.8.

The distributable reserves of ITV plc are disclosed in note viii to the ITV plc Company financial information.

The Directors recognise the importance of the dividends to our shareholders and intends to restore dividend payments as soon as circumstances permit. The Directors will balance shareholder returns with our commitment to maintain investment grade metrics over the medium term, to continue to invest behind the strategy and with the ongoing uncertainty with COVID-19. In 2020, no dividend payments were made (2019: £320 million).

4.7.6 Non-controlling interests

Non-controlling interest (NCI) represents the share of non-wholly owned subsidiaries' net assets that are not directly attributable to the shareholders of the ITV Group. The movement for 2020 comprises:

- The share of losses attributable to NCI of £4 million (2019: share of profits attributable to NCI of £5 million)
- The distributions made to NCI of £1 million (2019: £2 million)
- The share of net assets attributable to NCI relating to subsidiaries acquired, disposed or changes in ownership interest in 2020 of £6 million (2019: £nil)

4.8 Share-based compensation

Keeping it simple

The Group utilises share award schemes as part of its employee remuneration packages, and therefore operates a number of share-based compensation schemes, namely the Deferred Share Award (DSA), Performance Share Plan (PSP), Long Term Incentive Plan (LTIP) and Save As You Earn (SAYE) schemes. The share-based compensation is not pensionable.

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 linked to the price or value of the Group's shares, this will also fall under a share-based transaction.

Accounting policies

For each of the Group's 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, for the SAYE scheme, a Black–Scholes model, taking into account the terms and conditions of the individual scheme.

Vesting conditions are limited to service conditions and performance conditions. 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. This estimate of the performance measures is used to determine the option fair value, discounted to present value. The Group revises the number of options that are expected to vest, including an estimate of forfeitures at each reporting date based on forecast performance measures. The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity.

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 DSA. During the year, all exercises were satisfied by using shares purchased in the market and held in the ITV Employees' Benefit Trust.

Share-based compensation charges totalled £6 million in 2020 (2019: £10 million).

Share options outstanding

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)	2020 Weighted average exercise price (pence)	Number of options (‘000)	2019 Weighted average exercise price (pence)
Outstanding at 1 January	60,073	36.88	44,022	49.33
Granted during the year – nil priced	34,192	–	19,754	–
Granted during the year – other	48,347	56.10	22,525	94.83
Forfeited during the year	(3,354)	83.27	(1,241)	128.35
Exercised during the year – nil priced	(6,017)	–	(2,805)	–
Exercised during the year – other	(3)	87.47	(24)	129.82
Expired during the year	(26,935)	76.87	(22,158)	87.09
Outstanding at 31 December	106,303	24.25	60,073	36.88
Exercisable at 31 December	2,247	34.42	3,090	55.78

The average share price during 2020 was 86.44 pence (2019: 126.10 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)	2020 Weighted average remaining contractual life (years)	Weighted average exercise price (pence)	Number of options ('000)	2019 Weighted average remaining contractual life (years)
Nil	–	62,666	1.26	–	38,685	2.25
20.00 – 49.99	49.17	34,413	3.70	–	–	–
50.00 – 69.99	–	–	–	–	–	–
70.00 – 99.99	80.00	6,019	2.91	87.47	13,335	3.73
100.00 – 109.99	105.98	1,043	2.22	105.98	2,685	3.21
110.00 – 119.99	–	–	–	–	–	–
120.00 – 149.99	131.50	1,939	1.10	131.18	3,481	2.11
150.00 – 199.99	167.99	200	1.53	162.25	1,851	0.84
200.00 – 249.99	206.83	23	0.33	206.83	36	1.33

Assumptions

DSA, LTIP and PSP options are valued directly by reference to the share price at date of grant.

The options granted in the current and prior years for the HMRC approved SAYE scheme, are valued using the Black–Scholes model, using the assumptions below:

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)
3 Year	4 April 2019	132.48	105.98	30.68	3.25	6.04	0.82	26.14
5 Year	4 April 2019	132.48	105.98	28.57	5.25	6.04	1.09	23.58
3 Year	5 September 2019	109.33	87.47	26.73	3.25	6.04	0.36	18.61
5 Year	5 September 2019	109.33	87.47	28.79	5.25	6.04	0.45	18.66
3 Year	7 April 2020	65.60	73.69	34.52	3.25	–	0.16	13.37
5 Year	7 April 2020	65.60	73.69	33.54	5.25	–	0.19	17.24
3 Year	7 September 2020	63.80	49.17	39.08	3.25	–	(0.10)	23.79
5 Year	7 September 2020	63.80	49.17	36.29	5.25	–	(0.04)	26.31

Notes to the Financial Information

Section 5: Other Notes

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 this financial information and primarily consist of the EBT's purchases of shares in ITV plc, which is accounted for as a reduction to retained earnings.

The table below shows the number of ITV plc shares held in the EBT at 31 December 2020 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 2020	25,425,533	2,542,553
LTIP releases		(139,810)	
DSA releases		(597,933)	
PSP releases		(2,685,206)	
SAYE releases		(3,212)	
Shares purchased		–	
	31 December 2020	21,999,372	2,199,937

The total number of shares held by the EBT at 31 December 2020 represents 0.55% (2019: 0.63%) of ITV's issued share capital. The market value of own shares held at 31 December 2020 is £23 million (2019: £38 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 that do not relate to restricted shares under the DSA. 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. The Trust is accounted for as a separate entity and therefore is only accounted for in the consolidated financial information and not included in the ITV plc Company financial information.

5.1 Related party transactions

Keeping it simple

The related parties identified by the Directors include joint ventures, associated undertakings, fixed asset investments and key management personnel.

To enable users of our financial information to form a view about the effects of related party relationships on the Group, we disclose the Group's transactions with those related parties during the year and any associated year end trading balances.

Transactions with joint ventures and associated undertakings

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

	2020 £m	2019 £m
Sales to joint ventures	17	19
Sales to associated undertakings	9	8
Purchases from joint ventures	29	28
Purchases from associated undertakings	63	64

The transactions with joint ventures primarily relate to sales and purchases of digital multiplex services with Digital 3&4 Limited and distribution revenue from BritBox LLC. Sales to associated undertakings include airline sales to DTV Services Limited. Purchases from associated undertakings primarily relate to the purchase of news services from ITN Limited.

All transactions with associated undertakings and joint ventures arise in the normal course of business on an arm's length basis.

The amounts owed by and to these related parties at the year end were:

	2020 £m	2019 £m
Amounts owed by joint ventures	9	14
Amounts owed by associated undertakings	5	7
Amounts owed to joint ventures	–	1
Amounts owed to associated undertakings	6	5

None of the balances are secured.

Amounts owed by joint ventures primarily relate to trading with BritBox LLC. Balances owed by associated undertakings largely relate to loan notes with Route 24 Limited. Balances owed to associated undertakings primarily relate to trading with ITN Limited.

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:

	2020 £m	2019 £m
Short-term employee benefits	6	11
Share-based compensation	–	4
	6	15

5.2 Contingent assets and liabilities

Keeping it simple

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

Contingent assets

In 2017 Talpa Media took back the licence for The Voice of China due to a breach of the agreement by the customer, Talent, for not fulfilling their payment obligations. During 2018 and 2019 £27 million has been received in relation to the amounts due. However, those receipts are currently the subject of an ongoing review. As a result the provision for bad debt, originally recognised as an exceptional cost in 2017, was reinstated at 31 December 2019.

Whilst the Directors remain confident of recovering the amounts due, accounting standards set very specific requirements for the recognition of an asset. As the review of the receipts remains in progress, as well as discussions with the credit insurers, the Group is not able to demonstrate sufficient certainty to be able to recognise a receivable at 31 December 2020.

Contingent liabilities

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.

5.3 Subsequent events

Keeping it simple

Where the Group receives information in the period between 31 December 2020 and the date of this report about conditions related to certain events that existed at 31 December 2020, 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 at 31 December 2020. If non-adjusting events are material, non-disclosure could influence the economic decisions that users make on the basis of the financial information. 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.

Announcement of change in UK corporation tax rate

On 3 March 2021, the UK Government announced a change in the UK corporation tax rate from 19% to 25% with effect from 1 April 2023. The rate change has not yet been enacted into law and therefore is not reflected in the deferred tax assets or liabilities as at 31 December 2020. The impact on deferred tax assets and liabilities is not expected to be material.

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 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. This exemption is taken in accordance with the Companies Act 2006 s479A.

Company number	Company name	Company number	Company name
04195187	12 Yard Productions (Investments) Limited	13087685	ITV Studios NEWCO 2 Limited
04145307	12 Yard Productions Limited	13087699	ITV Studios NEWCO 3 Limited
10058419	Back Productions Limited	13087693	ITV Studios NEWCO 4 Limited
10404493	Big Talk Bliss Limited	13087733	ITV Studios NEWCO 5 Limited
10496857	Big Talk Cold Feet Limited	13087735	ITV Studios NEWCO 6 Limited
10528766	Big Talk Diana Limited	13087759	ITV Studios NEWCO 7 Limited
12092620	Big Talk Friday Limited	13087782	ITV Studios NEWCO 8 Limited
11109596	Big Talk Goes Wrong Limited	13087812	ITV Studios NEWCO 9 Limited
11081338	Big Talk Guilty Limited	08516153	ITV Text Santa Limited
10528952	Big Talk Living the Dream Limited	11107934	ITV The Bay Limited
11109753	Big Talk Mum Limited	10602705	ITV The Man Limited
11723899	Big Talk Offenders Limited	08586211	ITV Thunderbirds Limited
11109572	Big Talk Peacock Limited	12368504	ITV TLC Limited
11109865	Big Talk Time Limited	09498177	ITV Top Class Limited
01891539	Broad Street Films Limited	13087805	ITV TWI Limited
02285229	Campania Limited	11107431	ITV Vera Limited
05078683	Carbon Media Limited	05518785	Juice Music UK Limited
04159249	Carlton Content Holdings Limited	00920028	Link Electronics Limited
00301188	Carlton Film Distributors Limited	11108285	Mammoth Screen (ABC) Limited
01692483	Carlton Finance Limited	12368661	Mammoth Screen (BHR) Limited
03984490	Carlton Food Network Limited	10528827	Mammoth Screen (End5) Limited
03053908	Carlton Programmes Development Limited	11109917	Mammoth Screen (End6) Limited
03210452	Carlton Screen Advertising (Holdings) Limited	11908267	Mammoth Screen (END7) Limited
03307790	Carltonco 103 Limited	12368766	Mammoth Screen (End8) Limited
02625225	Carltonco Forty Investments Limited	11995990	Mammoth Screen (Invisible) Limited
03210363	Carltonco Ninety-Six Limited	12735978	Mammoth Screen (MD2) Limited
02280048	Castlefield Properties Limited	11062257	Mammoth Screen (NC) Limited
04257248	Channel TV Holdings Limited	11908285	Mammoth Screen (PH) Limited
02852812	Cosgrove Hall Films Limited	09660486	Mammoth Screen (Pol2) Limited
03209058	DTV Limited	10031005	Mammoth Screen (Pol3) Limited
00290076	Granada Group Limited	10528763	Mammoth Screen (Pol4) Limited
03962410	Granada Limited	11108289	Mammoth Screen (Pol5) Limited
03106798	Granada Media Limited	09646520	Mammoth Screen (QV) Limited
05344772	Granada Screen (2005) Limited	11108327	Mammoth Screen (Serpent) Limited
00733063	Granada Television Overseas Limited	11204836	Mammoth Screen (SG) Limited
00608490	ITC Entertainment Group Limited	10528702	Mammoth Screen (VF) Limited
06914987	ITV (HC) Limited	11108322	Mammoth Screen (Vic3) Limited
11516620	ITV 112 Limited	11108320	Mammoth Screen (WOF) Limited
11423730	ITV Bancroft 2 Limited	10973979	Mammoth Screen (WOTW) Limited
11667230	ITV Barking Limited	04201477	Morning TV Limited
11107990	ITV Confession Limited	12368748	MT Ghosts 3 Limited
10494684	ITV Enterprises Limited	13087117	MT MURDER IN PROVENCE Limited
11723800	ITV F&B Limited	10789616	The Garden Productions (Film) Limited
10671435	ITV HG Limited	06469484	VOD Member (ITVA) Limited
04159210	ITV Holdings Limited	06469482	VOD Member (ITVB) Limited
04206925	ITV Investment Limited	11109744	WP (Anne) Limited
04033106	ITV Mr Selfridge Limited	10796122	WP (Bodyguard) Limited
11723842	ITV Nightingale Limited	12368477	WP (NEWCO 7) Limited
00603471	ITV Pension Scheme Limited	12368643	WP Diplomat Limited
03799828	ITV Play Limited	11109437	WP Faslane Limited
01565625	ITV Properties (Developments) Limited	12116627	WP Karen Pirie Limited
08554937	ITV Shetland Limited	11109287	WP LOD5 Limited
11723826	ITV Spy Limited	12116457	WP LOD6 Limited
13087656	ITV Studios NEWCO 1 Limited	12116461	WP Pembrokeshire Limited
13087860	ITV Studios NEWCO 10 Limited	11109929	WP Save Me 2 Limited
13087865	ITV Studios NEWCO 11 Limited	12368475	WP Showtrial Limited

- ITV Properties (Jersey) Limited is exempt from audit under article 113 of the Companies Act (Jersey) Law 1991

ITV plc Company Financial Information

Company Balance Sheet

As at 31 December	Note	2020 £m	2020 £m	2019 £m	2019 £m
Non-current assets					
Investments in subsidiary undertakings	iii		2,733		2,733
Derivative financial instruments	vi		3		4
Deferred tax asset			1		1
			2,737		2,738
Current assets					
Amounts owed by subsidiary undertakings due within one year	iv	3,782		4,236	
Amounts owed by subsidiary undertakings due after more than one year	iv	509		305	
Amounts owed by subsidiary undertakings	iv	4,291		4,541	
Derivative financial instruments	vi	9		9	
Other receivables		4		5	
Cash and cash equivalents		449		108	
		4,753		4,663	
Current liabilities					
Amounts owed to subsidiary undertakings	iv	(4,197)		(4,070)	
Accruals and deferred income		(7)		(16)	
Derivative financial instruments	vi	(11)		(9)	
		(4,215)		(4,095)	
Net current assets			538		568
Total assets less current liabilities			3,275		3,306
Non-current liabilities					
Borrowings	v	(1,067)		(1,010)	
Derivative financial instruments	vi	(25)		(42)	
			(1,092)		(1,052)
Net assets			2,183		2,254
Capital and reserves					
Share capital	vii		403		403
Share premium	viii		174		174
Other reserves	viii		10		22
Retained earnings	viii		1,596		1,655
Total equity			2,183		2,254

The accounts were approved by the Board of Directors on [-] March 2021 and were signed on its behalf by:

Chris Kennedy
Director

Company Statement of Changes in Equity

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Balance at 1 January 2020		403	174	22	1,655	2,254
Total comprehensive income for the year						
Loss		–	–	–	(65)	(65)
Net loss on cash flow hedges and cost of hedging		–	–	(12)	–	(12)
Total comprehensive income for the year		–	–	(12)	(65)	(77)
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Equity dividends		–	–	–	–	–
Movements due to share-based compensation		–	–	–	6	6
Tax on items taken directly to equity		–	–	–	–	–
Total transactions with owners		–	–	–	6	6
Balance at 31 December 2020	vii/viii	403	174	10	1,596	2,183

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Balance at 1 January 2019		403	174	37	1,612	2,226
Total comprehensive income for the year						
Profit		–	–	–	353	353
Net loss on cash flow hedges and cost of hedging		–	–	(15)	–	(15)
Total comprehensive income for the year		–	–	(15)	353	338
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Equity dividends		–	–	–	(320)	(320)
Movements due to share-based compensation		–	–	–	10	10
Tax on items taken directly to equity		–	–	–	–	–
Total transactions with owners		–	–	–	(310)	(310)
Balance at 31 December 2019	vii/viii	403	174	22	1,655	2,254

Notes to the ITV plc Company Financial Information

Note i Accounting policies

In this section

This section sets out the notes to the ITV plc Company only financial information. This information forms the basis of the dividend decisions made by the Directors, as explained in detail in note viii below. The notes form part of the financial information.

Basis of preparation

The Company is a qualifying entity as it is a member of the ITV plc Group where ITV plc, the ultimate parent prepares publicly available consolidated financial statements. This financial information was prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101').

In preparing this financial information, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Exemptions applied

- Presentation of a Statement of Cash Flows and related notes
- Disclosure in respect of capital management
- Disclosure of related party transactions between wholly-owned subsidiaries and parents within a group
- Disclosures required under IFRS 2 'Share Based Payments' in respect of group settled share based payments
- Disclosures required by IFRS 7 'Financial Instrument: Disclosure'
- Certain disclosures required under IFRS 13 'Fair Value Measurement'
- Disclosure of information in relation to new standards not yet applied

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

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

Change in accounting policy

There are no new accounting standards, interpretations and amendments effective from 1 January 2020.

Accounting judgements and estimates

The preparation of financial information requires management to exercise judgement in applying the Company's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The area involving material judgement is the recoverability of investments in subsidiary undertaking. Further details are provided in note iii.

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.

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, except where derivatives qualify for cash flow hedge accounting. In this case, the effective portion of cash flow hedge is recognised in retained profits within equity. The cumulative gain or loss is later reclassified to the profit and loss account in the same period as the relevant hedged transaction is realised. 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.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment in respect of previous years.

The Company recognises liabilities for anticipated tax issues based on estimates 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 current tax and deferred tax provisions in the period in which such determination is made.

Deferred tax

The tax charge for the period is recognised in the income statement or directly in equity according to the accounting treatment of the related transaction.

Deferred tax arises due to certain temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and those for taxation purposes. 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 timing and level of future taxable income.

Share-based compensation

The Company utilises share award schemes as part of its employee remuneration packages, and therefore operates a number of share-based compensation schemes, namely the Deferred Share Award (DSA), Performance Share Plan (PSP), Long Term Incentive Plan (LTIP) and Save As You Earn (SAYE) schemes.

A transaction will be classed as share-based compensation where the Company receives services from employees and pays for these in shares or similar equity instruments. If the Company incurs a liability based on the price or value of the shares, this will also fall under a share-based transaction. The Company recognises the retained earnings impact of the share-based compensation for the Group as awards are settled in ITV plc shares. The cost of providing those awards is recognised as a cost of investment to the subsidiaries that receive the service from employees.

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, for the SAYE scheme, a Black–Scholes model, taking into account the terms and conditions of the individual scheme.

Vesting conditions are limited to service conditions and performance conditions. For performance-based schemes, the relevant performance measures are projected to the end of the performance period in order to determine the number of options expected to vest. The estimate is then used to determine the option fair value, discounted to present value. The Company revises its estimates of the number of options that are expected to vest, including an estimate of forfeitures at each reporting date. The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity.

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 DSA. During the year, all exercises were satisfied by using shares purchased in the market and held in the ITV Employees' Benefit Trust. The Trust is accounted for as a separate entity and therefore is only accounted for in the consolidated financial information.

Dividends to shareholders

Dividends payable to shareholders are recognised through equity on the earlier of their approval by the Company's shareholders or their payment. Dividends are distributed based on the realised distributable reserves (within retained earnings) of ITV plc (Company) and not based on the Group's retained earnings.

Note ii Employees and share- based payments

Two (2019: two) Directors of ITV plc (i.e. the Executive Directors) were employees of the Company during the year, both of whom remain employed at the year end. The costs relating to these Directors are disclosed in the Remuneration Report.

Share-based payments

The weighted average share price of share options exercised during the year was 87.47 pence (2019: 129.82 pence) (excluding nil priced share options). The options outstanding at the year end have an exercise price in the range of [nil] to 206.83 pence (2019: nil to 206.83 pence) and a weighted average contractual life of two years (2019: one year) for all the schemes in place for the Group.

Note iii Investments in subsidiary undertakings

The principal subsidiary undertakings are listed in the Annual Report. The carrying value at 31 December 2020 was £2,733 million (2019: £2,733 million).

The carrying value of the Company's investments in subsidiary undertakings is assessed for impairment on an annual basis. Determining whether the carrying amount has any indication of impairment requires judgement. In testing for impairment, estimates are used in deriving cash flows and the discount rates. The estimation process is complex due to the inherent risks and uncertainties associated with long-term forecasting. The outcome of the value in use calculation supports the carrying value of the investment in subsidiary undertakings with headroom of £5,009 million.

Due to the significant headroom, there is no reasonably possible scenario that would result in a material adjustment to the amounts reported in the financial information.

The Company's review resulted in no impairment for 2020 (2019: no impairment).

Note iv Amounts owed (to)/from subsidiary undertakings

The Company operates an intra-group cash pool policy with certain 100% owned UK subsidiaries. The pool applies to bank accounts where there is an unconditional right of set off and involves the daily closing cash position for participating subsidiaries whether positive or negative, being cleared to £nil via daily bank transfers to/from ITV plc. These daily transactions create a corresponding intercompany creditor or debtor, which can result in significant movements in amounts owed to and from subsidiary undertakings in the Company balance sheet. The classification of balances as due after more than one year is based on the intention of when the balances are expected to be settled rather than the contractual terms. The expected loss model was applied to amounts owed from subsidiary undertakings and the impact was not material.

Note v Net debt

Keeping it simple

The Directors manage the Group's capital structure as disclosed in section 4 to the consolidated financial information. Borrowings, cash and derivative financial instruments are mainly held by ITV plc and disclosed in this Company financial information.

Cash and cash equivalents

Included within cash equivalents is £50 million (2019: £50 million), the use of which is restricted to meeting the commitments under the asset-backed pension agreements, and £nil (2019: £22 million) restricted money market funds. See note 3.7 for further details on the asset-backed pension arrangements.

Loans and facilities due within one year

At various periods during the year, the Group drew down on the £630 million Revolving Credit Facility ('RCF') to meet short-term funding requirements. At 31 December 2020, the Group had drawings of £nil million under the RCF (2019: £nil), leaving £630 million available to draw down at year end. The maximum draw down of the RCF during the year was £210 million (2019: £400 million).

Loans and loan notes due after one year

The Company has issued the following Eurobonds:

- €335 million at a fixed coupon of 2.125%, which matures in September 2022
- €259 million at a fixed coupon of 2.0%, which will mature in December 2023
- €600 million at a fixed coupon of 1.375%, which matures in September 2026

The €600 million bond issued in September 2019 has been swapped back to sterling using a number of cross-currency interest rate swaps. The resulting fixed rate payable in sterling is c. 2.9%.

See section 4.1 of the Group Notes for further details of borrowings and available facilities.

Note vi Managing market risks: derivative financial instruments

What is the value of our derivative financial instruments?

	Assets 2020 £m	Liabilities 2020 £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	6	(5)
Foreign exchange forward contracts and swaps – fair value through profit or loss	3	(6)
Non-current		
Cross-currency interest swaps – cash flow hedges	–	(22)
Foreign exchange forward contracts and swaps – fair value through profit or loss	3	(3)
Foreign exchange forward contracts and swaps – cash flow hedges	–	–
	12	(36)

	Assets 2019 £m	Liabilities 2019 £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	6	(6)
Foreign exchange forward contracts and swaps – fair value through profit or loss	3	(3)
Non-current		
Cross-currency interest swaps – cash flow hedges	–	(38)
Foreign exchange forward contracts and swaps – fair value through profit or loss	–	–
Foreign exchange forward contracts and swaps – cash flow hedges	4	(4)
	13	(51)

The Company mainly employs three types of derivative financial instruments when managing its currency and interest rate risk:

- Foreign exchange swap contracts are derivative instruments used to hedge income statement translation risk arising from short-term intercompany loans denominated in a foreign currency
- Forward foreign exchange contracts are derivative instruments used to hedge transaction risk so they enable the sale or purchase of foreign currency at a known fixed rate on an agreed future date and
- Cross-currency interest rate swaps are derivative instruments used to exchange the principal and interest coupons in a debt instrument from one currency to another

Currency risk

The Company's foreign exchange policy is to use forward foreign exchange contracts to hedge material non-functional currency denominated costs or revenue for up to five years forward. The Company also utilises foreign exchange swaps and cross-currency interest rate swaps both to manage foreign currency cash flow timing differences and to hedge foreign currency denominated monetary items.

Cash flow hedges

The Company applies hedge accounting for certain foreign currency firm commitments and highly probable cash flows where the underlying cash flows are payable within the next seven years. In order to fix the sterling cash outflows associated with the commitments and interest payments – which are mainly denominated in AUD or euros – the Company has taken out forward foreign exchange contracts and cross-currency interest rate swaps for the same foreign currency amount and maturity date as the expected foreign currency outflow.

The amount recognised in other comprehensive income during the period all relates to the effective portion of the revaluation loss associated with these contracts. There was less than £1 million (2019: less than £1 million) ineffectiveness taken to the income statement and £4 million cumulative gain (2019: £19 million loss) recycled to the income statement in the year.

On issuing the 2026 Eurobond in September 2019, the Group subsequently entered into a new portfolio of cross-currency interest rate swaps, which swapped the euro principal and fixed euro interest rate coupons into fixed sterling interest rate. As a result, the Group makes sterling interest payments at a fixed rate.

Under IFRS 9, the Group has adopted the 'cost of hedging' approach which allows the recognition of the value of the currency basis at inception of the hedge to be recorded on the Consolidated Statement of Financial Position and amortised through net financing costs in the Consolidated Income Statement over the life of the bond. Any mark-to-market change in fair value of the currency basis is recognised in 'cost of hedging' in the Consolidated Statement of Comprehensive Income.

Undiscounted financial liabilities

The Company is required to disclose the expected timings of cash outflows for each of its derivative financial liabilities. 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 2020	Carrying value £m	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-current and current						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	9	341	227	100	14	–
Outflow	(8)	(341)	(227)	(100)	(14)	–
Cross-currency swaps – cash flow hedges						
Inflow	–	580	7	7	22	544
Outflow	(22)	(627)	(16)	(16)	(47)	(548)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	3	465	458	7	–	–
Outflow	(6)	(468)	(461)	(7)	–	–
	(24)	(50)	(12)	(9)	(25)	(4)

At 31 December 2019	Carrying value £m	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-current and current						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	10	375	229	91	55	–
Outflow	(10)	(375)	(229)	(91)	(55)	–
Cross-currency swaps – cash flow hedges						
Inflow	–	557	7	7	21	522
Outflow	(38)	(642)	(16)	(16)	(47)	(563)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	3	451	338	113	–	–
Outflow	(3)	(451)	(338)	(113)	–	–
	(38)	(85)	(9)	(9)	(26)	(41)

Note vii Share capital

		Alotted, issued and fully paid 2020 & 2019 £m
Alotted, issued and fully paid ordinary shares of 10 pence each	4,025,409,194	403
Total		

The Company's ordinary shares give shareholders equal rights to vote, receive dividends and to the repayment of capital.

Note viii Equity and dividends

Keeping it simple

ITV plc is a non-trading investment holding company and derives its profits from dividends paid by subsidiary companies.

The Directors consider the Company'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 invest in opportunities to grow the business and enhance shareholder value.

The dividend policy is influenced by a number of the principal risks as identified in the Risks and Uncertainties section that could have a negative impact on the performance of the Company.

In determining the level of dividend in any year, the Directors follow the dividend policy and also consider a number of other factors that influence the proposed dividend and dividend policy, including:

- The level of retained distributable reserves in ITV plc the Company
- Availability of cash resources (as disclosed in note 4.1 to the consolidated financial information) and
- Future cash commitments and investment plans, to deliver the Company's long term strategic plan
- Consideration of the factors underlying the Directors' viability assessment and
- The future availability of funds required to meet longer-term obligations including pension commitments.

Equity

The retained earnings reserve includes loss after tax for the year of £65 million (2019: profit after tax £353 million), which includes dividends of £nil from subsidiaries in 2020 (2019: £400 million). Other reserves of £10 million (2019: £22 million) relate to share buybacks in prior periods and foreign currency translation net of cash flow hedging.

Dividends

The Directors recognises the importance of the dividend to our shareholders and intends to restore dividend payments as soon as circumstances permit. The Board will balance shareholder returns with our commitment to maintain investment grade metrics over the medium term, to continue to invest behind the strategy and with the ongoing uncertainty with COVID-19. In 2020, no dividend payments were made (2019: £320 million).

Distributable reserves

The distributable reserves of ITV plc approximate to the balance of the retained earnings reserve of £1,596million (2019: £1,655 million) as at 31 December 2020.

Note ix 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.

Under a Group registration, the Company is jointly and severally liable for VAT at 31 December 2020 of £53 million (31 December 2019: £40 million). The Company has guaranteed certain lease obligations of subsidiary undertakings.

Note x Capital and other commitments

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 Company'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.

In 2020, the Company entered into a stand-by letter of credit for £101 million in respect of one of the ITV Group asset-backed pension agreements.

There are no capital commitments at 31 December 2020 (2019: none).

Note xi Related party transactions

Keeping it simple

The related parties identified by the Directors include amounts owed to and from subsidiary undertakings that are not wholly owned within the Group as well as transactions with key management. The company is a holding company with no commercial activity.

To enable the users of the financial information to form a view about the effects of related party relationships on the Company, we disclose the Company's transactions with those during the year.

Transactions with subsidiary undertakings that are not wholly owned

The amounts owed by and to these related parties at the year end were:

	2020 £m	2019 £m
Amounts owed by subsidiary undertakings that are not wholly owned	81	16
Amounts owed to subsidiary undertakings that are not wholly owned	9	26

Amounts owed by subsidiary undertakings that are not wholly owned relate mainly to funding to Britbox SVOD Limited and intra-group cash pooling balances with World Productions Limited. Amounts owed to subsidiary undertaking relate mainly to funding due to Tomorrow ITV Studios and intra-group cash pooling balances with 3sixtymedia Limited.

Transactions with key management personnel

Key management consists of ITV plc Executive Directors.

Key management personnel compensation, on an accounting basis, is as follows:

	2020 £m	2019 £m
Short-term employee benefits	2	3
Share-based compensation	–	2
	2	5

Total emoluments and gains on share options received by key management personnel in the year were:

	2020 £m	2019 £m
Emoluments	3	4
Gains on exercise of share options	–	1
Gains on release of restricted share awards	–	1
	3	6