

ITV Full Year results for the period ending 31 December 2022

Strong end to 2022; successful strategic execution; powerful momentum into 2023 and on track to deliver KPI targets for 2026

Carolyn McCall, ITV Chief Executive, said:

"2022 was a year of significant strategic progress and ITV delivered a robust set of financial results. The successful execution and delivery of ITVX in Q4 was a major digital milestone. The platform has received a very positive reception from viewers and advertisers alike, with its newly expanded range of original content and a superior user experience engaging more viewers, and lighter viewers, and encouraging them to spend more time with ITV. The user experience and personalisation elements will continue to improve throughout 2023.

"Our total external revenue growth of 8% was driven by double-digit increases from our growth drivers, ITV Studios and our digital businesses in M&E. Our mass reach linear advertising business has also performed well and ITV total advertising revenue (TAR) was down only 1%, delivering the second highest TAR in ITV's history.

"As a result of ITV's deliberate strategic actions and strong execution, ITV has a scaled and expanding global production business, a rapidly growing targeted digital advertising business, a resilient linear TV advertising business and a unique vertically integrated producer broadcaster and streamer model. This means that ITV is now a demonstrably more balanced business which is ideally placed to take advantage of the growing demand for quality content from viewers, broadcasters and streamers and take a larger share of the digital advertising market.

"We enter 2023 with strong momentum and are on track to deliver all our 2026 KPI targets¹ despite a continuing uncertain macro environment. ITV's balance sheet is robust enabling us to continue to invest to support our strategy and deliver returns to shareholders."

Group financial highlights: revenue driven by double digit growth in ITV Studios and M&E digital revenues

- Total external revenue up 8% at £3,728 million, total group revenue² up 7% at £4,345 million
 - Total ITV Studios revenue up 19% at £2,096 million with growth across the business
 - Media & Entertainment (M&E) revenue down 1% at £2,249 million driven by 1% decline in total advertising revenue (TAR), as expected. Within this digital advertising revenue was up 17% to £343 million³
- Adjusted group EBITA⁴ was down 12% at £717 million (31 December 2021: £813 million) largely reflecting the planned investment in M&E to drive future growth, which was partly funded by £23 million of cost savings. This takes total savings delivered since 2018 to £106 million
- Adjusted EPS⁵ was down 14% at 13.2p (31 December 2021: 15.3p)
- EBITA⁵ was £668 million (31 December 2021: £784 million). Statutory operating profit was £519 million (31 December 2021: £519 million) and statutory EPS was 10.7p (31 December 2021: 9.4p)
- Profit to cash conversion² was 75%, reflecting the growth in Studios and commissions for ITVX
- Balance sheet strength with net debt of £623 million (31 December 2021: £414 million) and net debt to adjusted EBITDA leverage of 0.8x (31 December 2021: 0.5x).
- In-line with ITV's dividend policy, the Board has proposed a final dividend of 3.3p (2021: 3.3p), giving an ordinary dividend of 5.0p per share for the full year 2022 (2021: 3.3p)

ITV Studios: growing ahead of the market and increasing diversification

- Strong revenue growth, ahead of the market, and industry leading adjusted EBITA margin of 12.4% driven by
 - 58% increase in high-end scripted hours produced as we have taken advantage of the global demand for scripted content
 - 19 formats sold in three or more countries, as our programmes continue to travel, including My Mom, Your Dad and Make Love Fake Love (2021: 15 formats)
 - Percentage of total Studios revenue from streaming platforms grew from 13% to 22% with commissions or development deals with most of the major streamers. Given this success we are increasing our target for 2026 from 25% to 30%
- Total ITV Studios revenues in 2022 are 15% higher than 2019 with a record Q4 which was stronger than expected due to the phasing of deliveries

Media & Entertainment (M&E): Record digital viewing and revenues; Second highest TAR in ITV's history

- M&E KPIs demonstrate strong strategic progress with a significant increase in the volume of content available for streaming from 4,000 in 2021 to 19,000 hours; improved user experience; successful launch of ITVX; and further roll out and development of Planet V, ITV's self-service programmatic advertising platform. Planet V is the second largest video ad tech platform in the UK, after Google and underpins our ability to drive digital targeted advertising revenues whilst retaining control of our own sales and avoiding value leakage to adtech intermediaries
 - Total digital revenues up 18% to £411 million³; total streaming hours up 9% and within that, total monetisable streaming hours up 18%⁶; monthly active users up 6%; and UK subscribers up 17% to 1.4 million
 - 90% of ITV's digital inventory is now sold through Planet V, which has over 20,000 data targeting options around which advertisers can build campaigns, and helped attract 400 new digital advertisers to ITV in the year
 - In its first two months since launch, ITVX has attracted more users, and harder to reach lighter viewers, who are spending longer on ITV's digital content. In the first two months, ITVX attracted 1.5 million new registrations, saw total streaming hours grow 69% and streaming hours of lighter viewers grow 94% compared to the same period in the prior year on ITV's streaming platforms
- TAR performance reflects the resilience of linear and the important role of mass reach to build brands and drive performance. ITV maintained its strength in linear with
 - 33.8% share of commercial viewing (SOCV) (2021: 33.1%) and
 - 93% of top 1,000 commercial broadcast TV programmes (2021: 93%)
- M&E adjusted group EBITA⁴ was down 22% at £464 million largely reflecting the planned investment in content and ITVX to drive future growth
- BritBox International subscribers are up 25% to 3.0 million

¹ See KPI section for further details

² See APM section for further details

³ See note 5 in Notes to Editors for a breakdown of digital revenue

⁴ Reconciliation between adjusted and statutory results is provided in the APM section

⁵ Statutory profit before interest, tax, amortisation and exceptional items

⁶ See note 4 in Notes to Editors

Outlook: entering 2023 with strong momentum

ITV Studios

- With ITV's strong position in a growing market, we expect ITV Studios to deliver at least 5% average revenue growth per annum to 2026, and grow ahead of the market.
- We remain committed to our ITV Studios adjusted EBITA margin guidance of 13% to 15% from 2023 onwards. Given the current inflation in the production market and general cost inflation, we expect the margin to be at the lower end of the range in the shorter term, as we previously guided. We continue to drive efficiencies through the digital innovation programme.

Media & Entertainment

- With 18% growth in digital revenues to £411 million⁷ in 2022 and our planned continuous enhancements in ITVX's product, content and distribution, we remain confident in delivering at least £750 million of digital revenues by 2026
- In Q1 we continue to see strong growth in digital advertising with revenues expected to be up around 25%. Nevertheless, the outlook for TAR is challenging given the current macroeconomic environment and TAR is expected to be down around 11% in Q1 compared to 2022 and down around 1% compared to 2019. Early indications are that TAR will be down between 10 and 15% in April

Overall, our progress in delivering Phase 2 of the More Than TV Strategy gives us confidence in our ability to achieve our KPI targets for 2026⁸.

We are mindful of the current macro and geopolitical uncertainty and continue to manage our costs tightly. We expect to deliver £15 million of cost savings in 2023 as part of our previously announced £50 million cost saving target by 2026. This is in addition to the £106 million saving programme between 2018 and 2022. We continue to look carefully at further mitigation measures to offset the impact of high levels of inflation on our cost base.

ITV's balance sheet is robust enabling it to invest behind the strategy and deliver returns to shareholders in line with its capital allocation policy.

Virtual Results presentation webcast and Q&A:

ITV's virtual results presentation and Q&A session will be held for investors and analysts at 9.30am today via the following link:

<https://www.investis-live.com/itv/63ca6e6baba36a0c00445512/shate>

You are now able to pre-register to join.

If you would like to ask a question, you will be able to do so via the following Conference Call details:

- United Kingdom: 0800 640 6441
- United Kingdom (Local): 020 3936 2999
- All other locations: +44 203 936 2999
- Participant access code: 313837 – Participants will be greeted by an operator who will register their details.

⁷ See note 5 in Notes to Editors for a breakdown of digital revenue

⁸ See KPI section for further details

Notes to editors

1. Unless otherwise stated, all financial figures refer to the 12 months ended 31 December 2022, with the change compared to the same period in 2021.
2. Group financial performance

| 12 months to 31 December | 2022 £m | 2021 £m | Change £m | Change % |
|--|--------------|--------------|---------------|--------------|
| ITV Studios total revenue | 2,096 | 1,760 | 336 | 19% |
| Total advertising revenue | 1,931 | 1,957 | (26) | (1%) |
| M&E non-advertising revenue | 318 | 325 | (7) | (2%) |
| M&E total revenue | 2,249 | 2,282 | (33) | (1%) |
| Total group revenue | 4,345 | 4,042 | 303 | 7% |
| Internal supply | (617) | (589) | (28) | (5%) |
| Group external revenue | 3,728 | 3,453 | 275 | 8% |
| ITV Studios adjusted EBITA | 259 | 213 | 46 | 22% |
| M&E adjusted EBITA | 464 | 598 | (134) | (22%) |
| Adjusted EBITA | 723 | 811 | (88) | (11%) |
| Unrealised profit in stock adjustment | (6) | 2 | (8) | (400%) |
| Group adjusted EBITA | 717 | 813 | (96) | (12%) |
| Group adjusted EBITA margin | 19% | 24% | | |
| Statutory operating profit | 519 | 519 | - | - |
| Profit before tax (statutory) | 501 | 480 | 21 | 4% |
| Profit before tax (adjusted) | 672 | 774 | (102) | (13%) |
| Adjusted EPS | 13.2p | 15.3p | (2.1p) | (14%) |
| Statutory EPS | 10.7p | 9.4p | 1.3p | 14% |
| Net debt as at 31 December | (623) | (414) | (209) | (50%) |
| Reported net debt to adjusted EBITDA leverage | 0.8x | 0.5x | | |
| Profit to cash conversion | 75% | 80% | | |

3. Total advertising revenue (TAR), which includes ITV Family NAR, digital advertising and sponsorship is forecast to be down around 11% in Q1 with January down 9%, February down 9% and March down around 16% compared to the same period in 2022. Q1 is expected to be down around 1% compared to 2019. Early indications are that total advertising revenue will be down between 10 and 15% in April. Figures for ITV plc are based on ITV estimates and current forecasts.

4. Key performance indicators

| 12 months to 31 December | 2022 | 2021 | Change % |
|---|----------------|---------|----------|
| Group adjusted EPS | 13.2p | 15.3p | (14%) |
| Cost savings | £23m | £37m | - |
| Profit to cash conversion | 75% | 80% | (5% pts) |
| ITV Studios total revenue growth | 19% | 28% | - |
| ITV Studios adjusted EBITA margin % | 12.4% | 12.1% | 0.3% pts |
| Total high-end scripted hours | 276 hrs | 175 hrs | 58% |
| Number of formats sold in 3 or more countries | 19 | 15 | 27% |
| % of ITV Studios total revenue from streaming platforms | 22% | 13% | 9% pts |
| Total digital revenue | £411m | £347m | 18% |
| Total streaming hours* | 1,139m | 1,048m | 9% |
| Monthly active users** | 10.5m | 9.9m | 6% |
| UK subscribers | 1.4m | 1.2m | 17% |
| Share of top 1,000 commercial broadcast TV programmes | 93% | 93% | - |
| Share of commercial viewing (SOCV) | 33.8% | 33.1% | 0.7% pts |
| Total BritBox International subscribers | 3.0m | 2.4m | 25% |

- Total digital revenue includes digital advertising revenue and subscription revenue as well as linear addressable revenue, digital sponsorship and partnership revenue, ITV Win and any other revenues from digital business ventures.
- UK subscribers captures total UK subscriptions to ITV streaming platforms and services (including free trials).
- Total streaming hours measures the total number of hours viewers spent watching ITV across all streaming platforms. This figure includes both ad-funded and subscription streaming
- Monthly active users captures the average number of registered users throughout the period who accessed our owned and operated on demand platforms each month.
- The share of top 1,000 commercial broadcast TV programmes KPI includes TV viewing from transmission and seven days post-transmission on catch up, as well as six weeks prior to the transmission window. It excludes programmes with a duration of <ten minutes. This metric is calculated as a 12-month rolling average to normalise seasonal scheduling
- ITV Family share of commercial viewing is the total viewing of audiences over the period achieved by ITV's family of channels as a proportion of all commercial broadcast TV viewing in the UK. ITV Family includes ITV1, ITV2, ITV3, ITV4, ITVBe, CITV, ITV Breakfast, CITV Breakfast and associated "HD" and "+1" channels.
- % change for performance indicators is calculated on rounded numbers.

* Whilst total streaming hours were up 9%, monetisable streaming hours were up 18% for the full year. ITV has taken the strategic decision to reduce the availability of pre-transmission drama drops and box sets outside of its own streaming services, such as on Sky and Virgin, where we cannot serve and monetise dynamic advertising. Therefore, this decision does not reduce existing revenues. Over time and with the launch of ITVX we anticipate that we will see this viewing move to ITV's streaming services and be more effectively monetised.

** 2021 Monthly active users have been restated from 9.6 million to 9.9 million due to a change in methodology

5. Digital revenue breakdown

| Digital Revenue (£m) | 2022 | 2021 | Change % |
|------------------------------|------------|------|----------|
| Digital advertising revenue | 343 | 293 | 17% |
| Subscription revenue | 54 | 42 | 29% |
| Other | 14 | 12 | 17% |
| Total digital revenue | 411 | 347 | 18% |

6. 2023 full year planning assumptions - based on our current best view but may change depending on how events unfold over the year.

Profit and Loss impact:

- Total content costs are expected to be around £1.3 billion, rather than £1.35 billion as previously guided, largely due to a reduction in 2023 content amortisation to reflect the windowing of content between linear and streaming
- Permanent overhead cost savings are expected to be around £15 million in 2023. This is part of the £50 million of permanent cost savings to be delivered by 2026, as previously guided
- Adjusted financing costs are expected to be around £30 million
- The adjusted effective tax rate is expected to be around 23.5% in 2023, and then move to around 25% over the medium term due to the increase in the UK statutory tax rate to 25% in April 2023.
- Exceptional items are expected to be around £40 million, mainly due to costs associated with our digital transformation and London property move

Cash impact:

- Total capex is expected to be around £75 million as we further invest in our digital capabilities
- The cash cost of exceptional items is expected to be around £35 million, largely relating to costs associated with our digital transformation and London property move
- Profit to cash conversion is expected to be between 70% and 75%, reflecting increases in working capital as we continue to grow ITV Studios and invest in ITVX
- Total pension deficit funding contribution for 2023 is £62 million, made up of £43 million relating to the main section of the Scheme, £16 million relating to the SDN PFP arrangement and £3 million relating to the LTVC PFP
- The Board has proposed a final dividend of 3.3p, giving a 2022 full year dividend of 5.0p per share. The final dividend will be paid in May 2023. Going forward, the Board intends to pay a full year ordinary dividend of at least 5.0p which it expects to grow over time whilst balancing further investment to support our strategy and our commitment to investment grade metrics over the medium term

7. 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, (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 2022 Annual Report and Accounts 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.

8. The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2022 but is derived from those accounts. Statutory accounts for 2021 have been delivered to the registrar of companies, and those for 2022 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 Statement

2022 was a year of strong execution and significant strategic progress. We delivered record revenues in ITV Studios, the second highest advertising revenue in ITV's history, and grew Media & Entertainment's digital revenues by 18%, with the significant increase in content, improved user experience and the successful launch of ITVX.

We continued to grow, strengthen and diversify ITV Studios including through the acquisition of Plimsoll Productions, a leading natural history producer. In Media & Entertainment (M&E) the launch of ITVX, our new free, ad-funded streaming service was received extremely well by viewers and advertisers. We also continued to invest behind Planet V, our owned and operated addressable advertising platform, through which over 90% of our addressable advertising inventory is now sold.

In the UK we continued to entertain and inform the nation with a strong slate of drama, entertainment and news programming. And as a Public Service Broadcaster (PSB) we contribute to our culture and society, whether creating shared moments, highlighting difficult issues or running campaigns for mental and physical wellbeing.

The market continues to evolve rapidly, with growing demand globally for quality content; changing viewing habits; and the desire of advertisers for both mass reach and data-led addressable advertising. We are confident in our ability to execute our More Than TV strategy which will ensure we capitalise on the opportunities and mitigate the risks of this evolving market.

Financial highlights

Both ITV Studios and M&E performed better in 2022 than we expected at the start of the year.

Total ITV Studios revenue grew ahead of the market, up 19% at £2,096 million, with growth across all parts of the business and is now above 2019 levels. Adjusted EBITA was up 22% at £259 million with a margin of 12.4%, up from 12.1% in 2021.

M&E's total revenue was down 1% at £2,249 million, driven by 1% decline in total advertising revenue as expected. This was still the second highest advertising revenue in ITV's history and within this digital advertising revenues were up 17%. Total digital revenues were up 18% at £411 million. M&E's adjusted profit was down 22% at £464 million which largely reflects increased investment in content and in ITVX.

Total group external revenues increased 8% to £3,728 million, driven by non-advertising revenues up 16% as we increasingly rebalance the business. Group adjusted EBITA was down 12% and adjusted EPS was down 14% at 13.2p reflecting investment in future growth partly offset by £23 million of permanent cost savings. We have now delivered £106 million of cost savings since 2018, ahead of our £100 million target.

Statutory operating profit remained flat and statutory EPS increased by 14% to 10.7p.

We again delivered good cash generation in the year, with profit to cash conversion of 75% and generated £280 million of free cash, slightly lower than in previous years as we invest in ITVX and grow ITV Studios. Our balance sheet is robust with net debt at 31 December 2022 of £623 million and our net debt to adjusted EBITDA was 0.8x (31 December 2021: 0.5x).

We are mindful of the macroeconomic uncertainty and remain focused on tightly managing our costs and cash flow. Our priority remains to invest in our key assets and value drivers in line with our strategic priorities, balancing this with our commitment to investment grade metrics over the medium term and returns to shareholders.

Reflecting the Board's confidence in the business and its strategy, as well as continued strong cash generation, it has proposed a final ordinary dividend of 3.3p, giving a full year ordinary dividend of 5.0p. The Board remains committed to paying a full year ordinary dividend of at least 5.0p, which it expects to grow over time.

Our strategic vision

The Board keeps the More Than TV strategy under regular review to ensure it is responsive to market changes. The Management Board and I are totally focused on executing our More Than TV strategy which will create a more valuable digital media and entertainment company and deliver returns to shareholders.

Our vision for 2026 is to be a leader in UK streaming, and an expanding force in UK and global content. We are focused on three priorities to deliver this vision:

- Expand our UK and global production business
- Supercharge our Streaming business, and
- Optimise our Broadcast business

For each of these priorities we have set key performance indicators and targets to deliver by 2026 and with the good progress we have made to date, we are on track and confident we can deliver against this. We are viewer and customer driven and every decision will combine our creativity and data insight to achieve this.

ITV has a unique market position as a global and diversified vertically integrated producer broadcaster and streamer with content central to everything we do. This gives us a real competitive advantage in achieving our vision. It provides ITV Studios with a base of core commissions and a significant promotional engine for its content, and enables cross-promotion and monetisation of our intellectual property (IP) across all our business models. It secures access to great content for ITV's channels and streaming business; it enables us to offer advertisers a unique opportunity to integrate their brands into our shows; and very importantly, it helps us attract and retain creative talent, which is critical in a successful creative business.

ITV Studios

ITV Studios is a leading global producer of TV shows operating in 13 countries, across 60+ different labels. It is also diversified by content genre and type of customer.

ITV Studios is the number one producer in the UK and is one of the top three international producers in the majority of the markets in which it operates, which gives it scale and has enabled it to build relationships with the key content buyers and leading creative talent in those markets. TV production continues to be a growing market and ITV Studios, due to its size and diversity, has grown consistently ahead of the market and will continue to do so. Its scale and quality also gives it the opportunity to derive industry-leading margins.

From this strong position, we expect ITV Studios to continue to grow ahead of the market over the medium term, delivering at least 5% revenue growth on average per annum, at a margin of 13 to 15%, although it will be at the lower end of this range in the shorter term due to increased production costs and the growth in our scripted production.

To deliver this growth we are focused on four growth drivers to ensure ITV Studios is well placed to take advantage of the growing demand for quality content:

- growing our scripted business to meet the significant demand for scripted content globally
- growing our global formats business in order to maximise the value of existing formats and creating new global formats
- further diversifying our customer base to capture the growth in content spend from local and global streaming platforms
- continuing to attract and retain leading talent

ITV's federated label model and the strong connection with ITV M&E, (and therefore access to ITV's mass reach and powerful promotional engine in the UK), makes it a very attractive home for top creative talent and we are proud to be able to continue to attract the best talent in the market, including in 2022 welcoming Plimsoll Productions, Lingo Pictures (an international scripted producer) and Ben Stephenson, who set up an international scripted label, Poison Pen Studios, in ITV Studios.

Our newest labels created through our recent talent deals have delivered an impressive slate of programmes, including Nolly from Quay Street Productions and You & Me from Happy Prince.

As a creator, owner and distributor of content, ITV can maximise the global value of its IP through optimising the windowing of content across different distribution channels and customers. It has built one of the largest and broadest catalogues in the world with over 90,000 hours of content. Our scripted labels are creating and producing high-quality content with international appeal for free-to-air broadcasters and increasingly streaming platforms, such as Physical for AppleTV+ which returns for a third series in 2023 and Ten Year Old Tom for HBO Max. In 2022, high-end scripted hours increased by 58% to 276.

ITV is one of the largest producers and distributors of unscripted formats which are monetised in multiple markets internationally by producing versions in different territories. This includes established formats such as The Voice (72 territories) and Love Island (26 territories) and formats with the potential to be future hits such as: My Mom, Your Dad, which has already been commissioned in ten territories and Loaded in Paradise which has launched on ITVX. In 2022, we had 19 formats which were sold in three or more territories, compared to 15 in 2021.

Global streamers continue to drive the demand for content internationally. We have significantly increased our percentage of total revenues from streaming platforms to 22%, from 13% in 2021. Following this success we have increased our 2026 target to 30%, from 25%. Whilst streamers' content spend is not expected to grow at the same rate as in recent years, we still expect total content spend in the global market to continue to grow in the medium term by around 2 to 3%.

Media & Entertainment (M&E)

ITV is the largest commercial broadcaster in the UK with unrivalled audience size and reach. Its share of viewing amongst commercial broadcasters is 33.8%. In 2022, it delivered over 90% of the top 1,000 audiences (which are key to increasingly scarce brand building mass reach) and its scale and quality enables it to effectively compete for viewing and command a premium from advertisers. ITV has an 18% share of video viewing amongst broadcasters and streamers in the UK (across the four major viewing screens – TV, mobile, PC and iPads) which is broadly the same as all the streaming services combined.

ITV's leading position in linear TV advertising has enabled the Group to build a substantial national streaming position with ITV Hub and BritBox UK, and now ITVX. ITVX, our ad-funded, free to watch service was successfully launched in Q4 2022 to a positive reception from viewers and advertisers. ITVX has a significant volume of high-quality original exclusive programming; one of the UK's largest free film libraries; 20 new FAST channels and all ITV broadcast channels, with live sport and entertainment. ITVX has a premium subscription tier where consumers can watch all programmes plus BritBox UK (ITV and BBC library content) ad free. In total ITVX has 19,000 hours of content. In 2022, ITV increased monthly active users by 6% to 10.5 million; total streaming hours by 9%; total monetisable streaming hours by 18% and UK subscribers by 17% to 1.4 million.

Over the last four years, ITV has invested in data and technology resource and built its own proprietary ad tech stack, branded Planet V, which enables advertisers to buy highly targeted advertising. As a result, ITV and ITVX are well positioned to capitalise on their unique strengths to compete with newer entrants, such as YouTube and global subscription services: ITV has deep relationships with agencies and advertisers; brand safe and measured advertising; a track record of commissioning and producing content which appeals to UK audiences; and over 95% prompted awareness for ITV amongst UK viewers.

The advertising market has grown consistently in the UK (delivering a CAGR of 7% over the last ten years). This growth has been primarily driven by online.

Within this overall UK market, linear TV advertising has been resilient, despite a gradual decline in audiences. In fact, ITV's ad revenue reached an all time high in 2021, and 2022 was the second highest advertising revenue year ever despite the impact of the conflict in Ukraine and cost of living crisis. This reflects the unique role mass reach plays in the advertising mix with its ability to build brands and drive performance and we expect that the cost of advertising will rise as mass reach becomes increasingly scarce. While in the short term the advertising outlook is challenging, we expect linear advertising revenues to remain resilient and continue to be highly cash generative. This underpins our continued growth investment in ITVX and Studios, which power ITV.

ITVX has over 37 million registered users, giving ITV, one of the largest first party data sets in the UK. In a world of increasing privacy legislation, this gives ITV a competitive advantage and the opportunity to further build a targeted advertising offer enabling ITV to compete and take share in the growing advertising segments of online video and display.

Our ability to take share in these growing segments of the market is underpinned by Planet V. Planet V is ITV's proprietary, self service programmatic addressable advertising platform for agencies to book targeted advertising (adverts dynamically inserted into the viewers stream based on over 20,000 different data points). It is now the second largest video ad-tech platform in the UK, (second only to Google) and used by all major agencies. The platform allows advertisers to capitalise on:

- sophisticated targeting based on many dimensions – e.g. demographic, household wealth and income, purchasing history, geography, weather, creative context and many more
- the lower creative cost of running a campaign
- a lower total campaign cost and
- ease of booking

It is being used by existing advertisers to combine mass reach with targeted advertising and by new to ITV advertisers, using targeted only, all using our first party data (and their own first party data), with gold standard measurement. Between the launch of Planet V in 2020 and the end of 2022, ITV's targeted digital advertising revenue grew by over 60% and attracted over 600 new advertisers to ITV. In addition to accessing new pools of revenue, targeted advertising typically attracts higher pricing points.

As a result of the investment in ITVX and Planet V, our ability to deliver mass reach and targeted advertising and our close relationship with agencies and marketeers, ITV is expected to thrive, innovate and grow in a vibrant long-term growing UK advertising market.

Our Purpose and Social Purpose priorities

Our purpose is to entertain and connect with millions of people globally, reflecting and shaping culture with brilliant content and creativity.

Our Environmental, Social and Governance agenda is an essential part of our purpose and our ability to deliver our goals.

ITV is committed to driving positive social change and is uniquely placed to do this on and off-screen through our extensive reach, supported by rigorous targets and social purpose priorities – Better Health, Diversity & Inclusion, Climate Action and Giving Back.

Our audiences have had a lot to deal with this year. The physical and mental health pressures caused by the pandemic are ongoing and becoming exacerbated by the mounting burden of the cost of living. This has been front of mind for us when developing campaigns and initiatives that can really make an impact, such as Britain Get Talking which encourages millions to take action and ensure people get the help they need.

Climate Action remains a priority which means ensuring we significantly reduce our emissions in line with our science-based targets by 2030 and achieve Net Zero by 2050 in how we make, broadcast and stream our shows, but also using our reach to inform and inspire audiences to make greener choices.

Our Diversity and Inclusion Acceleration Plan is focused on creating and showcasing content that reflects modern audiences and ensuring there is equality of opportunity and that ITV is an inclusive place to work. We've championed diversity across our biggest shows and created new opportunities for underrepresented groups in our workforce, from senior leadership programmes like Amplify, to Kickstart, a six-month placement scheme for those coming into the industry.

As part of our Giving Back priority, we are very pleased to have been able to play a part in helping those affected around the world by tragic humanitarian circumstances. Our Concert for Ukraine and annual charity football match, Soccer Aid for UNICEF, raised a combined total of over £29 million thanks to the generosity of our viewers, advertisers and our own colleagues.

Colleagues

It is easy to say that colleagues are at the heart of our success. I hope they all see, through our actions that this is the case. One of the best parts of my role is meeting ITV colleagues from all areas, and across the very strong regions of the UK and also in our offices internationally. Their input and feedback is invaluable, and we act on that frequently. I am incredibly grateful for the hard work and commitment all our colleagues show – it makes ITV the creative, collaborative and commercial business that we are. We have achieved a huge amount in 2022 which would not be possible without them.

We are committed to investing in and building a high performing, agile and diverse workforce. We continue to invest in their development through a range of online and in person workshops to build leadership capability and support personal skills development, wellbeing and resilience for all employees.

Duty of Care

Supporting the mental and physical health and safety of colleagues and others who work with ITV and those participating in our productions, is a key priority. I chair the Duty of Care Operating Board which meets regularly. With the help of external experts, it provides guidance around best practice and evolves our approach to mental health and wellbeing. The Duty of Care team is in place to provide expertise to support the business. A key priority in 2022 was to ensure our Speaking Up policy provided the right channels and support for our colleagues, which remains a focus for 2023.

ITV continues to monitor and respond to historical issues to further strengthen our Duty of Care policies. In the Netherlands, ITV has appointed a Dutch law firm to conduct an external investigation into allegations of inappropriate behaviour surrounding The Voice of Holland prior to 2020. In the UK, ITV will be giving evidence and cooperating with the inquest into the death of Steve Dymond, who died in 2019 in the days following the filming of The Jeremy Kyle Show.

Regulation

The government published its media White Paper in 2022 setting out its plans to transition from public service broadcasting (PSB) to public service media (PSM). We remain fully engaged with Ofcom and government, particularly on the need for prominence, inclusion and fair value for PSBs on all major platforms, including online. The government intends to introduce a Media Bill as soon as parliamentary time allows and we are encouraged by the broad political consensus for the Bill.

We continue to make the case for evidence-based regulation of advertising, to ensure that any economic impact is justified by compelling public health or other benefits. We do not believe the government made that case in relation to restrictions on High Fat Sugar and Salt (HFSS) food and drink advertising. In a welcome move, the government used secondary legislation to push back the introduction of these restrictions until 1 October 2025.

Outlook

Despite the current macro and geopolitical uncertainty we are making significant progress at pace. The short-term outlook is challenging, with total advertising revenue (TAR) expected to be down around 11% in Q1 but we remain very focused on successfully executing the strategy and enter 2023 with strong momentum. We are well on track to deliver all our 2026 KPI targets and will continue to invest to support the strategy and the long term profitability of ITV and creating shareholder value.

The combination of a scaled and expanding global TV production business, a resilient linear TV advertising business, a rapidly growing digital targeted TV advertising business and a unique vertically integrated producer broadcaster and streamer model means that ITV is growing and diversifying, reducing its dependence on the linear business. While linear will continue to have an important role in the advertising mix, by 2026 we expect around two thirds of ITV's total revenues to come from our growth drivers – ITV Studios and M&E digital revenues. This is expected to drive increased profits, from an inflection point in 2023, creating a more valuable business, underpinned by a strong balance sheet, continued investment in organic and inorganic growth and a regular and growing dividend.

Carolyn McCall

Chief Executive

Key Performance Indicators (KPIs)

We define our KPIs to align our performance and accountability to our strategic priorities. In 2021, we set out our new KPIs and ambition for 2026 for Studios and M&E, which we continue to report against.

Of the KPIs outlined in this section, the following will be reported on a quarterly basis: ITV Studios total revenue growth, total digital revenue, total streaming hours, share of commercial viewing and share of top 1,000 commercial broadcast TV programmes. All other KPIs outlined in this section will be reported on a six-month basis.

ITV Group

Adjusted EPS¹

Definition

Adjusted EPS represents the adjusted profit for the year attributable to each equity share. Adjusted profit is defined as profit for the year attributable to equity shareholders after adding back exceptional items. 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 14% from 15.3p to 13.2p. Continued strong growth in ITV Studios adjusted EBITA up 22%, was offset by a decline in total advertising revenues (TAR) down 1%, ITVX investment and declining SDN and interactive revenues, down 21% and 17% respectively.

2022

13.2p

-14% on 2021

Cost savings

Definition

Cost savings are permanent savings to the business. Managing our cost base and mitigating the impact of inflation 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 £23 million of permanent cost savings in 2022, which is ahead of the £17 million target.

Since 2018, we have delivered a cumulative £106 million of cost savings.

We will deliver an additional £50 million of cost savings by 2026. In total, we will deliver over £150 million of cost savings between 2018 and 2026.

2022

£106m

cumulative savings since 2018

2026 Target

Deliver over £150 million of cumulative savings between 2018 and 2026

Profit to cash conversion¹

Definition

This is our measure of our effectiveness at working capital management. It is calculated as our adjusted cash flow as a proportion of adjusted EBITA¹. Adjusted cash flow¹, 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 75% in the year. While we continue to manage our working capital tightly, profit to cash conversion was lower in 2022. This is as a result of our growing Studios business and the timing of deliveries. In addition, it reflects the increased commissions for ITVX where we have taken delivery of programmes but not yet made them available on the platform. This was partly offset by our strong TAR revenues in 2022 and tight working capital management.

2022

75%

2026 Target

Maintain at around 85%

¹ A full reconciliation between our adjusted and statutory results is provided in the APMs section

ITV Studios total revenue growth²

Definition

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

Performance

ITV Studios total revenue grew 19% to £2,096 million.

Total organic revenue at constant currency (which excludes acquisitions and assumes exchange rates remain consistent with 2021) was up 14%. There was a £56 million favourable currency impact in the year.

2022

£2,096m

+19% ON 2021

2026 Target

Grow on average at least 5% per annum

ITV Studios adjusted EBITA margin %²

Definition

This is the key profitability measure used across the ITV Studios business. The profile of adjusted EBITA margin differs for production and distribution activities, and further varies with each production due to genre, customer type and maturity. Adjusted earnings before interest, tax and amortisation (EBITA) is calculated by adding back exceptional items and including high-end production tax credits². 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 ITV Studios total revenue.

Performance

ITV Studios adjusted EBITA margin was 12.4% (2021: 12.1%). Margins continue to be impacted by incremental costs associated with health and safety protocols, as well as inflationary pressures facing the production industry; these have been partly offset by mitigation measures.

2022

12.4%

+0.3% points on 2021

2026 Target

Return to 13% to 15% range from 2023 onwards

Total high-end scripted hours

Definition

Total high-end scripted hours is an important measure of the success of our strategy to grow our global scripted business. High-end scripted hours include new commissions or returning franchises that have a higher cost per hour than continuing drama. High-end scripted drama is important as it is one of the fastest growing segments of the content market. These dramas are sold to global streamers, pay platforms or free-to-air broadcasters, where they are expected to perform well with viewers in their domestic market, as well as having international distribution appeal.

Performance

The number of high-end scripted hours produced by itv studios increased by 58% to 276 hours driven by titles such as the outlaws and maternal in the uk, and internationally, titles such as Baby Fever from Apple Tree Productions and Petra from Cattleya.

2022

276hrs

+58% on 2021

2026 Target

Grow to 400 hours

² A full reconciliation between our adjusted and statutory results is provided in the APMS section

Number of formats sold in three or more countries

Definition

The Studios business is focused on maximising unscripted value by both protecting and expanding existing formats and creating new formats that travel internationally. A good measure of international success is when a format is commissioned in three or more countries in the year. Spin-offs such as Beat the Chasers are considered distinct to the original format (i.e. The Chase) for the purpose of this indicator.

Performance

The number of formats sold in three or more countries increased to 19 formats. Recent formats that have sold in three or more countries include My Mom, Your Dad; Make Love Fake Love; and Game of Chefs.

2022

19 formats

+4 formats on 2021

2026 Target

Grow to 20 formats

% of ITV Studios total revenue from streaming platforms

Definition

In the medium-term, the key driver of growth across the overall content market is expected to be significant investment by streamers. The percentage of ITV Studios total revenue from streaming platforms is an important measure to demonstrate the extent to which the business is taking advantage of this growth globally and further diversifying its customer base. See earlier KPIs for definition of ITV Studios total revenue.

Performance

The percentage of ITV Studios total revenue from streaming platforms grew to 22%. Notable deliveries on streaming platforms in 2022 include: The Reluctant Traveller and Physical for AppleTV+; Snowpiercer and Baby Fever for Netflix; Love Island USA for Peacock; Cosmic Love France for Amazon Prime; and A Spy Among Friends and Loaded in Paradise for ITVX.

2022

22%

+9% points on 2021

2026 Target

Grow to 30% of ITV Studios total revenue, an increase from our previous 2026 target of 25%

Total digital revenue

Definition

Total digital revenue is an important measure of the acceleration of our digital strategy as we supercharge streaming. It includes digital advertising revenue and subscription revenue (excluding BritBox International subscription revenue) as well as linear addressable revenue, digital sponsorship and partnership revenue, ITV Win and any other revenues from digital business ventures.

Performance

Total digital revenue grew 18% to £411 million. The growth was largely driven by digital advertising revenue, which grew 17%, and the year-on-year growth in subscription revenues from ITV Hub+, BritBox UK and ITVX Premium, up 29%.

2022

£411m

+18% on 2021

2026 Target

More than double (compared to 2021) to at least £750m

UK subscribers

Definition

UK subscribers captures total UK subscriptions (including free trials). Prior to the launch of ITVX, this included ITV Hub+ and BritBox UK subscriptions. From December 2022 onwards, this measure includes subscriptions to ITVX's ad-free premium tier as well as standalone BritBox UK subscriptions. It is an important measure of how successfully we provide a clear, compelling and differentiated subscription offering.

Performance

Total UK subscribers as at 31 December 2022, increased 17% year-on-year. Growth came from both the ITVX platform (which replaced ITV Hub+ in Q4 2022) and BritBox UK subscribers.

2022

1.4m

+17% ON 2021

2026 Target

Double (compared to 2021) to 2.5m

Total streaming hours

Definition

Driving digital viewing by attracting new viewers and enticing all our viewers to watch more ITV content is key to our strategy. Total streaming hours measures the total number of hours that viewers spent watching ITV across all streaming platforms. This figure includes both ad-funded and subscription streaming.

Performance

Total streaming hours increased 9% to 1,139 million hours. This growth was driven by our strong content offering, such as Love Island, I'm A Celebrity...Get Me Out Of Here!, and the FIFA World Cup.

Monetisable streaming hours were up 18% year-on-year. In 2022, we took the strategic decision to reduce the availability of pre-transmission drama drops and boxsets outside of ITV's own streaming services, such as on Sky and Virgin, where we cannot serve and monetise dynamic advertising. This decision does not reduce existing revenues. Over time, we anticipate that we will see this viewing move to ITVX and be more effectively monetised. The transitional impact of this decision drives the difference between total streaming hours and monetisable streaming hours.

2022

1,139m hrs

+9% on 2021

2026 Target

Double (compared to 2021) to 2bn hours

Monthly active users (MAU)

Definition

Monthly active users captures the average number of registered users throughout the year who accessed our owned and operated on demand platforms each month. It is an important measure because advertisers want to reach as many different people as possible.

Performance

Monthly active users grew 6%* to 10.5 million. The return of popular entertainment shows such as Love Island, I'm A Celebrity...Get Me Out Of Here! and the FIFA World Cup tournament brought record-breaking viewers to our digital platforms. These live events, alongside a range of genres, attracted a greater breadth of users to ITV streaming platforms, more regularly. New dramas such as A Spy Among Friends and Litvinenko, animated comedy Family Guy, and NFL Highlights attracted different user segments, as did the growing slate of films and box sets available on ITVX. The launch of ITVX on big and small screen platforms, such as Amazon Fire and iOS, also contributed to the increase, both of which were our fastest-growing platforms in 2022.

* 2021 MAUs have been restated from 9.6 million to 9.9 million due to a change in methodology

2022

10.5m

+6% on 2021

2026 Target

Double (compared to 2021) to 20m

Share of top 1,000 commercial broadcast TV programmes

Definition

Continuing to deliver significant audience scale is important to M&E's overall success as ITV has a unique selling proposition being one of the only places to reach mass simultaneous commercial audiences. This KPI measures ITV's proportion of the top 1,000 commercial broadcast TV programmes, as measured by BARB based on viewing figures. This includes TV viewing from transmission and seven days post-transmission on catch up, as well as six weeks prior to the transmission window. It excludes programmes with a duration of <ten minutes. This metric is calculated as a 12-month rolling average to normalise seasonal scheduling.

Performance

Our share remained flat at 93%. Dramas such as *The Thief, His Wife and the Canoe*, alongside entertainment formats such as *Britain's Got Talent* and *The Masked Singer*, as well as the FIFA World Cup, helped to maintain ITV's strong commercial mass audience proposition.

External source: BARB

2022

93%

Flat on 2021

2026 Target

Maintain a share of at least 80%

Share of commercial viewing

Definition

Maintaining and growing our strong competitive position in the free-to-air market is vital for the M&E business to maximise its advertising revenues. ITV Family share of commercial viewing is the measure of this. ITV Family share of commercial viewing is the total viewing of audiences over the year achieved by ITV's family of channels as a proportion of all commercial broadcast TV viewing in the UK.

Performance

Share of commercial viewing increased to 33.8%. Our share grew across our family of channels. On ITV1, live sports events and entertainment series, such as *Britain's Got Talent* (which returned in 2022 after a two-year hiatus) and *Ant & Dec's Limitless Win*, as well as dramas like *Trigger Point*, were popular and contributed to the share increase.

2022

33.8%

+0.7% points on 2021

2026 Target

Maintain at 33%

BritBox International Total subscribers

Definition

The number of BritBox International subscribers captures total global subscriptions (excluding UK, including free trials). It is an important measure of the scale and reach of our international subscription offering. BritBox International is a joint venture between BBC Studios and ITV.

Performance

Total subscribers grew by 25% to 3.0 million. BritBox International is now available across eight countries, following the launch in the Nordics (made up of Sweden, Denmark, Finland and Norway) in 2022. We continue to see subscriber growth from all established territories, including the US, Canada and Australia.

2022

3.0m

+25% on 2021

2030 Target

Grow to 10-12m

Operating and Financial Performance Review

ITV delivered a strong operational performance in 2022 across both our ITV Studios and Media & Entertainment (M&E) divisions and continues to make good progress in the second phase of our More Than TV strategy. We further strengthened ITV Studios creatively and delivered strong revenue growth, ahead of the market. In M&E we successfully launched ITVX, our new, free, ad-funded streaming platform; achieved the second highest total advertising revenues in our history; and are on track to deliver at least £750 million of digital revenues by 2026.

Key financial highlights

Group external revenue

£3,728m

+8% vs 2021
(2021: £3,453m)
(2020: £2,781m)

Total advertising revenue

£1,931m

-1% vs 2021
(2021: £1,957m)
(2020: £1,577m)

Total non-advertising revenue

£2,414m

+16% vs 2021
(2021: £2,085m)
(2020: £1,683m)

Group Adjusted EBITA

£717m

-12% vs 2021
(2021: £813m)
(2020: £573m)

Statutory operating profit

£519m

0% vs 2021
(2021: £519m)
(2020: £356m)

Adjusted EPS

13.2p

-14% vs 2021
(2021: 15.3p)
(2020: 10.9p)

Statutory EPS

10.7p

+14% vs 2021
(2021: 9.4p)
(2020: 7.1p)

Net debt

£623m

(2021: £414m)
(2020: £545m)

We use both statutory and adjusted measures in our Operating and Financial Performance Review. See APMs for a full reconciliation between our statutory and adjusted results.

Financial highlights

| | 2022 £m | 2021 £m | Change £m | Change % |
|-----------------------------|--------------|-------------|--------------|-------------|
| ITV Studios | 2,096 | 1,760 | 336 | 19 |
| M&E | 2,249 | 2,282 | (33) | (1) |
| Total Revenue | 4,345 | 4,042 | 303 | 7 |
| Internal supply | (617) | (589) | (28) | (5) |
| Total external revenue | 3,728 | 3,453 | 275 | 8 |
| ITV Studios adjusted EBITA | 259 | 213 | 46 | 22 |
| M&E adjusted EBITA | 464 | 598 | (134) | (22) |
| Adjusted EBITA | 723 | 811 | (88) | (11) |
| Profit in stock | (6) | 2 | (8) | (400) |
| Group adjusted EBITA | 717 | 813 | (96) | (12) |
| Group adjusted EBITA margin | 19% | 24% | | (5% pts) |
| Adjusted EPS (p) | 13.2p | 15.3p | (2.1p) | (14) |
| Reported EPS (p) | 10.7p | 9.4p | 1.3p | 14 |

Group financial overview

We measure performance through a range of metrics, particularly through our alternative performance measures (APMs) and KPIs, as well as statutory results, all of which are set out and defined in this report. Unless otherwise stated, the following commentary is based on adjusted metrics.

Total ITV revenue increased by 7% to £4,345 million (2021: £4,042 million), with external revenue up 8% at £3,728 million (2021: £3,453 million). Both total revenue and external revenue were up over 10% compared to the pre-COVID-19 pandemic revenue in 2019 (2019: total revenue £3,885 million, external revenue £3,308 million). Total non-advertising revenue was up 16% to £2,414 million (2021: £2,085 million).

ITV Studios revenue was up 19% at £2,096 million (2021: £1,760 million) as we delivered a wide range of new and returning programmes globally, with a £56 million favourable revenue impact from foreign exchange in the period. ITV Studios adjusted EBITA increased 22% to £259m, which includes a £5 million favourable impact from foreign exchange.

M&E total revenue was down 1% in the year at £2,249 million (2021: £2,282 million). This decrease was predominantly driven by total advertising revenue which was down 1% to £1,931 million (2021: £1,957 million) as expected against tough comparatives. Digital revenue, which includes revenue from digital advertising, digital sponsorship and our subscription services, was up 18% in the period to £411 million (2021: £347 million). We had a strong programming slate, and continued to deliver both mass audiences and a record level of streaming with total streaming hours up 9% to 1,139 million hours.

M&E costs were up £101 million to £1,785 million (2021: £1,684 million), reflecting a significant increase in content spend, including the launch of ITVX and the return to a full schedule compared to the prior year which was impacted by the COVID-19 pandemic. Content spend was lower than company guidance due to changes in the schedule as a result of the passing of Her Majesty Queen Elizabeth II and fewer England Internationals ahead of the FIFA World Cup. Overall, our investment in data, technology, content and launch of ITVX was slightly below previous guidance in 2022. However, we still expect that 2022 and 2023 investment combined remains as previously guided.

We delivered £23 million of permanent costs savings in the year, across the business, which included headcount savings from changes in our operating model in M&E and property footprint, contractual negotiations and a permanent reduction in some discretionary spend. We have delivered £106 million of cumulative cost savings since 2018 and have overachieved against our target to deliver £100 million of cumulative cost savings by the end of 2022. In addition, we have a further cost saving target of £50 million, which we will deliver by 2026.

Group adjusted EBITA decreased by 12% to £717 million (2021: £813 million), with increased spend in content and ITVX investment.

Operating exceptional items, before exceptional finance costs, were £65 million (2021: £196 million) and include restructuring and reorganisation costs of £28 million, relating to one-off restructuring projects, stemming from the Group-wide commitment to reduce the overhead cost base, and reorganisation costs to deliver our strategy. In addition, there were £24 million of property costs relating to the London office move to Broadcast Centre and the impairment of assets following the decision to reduce our property footprint in the US (see note 2.2 for further detail).

Adjusted financing costs were down year-on-year at £26 million (2021: £31 million), reflecting lower levels of gross debt in the year. Statutory net financing costs were also down year-on-year at £26 million (2021: £50 million), largely due to interest payable on exceptional earnout costs relating to acquisition-related expenses in the prior year.

Our adjusted tax rate was 20.1% (2021: 19.9%) and statutory effective tax rate was 13.2% (2021: 19.2%).

Adjusted EPS decreased by 14% to 13.2p (2021: 15.3p). Statutory EPS increased 14% to 10.7p year-on-year (2021: 9.4p).

See the Finance Review for further detail.

Our profit to cash conversion (which is an APM) in 2022 was 75% (2021: 80%) and we have £280 million of free cash flow. At 31 December 2022 our net debt was £623 million (31 December 2021: £414 million) and our net debt to adjusted EBITDA was 0.8x (31 December 2021: 0.5x) (see Finance Review for more detail). We have good access to liquidity with cash and committed undrawn facilities totalling £1,098 million (31 December 2021: £1,514 million), including total cash and cash equivalents of £348 million at 31st December 2022 (31 December 2021: £736 million, including restricted cash of £50 million).

Reflecting ITV's strong operational and financial performance in the year, and in line with previous guidance, the Board intends to propose a final dividend of 3.3p, giving a full year dividend of 5.0p for 2022. The Board intends to declare a full year ordinary dividend of at least 5.0p in 2023 which it expects to grow over time whilst balancing further investment behind our strategy and our commitment to investment grade metrics over the medium term.

We are mindful of the macroeconomic uncertainty and remain focused on tightly managing our costs and cash flow while continuing to invest in delivering our priorities. Our robust financial position allows us to do this while delivering returns for shareholders.

A range of scenarios reflecting ITV's principal risks has been modelled and considered in the assessment of ITV's longer-term viability.

ITV Studios

ITV Studios is a scaled and diversified business, by genre, geography and customer, in the key creative markets around the world. It is the largest producer of TV and streaming content 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 90,000 hours, it is also one of the pre-eminent global distributors.

While some estimates of the rate of growth in global demand for content have slowed, we continue to expect demand to grow in 2023 and over the medium term. And ITV, as a diversified business with a strong track record for delivering successful scripted and unscripted programmes, across a range of budgets is well placed. We continue to expect to deliver total ITV Studios revenue growth of on average at least 5% per annum to 2026 and growth ahead of the market.

Growing UK and global productions is central to ITV's More Than TV strategy. ITV Studios ambition is to be a leading force in the creation and ownership of intellectual property (IP), global content production and distribution.

We are achieving this by focusing on our four strategic pillars as follows:

1. Growing our scripted business to meet the significant growth in demand globally
2. Growing our global formats business in order to maximise the monetisation of high-value formats
3. Further diversifying our customer base to capture the growth in content spend from local and global streaming platforms
4. All of which is underpinned by our ability to attract and retain leading talent

This puts ITV Studios in a strong position to be able to continue to take advantage of the growth in the demand for content globally and for ITV Studios to grow ahead of the market.

Growing our scripted business

Whilst unscripted content production remains important to ITV Studios, growing our scripted business is one of our key strategic priorities in order to meet the significant growth in demand for scripted content globally.

Scripted content is key to platforms (both free-to-air and streamers) attracting and retaining viewers and subscribers. This together with the significant increase in the number of streamers over recent years, has meant we have seen strong growth in the number of original scripted commissions in the UK and US as well as in Europe. Whilst content spend growth from streaming platforms is expected to slow compared to recent years, it will still continue to grow and is expected to make up 33% of the overall market by 2026 (Source: Ampere Analysis, Sept 2022). Furthermore, we are seeing rising demand for locally produced, non-English language scripted content. We expect this trend to continue and ITV Studios, with its global production presence, is well-placed to serve this growing demand.

Our scripted labels are creating and producing high-quality content with global appeal for free-to-air (FTA) and streaming platforms. In the UK this includes: Mammoth Screen, creators of *The Serpent*, *McDonald & Dodds*, *Victoria*, and *Noughts & Crosses*; World Productions creators of *Line of Duty*, *Vigil*, *Karen Pirie* and *Bodyguard*; and Quay Street Productions, creators of *Nolly*.

Our established international scripted businesses are also performing well. Cattleya in Italy and Tetra Media Studio in France create and produce long-running and new critically acclaimed foreign-language dramas, including *Paris Police 1905* and *Balthazar* in France, and *Summertime* and *Suburra* in Italy. Our international scripted labels, Lingo Pictures in Australia, Windlight Pictures in Germany and Cattleya Producciones in Spain, as well as our majority stake in Appletree Productions in Denmark (*Blackwater* for SVT), further strengthen our scripted pipeline. ITV Studios America is also seeing good momentum in its creative pipeline, with *Franklin* (working title) commissioned for AppleTV+ for delivery in 2023, alongside output from recent talent deals coming through, such as *Ten Year Old Tom* from Work Friends, which returns for a second series in 2023, and *Physical S3* from Tomorrow Studios, which returns for a third series in 2023. We now have more scripted hours in production in the US than ever before. In 2022, high-end scripted hours increased significantly, up 58% to 276 hours. By 2026, we expect to produce 400 hours of high-end scripted content.

Global Distribution plays a key role in growing scripted value across the business. Global Distribution invests around £50 million each year (equating to around 200 hours of new scripted programming) in ITV Studios-produced content and selective third-party content (including international spy drama *Harry Palmer: The Ipcress File*) to acquire the distribution rights. Having the integrated producer-distributor relationship enables Global Distribution to make effective investment decisions around content funding. By finding co-production partners and licensees around the world for our scripted catalogue (of more than 22,000 hours), Global Distribution maximises the value of these projects over a long-term sales lifecycle.

Growing our Global Formats business

Our Global Formats business monetises our portfolio of some of the world's most successful entertainment formats that travel internationally, as well as maximising commercial opportunities from our IP. We are focused on driving growth across our unscripted offering by monetising our existing high-value formats effectively as well as supporting the creation of new global formats.

Our portfolio of world-class brands include (number of countries the format has been sold to date): The Voice (72 countries), Love Island (26 countries), The Chase (19 countries), Come Dine With Me (46 countries), Hell's Kitchen (25 countries) and I'm A Celebrity...Get Me Out Of Here! (16 countries). These formats continue to sell in new territories and generate strong mass audiences for our clients. They are increasingly attractive to customers, both traditional broadcasters and streamers alike, looking to bolster their slate with cost-effective content which has a track record for performing well with audiences.

As well as protecting our biggest brands, we are also focused on expanding our franchises with successful spin-offs which allows us to constantly evolve existing formats. Examples include: The Voice which now has six spin-off versions; The Chase which has four spin-off versions including Beat the Chasers; and Come Dine With Me also with four spin-off versions including Couples and Professionals versions. We are also exploring the increased use of production hubs and remote recording studios. Production hubs allow us to reduce the cost per hour by amortising set up costs across back-to-back productions of the same format, which enables us to offer more clients access to world-class brands in a cost-effective and safe environment. For example, Love Island currently has two established production hubs in Gran Canaria and the Dominican Republic.

While more established formats and corresponding spin-offs continue to perform well, it can be more difficult to gain traction with new formats. However, several new formats have recently been commissioned in our UK, US and international production bases that have the potential to be future global hits. These include formats, such as My Mom, Your Dad (our first global format to originate from the US); Loaded in Paradise; and Make Love Fake Love (also known as Ready To Mingle in the UK). In 2022, across our Global Formats business, we sold 64 (2021: 58) different formats internationally, 19 of which were sold to three or more countries (2021: 15). By 2026, we expect to have 20 such formats, with a view that one of these may be a significant new format like The Voice or Love Island.

Through our Global Distribution business, we are focused on exploiting our 68,000+ hour library of global unscripted content assets and maximising the value of primary and secondary windows with FTA, Pay TV and streaming platform customers. In addition, our Global Entertainment and Creative Network teams actively tap into market intelligence locally, such as indications around market trends, and feed this back to the ITV Studios teams, to inform ITV Studios latest thinking around what the next potential hit format could be. This is another way in which having Global Distribution and Formats embedded in ITV Studios is incredibly valuable.

Further diversifying our customer base

As the demand from global and local streaming platforms grows, this presents a significant opportunity for ITV Studios to further diversify its customer base. Whilst streamers' content spend is not expected to grow at the same rate as in recent years, we expect content spend from streamers will continue to grow in the medium-term and it remains a key pillar of ITV Studios strategy.

In the US, we have strengthened our relationships with streaming platforms, having both scripted and unscripted development projects and commissions in place with all the major platforms. In 2022, nearly a third of US unscripted and scripted revenues came from streamers. Our UK and international studios (aside from Italy) have historically been more reliant on local broadcasters, but they continue to develop their relationships with these platforms, with 14% of revenues from each division coming from streamers in 2022.

In 2022, we significantly increased our percentage of total revenues from streaming platforms to 22%, from 13% in 2021. Following this success, we have increased our 2026 target from 25% to 30%. Scripted and unscripted programmes delivered to streamers in 2022 included The Reluctant Traveller for Apple TV+, Snowpiercer S3 for Netflix, and Love Island US S4 for Peacock.

New commissions for future broadcast by streamers include Franklin (working title) for Apple TV+, 'Squid Game: The Challenge' for Netflix (a co-production between Studio Lambert and ITV Studios label, The Garden) and Fifteen-Love for Amazon Prime along with several other titles in progress with Disney+, Apple TV+, Netflix and Amazon Prime.

Whilst further diversifying our customer base with streamers is a key strategic priority for ITV Studios, this will require careful management of our working capital as streamers typically expect extended payment profiles. In some instances, it may also limit the ability for us to maintain all the rights for high-value scripted titles as streamers usually want worldwide distribution rights for original commissions, in return for a premium fee on commissions.

Attracting and retaining leading talent

A key part of ITV Studios investment strategy and pivotal to the business's success is its ability to attract and retain the best creative talent. ITV Studios offers talent a blend of creative independence, an entrepreneurial culture, the resources of a global studio business, such as access to ITV Studios significant catalogue and in the UK, the benefit of being a vertically integrated producer broadcaster and streamer.

At our 2022 interim results, we announced the acquisition of a majority stake in Plimsoll Productions, the largest independent producer of natural history programmes in the world and a growing premium factual producer. The producer is behind series including, Tiny World and Giant World for Apple+; Hostile Planet for Disney+; Night on Earth for Netflix; and A Year on Planet Earth for ITV, Tencent in China, Fox Nation in the US and Ard Group in Germany. The acquisition enables ITV Studios to capitalise on the growing demand for natural history and factual programming, further diversify its customer base and strengthening its relationships with streamers. The acquisition completed on the 1 July 2022.

In July 2022, we also announced that globally renowned drama producer and TV executive, Ben Stephenson, joined ITV Studios to set up a new transatlantic drama label, Poison Pen Studios. Previously, he was Head of Television at Bad Robot Productions, with notable hits including multi-series sci-fi title Westworld for HBO and Little Voice for AppleTV+.

In November 2022, ITV announced the acquisition of a majority stake in Australian producer Lingo Pictures, an international scripted label. Lingo's recent productions include season two of *The Secrets She Keeps* for Paramount+, BBC One and Sundance/AMC as well as the second season of *Upright*, which was nominated for Best International Drama at the Edinburgh TV Awards. Upcoming projects include *Queen of Oz*, a comedy starring and co-written by comedian Catherine Tate, commissioned by BBC One in the UK and *Prosper* for Australian streaming service Stan and Lionsgate. In total, Lingo Pictures will produce five series in 2023.

ITV's new labels set up through our recent talent deals have delivered an impressive slate of programmes, including *Nolly* from Quay Street Productions for ITVX (launched in 2023) and *You & Me* from Happy Prince.

ITV Studios financial performance in 2022

ITV Studios saw strong revenue growth in 2022, with total revenue up 19% to £2,096 million (2021: £1,760 million), and external revenue up 26% to £1,485 (2021: £1,177 million), with growth across all ITV Studios divisions. Total organic revenue at constant currency was up 14% (our definition of constant currency excludes acquisitions and assumes exchange rates remain consistent with 2021), with a £56 million favourable revenue impact from foreign exchange in the period.

When compared to 2019, prior to the COVID-19 pandemic, total ITV Studios revenue was up 15% (2019: £1,830 million) and external revenue was up 18% (2019: £1,257 million) (both 2019 balances have been restated to reflect the reclassification of gaming, live events and merchandising from M&E).

Reflecting our presence in key global production markets, 60% of ITV Studios revenue was generated outside the UK (2021: 57%).

ITV Studios adjusted EBITA was up 22% year-on-year at £259 million (2021: £213 million), with the adjusted EBITA margin at 12.4% (2021: 12.1%), which includes a £5 million favourable impact from foreign exchange. In 2022, there were £7 million of cost savings. The ITV Studios margin continues to be impacted by costs associated with health and safety protocols due to the COVID-19 pandemic and inflation in the production sector. To help mitigate this we are looking at our property footprint, using technology and data to drive cost and revenue efficiencies and taking further steps to digitise our production processes by using cloud and remote editing more routinely. We remain committed to our adjusted EBITA margin guidance of 13% to 15% from 2023 but given the cost pressures, the margin will be at the lower end of the range in the shorter term as previously guided.

| Twelve months to 31 December | 2022 £m | 2021 £m | Change £m | Change % |
|--|--------------|--------------|--------------|-------------|
| ITV Studios UK | 822 | 683 | 139 | 20% |
| ITV Studios US | 467 | 372 | 95 | 26% |
| ITV Studios International | 465 | 407 | 58 | 14% |
| Global Formats and Distribution | 342 | 298 | 44 | 15% |
| Total ITV Studios revenue | 2,096 | 1,760 | 336 | 19% |
| Total ITV Studios costs | (1,837) | (1,547) | (290) | (19%) |
| Total ITV Studios adjusted EBITA* | 259 | 213 | 46 | 22% |
| ITV Studios adjusted EBITA margin | 12.4% | 12.1% | – | 0.3 pts |

* Includes the benefit of production tax credits. ITV Studios adjusted EBITA for 2021 has been restated to remove the unrealised profit in stock adjustment as this is an adjustment required on consolidation only. The launch of ITVX in the M&E division is likely to increase the levels of content held on the Statement of Financial Position, potentially requiring a larger profit in stock adjustment and therefore management believes the adjustment should be recorded at a consolidated level only. Refer to Alternative Performance Measures for key adjustments to EBITA and adjusted EBITA.

| Twelve months to 31 December | 2022 £m | 2021 £m | Change £m | Change % |
|----------------------------------|--------------|--------------|--------------|-------------|
| Sales from ITV Studios to M&E | 611 | 583 | 28 | 5% |
| External revenue | 1,485 | 1,177 | 308 | 26% |
| Total ITV Studios revenue | 2,096 | 1,760 | 336 | 19% |

| Twelve months to 31 December | 2022 £m | 2021 £m | Change £m | Change % |
|----------------------------------|--------------|--------------|--------------|-------------|
| Scripted ¹ | 723 | 505 | 218 | 43% |
| Unscripted | 1,038 | 948 | 90 | 9% |
| Core ITV ² and Other | 335 | 307 | 28 | 9% |
| Total ITV Studios revenue | 2,096 | 1,760 | 336 | 19% |

¹ Includes high-end scripted and other scripted revenues

² Core ITV includes the soaps and daytime shows produced by ITV Studios for ITV1

ITV Studios UK

As the largest producer of content in the UK, ITV Studios UK has a diverse range of scripted and unscripted titles for broadcasters and streaming platforms. The business is built upon many long-running and recurring titles, the majority of which are sold to the M&E business for transmission on ITV's family of channels, ITVX 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 ITV1 and ITVX was down at 65% (2021: 70%), however, this was based on a higher available year-on-year content spend budget in 2022.

In 2022, ITV Studios UK revenue was up 20% to £822 million (2021: £683 million), and up 16% on an organic basis. Internal sales to M&E was up 5% in the year, driven by dramas, such as A Spy Among Friends and Maternal; and entertainment shows such as Loaded In Paradise. Internal deliveries in the first half of 2023 include Love Island, Dancing on Ice and Vera.

Revenue from productions for non-ITV channels in the UK increased by 74%, with new and returning programmes including The Outlaws and Shetland for the BBC; and Countdown and Come Dine With Me for Channel 4. Off-ITV deliveries in the first half of 2023 include Fifteen-Love for Amazon Prime and World On Fire S2 for the BBC.

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 streaming platforms. It has a good foundation of core programmes, including unscripted titles with multiple seasons and a high volume of episodes, and premium scripted content, which has enabled the business to grow its presence significantly in a highly competitive market.

ITV Studios US total revenue grew by 26% to £467 million (2021: £372 million) and 13% to £419 million when adjusted for the favourable foreign exchange impact, driven by both scripted and unscripted titles. Within ITV Studios America (scripted), the increase was predominantly driven by deliveries of Let The Right One In to Showtime and Physical S2 to Apple TV+. ITV America (unscripted) saw the delivery of almost 500 hours of content, including new titles such as Bullsh*t The Game Show for Netflix, along with returning titles, such as Love Island US S4 for Peacock, The Chase S3 for ABC and Hell's Kitchen S21/22 for FOX.

The development and commissioning pipeline for ITV Studios US in 2023 is strong; both ITV Studios America and ITV America have a number of projects in production or under development with existing and emerging streaming platforms as well as other traditional platforms. For ITV Studios America, this includes Franklin (working title) and Physical S3 for AppleTV+. Within ITV America, deliveries expected in 2023 include Love Island US S5 for Peacock, in addition to three new series for both Hulu and Roku, two new series for Amazon Prime and one new series for Netflix.

ITV Studios International

ITV Studios International has production bases in Australia, Germany, France, the Netherlands, the Nordics, Italy, Spain and Israel where we produce original scripted and unscripted content, as well as local versions of key formats developed through our Global Formats business. Growing our European scripted business allows us to benefit from the increasing demand for locally-produced content with global appeal, and we have scripted projects in production and development with Amazon Prime, Netflix, Paramount+, and Disney+, as well as local streamers, such as Videoland in the Netherlands, Stan in Australia and Viaplay in the Nordics.

Revenue within ITV Studios International increased by 14% to £465 million (2021: £407 million), and by 15% to £468 million when adjusted for the unfavourable impact of foreign currency. Growth was driven by deliveries including I'm A Celebrity...Get Me Out Of Here! from ITVS Germany and Cosmic Love from ITVS France as well as Blackwater from AppleTree Productions and part-delivery of Diana from Cattleya.

In 2023, we will continue to focus on growing our international scripted business to allow us to benefit from the increasing demand for locally produced content with global appeal. Deliveries expected in 2023 include The Messenger and Prosper from Lingo Pictures.

Global Formats and Distribution

Global Formats and Distribution revenues were up 15% to £342 million (2021: £298 million), and by 11% to £331 million when adjusted for the favourable impact of foreign currency. Our Global Distribution business benefited from the international distribution of titles, such as Harry Palmer: The Ipcress File, Ten Year Old Tom, and Noughts and Crosses. Finished tape sales of unscripted formats were also strong, including Love Island and Hell's Kitchen, delivering across multiple territories.

2023 should see an increased pipeline of new content for Global Distribution, including A Year on Planet Earth, new series of Love Island (including international versions), Fifteen-Love and Vigil S2 along with returning scripted titles such as Snowpiercer.

Our Global Formats business has continued to strengthen its portfolio of successful entertainment and factual entertainment formats, with 19 formats sold in three or more countries during the period (2021: 15). These included titles such as Love Island, Let Love Rule and Come Dine With Me. In addition to the formats already mentioned, new formats expected to sell internationally in 2023 include I Kissed A Boy, Project Icon, and Scared of the Dark.

Our Global Formats and Distribution business also continues to monetise our successful formats through commercial licence deals across gaming, live events and merchandising. Examples include The Chase online games, Coronation Street The Tour and the Love Island water bottles. In 2022, we made the decision to close the I'm A Celebrity...Get Me Out Of Here! Jungle Challenge Attraction but will continue to explore opportunities in this area, to maximise the returns on our IP.

Media & Entertainment

Media & Entertainment (M&E) has two business units – Streaming and Broadcast. The market continues to evolve rapidly which provides both opportunities and threats. Our strategy is focused on taking advantage of the changes we are seeing in the viewing and advertising landscape as we aim to retain existing, and attract new viewers and advertisers.

ITV offers viewers the choice of watching our content whenever and however they want, either through our streaming platform or on our linear channels. The key is brilliant content which ITV has a strong track record for delivering. ITV provides advertisers with both valuable mass simultaneous reach on its linear channels and targeted advertising at scale through its streaming platform, both in a brand safe and measured environment.

Through our Streaming business, we operate ITVX, our new, free, ad-funded streaming platform with a compelling premium tier (which combines ITV Hub, ITV Hub+ and BritBox UK). ITVX leverages our investments to date in ITV Hub, BritBox UK, Planet V and data to drive digital viewing and revenue growth with a significant increase in investment in content. It will significantly strengthen our offering to viewers – making it a destination rather than a catch up service. For advertisers it delivers valuable addressable audiences at scale and our established data and analytics capabilities will drive higher-value, data-driven pricing models.

Through our Broadcast business, we operate the largest family of free-to-air commercial TV channels in the UK. They offer unique audience scale and reach, as well as targeted demographics demanded by advertisers. In spite of the growth in streaming viewing, linear broadcast remains important to our viewers and advertisers. We will optimise Broadcast to maintain our USP of delivering mass audiences for advertisers by investing in live content, such as sports rights and large entertainment shows, as well as continuing to invest in dramas. In addition, we will continue to build more strategic and creative partnerships with advertisers who highly value these large audiences to build their own brands.

Growing and enhancing our streaming proposition

ITV Hub and ITVX

Investment in ITV's streaming platforms is a key part of ITV's More Than TV strategy, with the improvements in the user experience, scale and quality of content and the launch of ITVX reflected in the strong performance in our key performance indicators. Our Streaming KPIs are the key drivers of growing our digital revenues, measuring the increasing scale of our advertising inventory through streaming viewing hours; our reach which is so valuable to advertisers through our monthly active users and the number of subscribers for our premium ad-free tier.

Monetisable streaming hours on our owned and operated platforms were up 18%. This was offset by a 22% decline in viewing on other streaming services such as Sky and Virgin, where we have taken the strategic decision to reduce the availability of pre-transmission drama drops and box sets, since we cannot serve and monetise dynamic advertising. This decision does not reduce existing revenues. Over time, we anticipate that we will see this viewing move to ITVX and be more effectively monetised. The transitional impact of this decision drives the difference between total streaming hours and monetisable streaming hours. In total, streaming hours were up 9% in the year to 1,139 million (2021: 1,048 million).

Monthly active users (MAUs) were up 6% to 10.5 million (2021: 9.9 million).

During the year we strengthened the content offering and number of hours available and enhanced the user experience with a redesigned Hub interface which has attracted greater viewing and breadth of users. The number of hours of free content has grown from 4,000 in December 2021 to 7,500 in June 2022 (on ITV Hub) to 12,000 hours (as well as an additional 7,000 hours of content on ITVX's subscription-funded premium tier) by the end of December 2022 (on ITVX). During the year we made the majority of dramas available in full on the ITV Hub when the first episode was launched on linear. To attract new viewers, we licensed new and different content, such as the Warner content, including titles such as The Sex Lives of College Girls, The OC, and One Tree Hill.

We saw strong simulcast viewing with hours up 21%, as more viewers used ITV streaming platforms as a destination for live viewing via connected TVs and streaming devices, particularly for the soaps, Love Island, dramas and FIFA World Cup. 2022 saw the number of programmes getting a million or more viewers on ITV streaming platforms increase by 6% year-on-year. In the last week of November, ITV recorded its best ever seven days of streaming with 106 million streams across the week, driven by the final week of I'm A Celebrity...Get Me Out Of Here! and 18 World Cup matches. Dwell time on ITV streaming platforms, which measures the average time spent viewing per session across all platforms, was up 15% in the year.

In November 2022 we started to roll-out ITVX, our new, free, ad-funded streaming service (with a premium subscription proposition) with the full content launch in December with 19,000 hours of content (including 7,000 hours in the premium tier). This included the new and exclusive content to complement the library content built up over the year. We worked successfully with our distribution partners to ensure that ITVX was widely available at launch.

ITVX combines ITV Hub, ITV Hub+ and BritBox UK and is a step change, creating a destination for viewers rather than a catch up service, and attracting those audiences who do the majority of their viewing on digital services. The streaming platform offers viewers a weekly new and exclusive premier; one of the UK's largest free film library with over 250 films as well as over 150 hours of documentaries including a dedicated true crime collection; box sets made available in their entirety at the same time as linear transmission; 20 FAST channels; acquired content, content partnerships and archive content; as well as our six linear channels; all powered by our one content budget across linear and streaming.

ITVX Premium, our subscription proposition combines ITV Hub+ and BritBox UK, offering an additional 7,000 content hours, all ad-free. BritBox UK also continues as a standalone service. UK streaming subscriptions continued to grow in 2022, up 17% to 1.4 million (31 Dec 2022: 1.2 million) and is in line with our plan. Within this, ITVX had 0.7 million subscriptions, with the remainder coming from BritBox UK.

We are very pleased with the performance of ITVX in its first two months. ITVX is attracting more viewers, with 1.5 million new registered users; increasing viewing time, with a 69% increase in total streaming hours; and attracting light viewers (the group we call mainstreamers), who are harder to reach, with a 94% increase in streaming hours. In addition, we saw a 109% increase in streaming hours amongst the 16-34s demographic.

Although ITVX has now launched, it will continue to evolve with new weekly exclusive premieres, including new drama Nolly starring Helena Bonham Carter; true crime series Social Media Murders; and comedy series Deep Fake Neighbour Wars. There will be further investment to enhance the user experience and features including deeper personalisation across the viewer experience, improvements in search and content categories, as well as advanced data analytics and A/B testing to further optimise viewing performance.

Continuing to deliver unrivalled audiences with high-quality programming

In 2022, ITV continued to inform and entertain the UK nation, providing audiences with high-quality programming across the full range of genres. ITV Family's share of commercial viewing (SOCV) (which is ITV's share of viewing as a proportion of all commercial ad-funded channels in the UK), increased from 33.1% in 2021 to 33.8%.

While we had a strong schedule of drama, entertainment programmes and sport, Total ITV viewing (which combines live viewing of ITV channels, recorded and on-demand, on all devices) declined by 9%, to 13.8 billion hours, impacted by the easing of lockdown restrictions against the tough comparatives of 2021. Total broadcaster TV viewing (live and catch up viewing to broadcast channels including TV video on demand of all broadcasters) declined by 12% in the year. Total TV set viewing (including advertiser and subscription funded streaming services, YouTube and games consoles) declined by 9%. Total TV set viewing was less than the decline in broadcast TV viewing, driven by a smaller decrease in viewing on subscription streaming platforms during the period (Source: BARB).

On ITV1, Coronation Street and Emmerdale maintained their position as the UK's two largest soaps. We dominated the big genres with three of the top five most-watched new dramas including Trigger Point, The Thief, His Wife, and the Canoe and Our House; successful returning dramas including Vera and Doc Martin; and four of the top five most-watched entertainment shows including I'm A Celebrity...Get Me Out Of Here! (which returned to Australia for the first time since 2019 and averaged over 11 million viewers, a year-on-year increase of over 3 million viewers), The Masked Singer and Britain's Got Talent (which returned after almost two years). Our successful factual programming included Kate Garraway: Caring For Derek, and Julia Bradbury: Breast Cancer and Me. The Martin Lewis Money Show achieved its biggest audience for nearly five years, as he helped viewers navigate the cost of living crisis. Our daytime shows continued to perform well, and we had the return of a full sport schedule, including the FA Cup, Six Nations and the 2022 FIFA World Cup. The England v France FIFA World Cup match attracted a peak of 23 million viewers, making it the most watched programme of the year on any channel and delivering ITV's best Saturday night on record. Changes to our national and international evening news went live in March 2022, with our evening news programme extended from 30 minutes to an hour, with even more focus on reporting from outside of London feeding into the programme, to reflect the whole of the UK. Our news programming continued to perform well in 2022, with our early evening bulletins maintaining a 21% share of viewing year-on-year.

On ITV2, while viewing volumes for individuals was down 12% in line with a decrease in total broadcaster TV viewing, ITV2's target audience, 16-34s share of viewing was flat and SOCV for 16-34s was up 2%, helped by a new series, Olivia Atwood: Getting Filthy Rich, and the return of the summer series of Love Island.

On ITV3, the target audience ABC1 adults share of viewing was broadly flat in the year, with repeats of popular dramas, including Grace, Vera, Midsomer Murders and Endeavour.

On ITV4, the target audience of males share of viewing was flat, with good viewing for sport, which included the FA Cup and the Isle of Man TT and some World Cup matches.

We have an exciting schedule in 2023 with new and returning dramas, including Stonehouse, Maternal and Vera; and returning entertainment including Britain's Got Talent and The Voice UK, as well as the Rugby World Cup.

Strong linear and online advertising proposition

ITV offers advertisers the best of both worlds, offering both mass simultaneous reach and targeted advertising, in a high-quality, trusted and measured environment across both linear and ITVX. Our significant investment in a broad range of very popular content drives scale and reach in live and streaming viewing. And our Commercial team has deep relationships with clients and a proven track record of building and executing successful strategic partnerships with existing as well new clients.

ITVX enables ITV to drive a sustainable increase in online inventory and reach to serve the growing advertising demand for targeted advertising. Planet V, our scaled programmatic addressable advertising platform, is the UK's second-largest programmatic video advertising platform, after Google, which supported by our data assets and capabilities delivers attractive products for advertisers.

Planet V's end-to-end technology is wholly-owned by ITV, which is unique in the broadcast industry, and ensures all returns flow to ITV with no value leakage through third-party commissions. It is a self-service platform enabling advertisers to plan and buy ITVX inventory seamlessly and cost-effectively, create bespoke audiences, add their first-party data in a fully GDPR compliant environment using InfoSum and monitor their campaigns via a custom-built user interface. It has been rolled out to all the large agency group businesses, the independent agencies and all the regional specialists, with over 1,800 active users and more than 90% of ITV's inventory booked through the platform. Digital advertising grew strongly in the period, up 17% year-on-year, including 380 digital-only advertisers and 20,000+ data targeting options available to advertisers.

In November 2022, we announced the launch of Planet V 2.0, which provides users with a new look, improved functionality and more parameters to help build more effective campaigns. The pilot is planned to start with a select number of customers before being rolled out more widely.

Television remains an efficient and effective medium for advertisers to achieve mass reach and generates the highest return on investment of any media. We maintained our share of the top 1,000 commercial broadcast TV programmes at 93% in the year (2021: 93%). As viewing and advertising become more fragmented, the scale and reach of advertising that television, and particularly ITV, delivers becomes increasingly valuable, and as we evolve our strategy, our Broadcast business will continue to optimise its USP as the largest commercial public service broadcaster in the UK.

With the proven return on investment which television offers, our Commercial team has several initiatives in place to both attract new advertisers to ITV and engage existing advertisers. These include the following, which have helped attract nearly 490 new advertisers to ITV in 2022:

- ITV AdVentures Ignite is aimed at encouraging digitally native brands to advertise on television for the first time. In 2022, we launched new brands including hair colour brand, Josh Wood Colour and mobile bicycle repair service, Fettle, which launched with a geo-targeted digital campaign around the Tour de France. Butternut Box, the fresh dog food delivery service, was an Ignite client from 2020, and has now grown to be a national advertiser on ITV, demonstrating the initiative's success.
- ITV AdVentures Invest is ITV's Media for Equity programme which launched during the first half of 2021 and involves ITV taking minority stakes in direct-to-consumer businesses, in return for advertising inventory across ITV's channels and ITVX. The initiative serves as an innovative opportunity for these businesses to build scale through TV advertising, alongside a strategic media partner. Since its launch, ITV AdVentures has made four media for equity investments into geopositioning service what3words, bespoke menswear fashion brand Spoke, wellness digital startup Feel, and online car marketplace carwow, and subsequently made follow-on investments into what3words and Spoke. In addition to these portfolio companies, ITV AdVentures has also supported three brands, Afrocentchix, LiveLink and Syrona Health, to launch their first ever TV campaign via its partnership with Google for Startups Black Founders Fund.
- ITV Ad Labs brings together all of ITV Commercial's innovation under a single business proposition. Examples include QR Ads, which enables viewers to buy products by scanning a QR code in an ad with their smartphone; and Dynamic Creative advertising on Planet V, which enables advertisers to dynamically tailor the ad creative for different locations, audiences or products. In November 2022, we announced our new Matchmaker solution, which uses InfoSum, a leading data collaboration platform in which ITV has invested. It securely matches ITV's existing registered first-party audience with Boots' Advantage Card and Tesco's Clubcard databases. This allows smarter targeting and measurement across ITV's premium video inventory. To ensure customers are maximising their return on investment, we have also created Ad Labs Insight, which includes innovations such as the Share of Voice reporting tool which allows brands to measure their TV presence and compare themselves to others in their market, and a budget planning tool which help brands apply best practice to maximise the return from their marketing budgets.
- ITV Backing Business, which makes it as flexible as possible for British businesses to advertise on television, with ITV providing them with marketing support and a wealth of resources to help them return to growth. The team has worked with brands such as NatWest – which has seen around a 10% increase in SME account openings as a result, along with Juicy Couture, Weleda and HiHi.
- ITV Home Planet is ITV's initiative for sustainable brands to encourage viewers to reduce their carbon footprint. Brand partners to date include Nationwide, Volkswagen, and Sainsbury's.

The ITV Commercial team are also delivering more innovative and bespoke partnerships across linear and digital including product placement, ad-funded programming and commercial partnerships where we can use the power of our brands to help advertisers engage with audiences in different ways. This is made possible and more valuable by being a vertically integrated producer broadcaster and streamer, with editorial, commercial, creative and production working together to provide valuable opportunities for advertisers.

Our product placement deals during the period included Heineken 0.0 Draught (alcohol-free beer) which went on tap at Coronation Street's Rovers Return and Emmerdale's Woolpack. The summer version of Love Island had over ten commercial partnerships, engaging in programme sponsorship, brand licences, in-store branding and product placement, including Just Eat, eBay, Reddit, Quay, O2 Virgin Media, and Boots. ITV and Ring also worked together to create the successful 'Ring My Bell' ad campaign on Saturday Night Takeaway; while planned as a one-off, due to popular demand and impact, the format came back twice more and was also winner of the Grand Prix at the Media Week Awards. In sport, Motorway, the UK's fastest growing used car marketplace, sponsored our live coverage of the Guinness Six Nations, and the 2022 FIFA World Cup on ITV was sponsored by both Google Pixel and KFC.

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) launched in March 2022. It is a post-campaign online evaluation tool, which gives advertisers and agencies a unique view of the coverage achieved by their commercial campaigns across both linear and streaming. In December 2022, CFlight won the prestigious MRS Award for Best Media Research. Further enhancements to the tool are expected in 2023.

The advertising market is highly competitive, with global streamers having now entered the advertising market. However, ITV has a highly experienced team that are well versed in competing with new entrants to the advertising market. We believe we are well positioned to successfully execute Phase Two of our More Than TV strategy with the launch of ITVX. We will offer our advertising clients something no streamer is able to - the best of both worlds – enabling advertisers to grow their brand through the unparalleled mass simultaneous reach audience generated on ITV, whilst extending incremental reach through a targeted offering on ITVX. This will be supplemented by innovative data and content advertising offerings that are unique to ITV.

BritBox International

Our international BritBox joint venture with the BBC is currently available in the US, Canada, Australia, South Africa and the Nordics (made up of Sweden, Finland, Denmark and Norway) and provides an ad-free subscription streaming service offering the most comprehensive collection of British content available in those territories. Subscriptions have grown strongly and are ahead of plan, with 3.0 million BritBox subscriptions internationally (31 Dec 2021: 2.4 million).

Across all our streaming services (including ITVX), we now have 4.4 million subscriptions globally.

M&E financial performance

M&E total revenue was down 1% in the year at £2,249 million (2021: £2,282 million). This decrease was predominantly driven by total advertising revenue which was down 1% to £1,931 million (2021: £1,957 million) as expected. Digital revenue, which includes revenue from digital advertising, digital sponsorship and our subscription services, was up 18% in the period to £411 million (2021: £347 million). Within this, digital advertising revenues were up 17% year-on-year to £343 million (2021: £293 million), subscription revenues were up 29% to £54 million (2021: £42 million) and other digital revenues were up 17% to £14 million (2021: £12 million). M&E non-advertising revenues were down 2% to £318 million (2021: £325 million) with strong growth in subscription revenue offset by a decline in competitions and SDN revenues. Further detail on the year-on-year movement in revenue is detailed below.

When compared to the same period in 2019, M&E revenue on a like-for-like basis, was up 9% (2019: £2,055 million) predominantly due to the increase in TAR (2019: £1,768 million) and growth in subscription revenue (2019: £14 million).

Total M&E costs were up 6% at £1,785 million. Across M&E, increased costs were partly offset by cost savings of £16 million.

Within this, content costs were up 5% to £1,216 million (2021: £1,154 million) due to additional ITVS content investment and the return of a full schedule compared to the prior year which was impacted by the pandemic, including a full schedule of dramas, sporting events such as the FIFA World Cup and higher volume of FA Cup and Rugby Six Nations matches, and the return of entertainment shows such as Britain's Got Talent. Content costs were slightly lower than originally guided due to changes in the schedule as a result of the passing of Her Majesty Queen Elizabeth II and fewer England Internationals ahead of the 2022 FIFA World Cup.

Variable costs were up 2% at £130 million (2021: £127 million), mainly driven by an increase in commercial payaways and bandwidth costs (in line with increased viewing), partly offset by a decrease in competitions-related costs (in line with revenues).

M&E infrastructure and overhead costs increased by 9% to £439 million (2021: £403 million), driven by investment in ITVS and digital innovations and one-off costs such as the donation of proceeds from the Concert for Ukraine and cost of living payments to ITV employees.

M&E adjusted EBITA was down 22% to £464 million (2021: £598 million), with a margin of 21% (2021: 26%).

| Twelve months to 31 December | 2022 £m | 2021 £m | Change £m | Change % |
|--|----------------|------------|--------------|-------------|
| Total advertising revenue | 1,931 | 1,957 | (26) | (1) |
| Subscription revenue | 54 | 42 | 12 | 29 |
| SDN | 55 | 70 | (15) | (21) |
| Partnerships and other revenue | 209 | 213 | (4) | (2) |
| M&E non-advertising revenue | 318 | 325 | (7) | (2) |
| Total M&E revenue | 2,249 | 2,282 | (33) | (1) |
| Content costs | (1,216) | (1,154) | (62) | (5) |
| Variable costs | (130) | (127) | (3) | (2) |
| M&E infrastructure and overheads | (439) | (403) | (36) | (9) |
| Total M&E costs | (1,785) | (1,684) | (101) | (6) |
| Total M&E adjusted EBITA* | 464 | 598 | (134) | (22) |
| Total adjusted EBITA margin | 21% | 26% | – | – |

* Refer to Alternative Performance Measures for key adjustments to EBITA and adjusted EBITA.

| | 2022 £m | 2021 £m | Change £m | Change % |
|------------------------------|------------|------------|--------------|-------------|
| Digital advertising revenue | 343 | 293 | 50 | 17 |
| Subscription revenue | 54 | 42 | 12 | 29 |
| Other | 14 | 12 | 2 | 17 |
| Total Digital Revenue | 411 | 347 | 64 | 18 |

Total advertising revenue (TAR)

The start of 2022 saw TAR up 16% in Q1, with good demand across the majority of advertising sectors. As expected, TAR comparatives were tough in Q2, which was down 5% and Q3 which was down 14%. As ever, Q4 was the strongest quarter in absolute terms, and was flat year-on-year, with both the lead up to Christmas and the FIFA World Cup benefiting advertising revenue. The full year was down 1%, as previously guided, and was the second-highest outturn in ITV's history.

The categories with the largest year-on-year movements are as expected. Airlines and Travel were up 59% compared to the impact of travel restrictions in the prior year and Telecommunication spend was also up 21% driven by sector M&A activity, device launches and World Cup-related spend. Cars and Car Dealers were down as a result of supply chain issues and Government and Charities were down off the back of significant COVID-19 related spend last year. E-commerce companies, excluding gambling, decreased 17% in the period. Within this category the largest decline was from retail, energy comparison websites and food delivery brands who spent heavily in 2021 to take advantage of lockdown restrictions. This was partly offset by growth in travel brands.

The outlook for advertising is challenging as we expected, given the current macroeconomic environment. TAR is expected to be down 11% in Q1 2023 and within this we continue to see strong growth in digital advertising revenues. Compared to the same period in 2019, TAR in Q1 2023 is expected to be down around 1%. April 2023 TAR is expected to be down around 10% to 15%.

Subscription revenue

Subscription revenue is generated directly from our streaming services and includes ITV Hub+ (prior to ITVX's launch), ITVX Premium and BritBox UK. It does not include BritBox International, which is included within JVs and Associates.

In 2022, subscription revenue increased by 29% to £54 million (2021: £42 million) driven by good growth in both BritBox UK and ITV Hub+/ITVX Premium subscriptions, which both benefited from a strong content pipeline in the year. While there will be some disruption as we transition subscribers to ITVX, we expect to hold our subscriber numbers in 2023 and expect to see growth in 2024.

SDN

SDN generates revenue by licensing multiplex capacity to broadcast channels, radio stations and data providers on digital terrestrial television (DTT) or Freeview.

SDN customers include ITV and third parties, with external revenue (non-ITV) decreasing by 21% in the year to £55 million (2021: £70 million), impacted by the renewal of long-term contracts with third parties which reverted to current market rates.

In 2023, several long-standing contracts which were agreed at the peak of the DTT capacity market ten years ago will also come to an end, which we expect will renew at current market rates.

SDN's current multiplex licence has been renewed until 2034.

Partnerships and other revenue

Partnerships and other revenue includes revenue from platforms, such as Sky and Virgin Media O2, competitions revenue, third-party commission, e.g. for services we provide to STV, and commercial revenue from our creative partnerships.

Partnerships and other revenue was down 2% in the period to £209 million (2021: £213 million) predominantly driven by a decrease in competitions revenue which had strong 2021 comparatives due to more people viewing our programmes (particularly daytime) and entering competitions during government-imposed lockdowns in 2021.

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. APMs are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

As adjusted results exclude certain items (such as significant legal, major restructuring and transaction items), they should not be regarded as a complete picture of the Group's financial performance. The exclusion of adjusting items may result in adjusted earnings being materially higher or lower than statutory earnings. In particular, when significant impairments, restructuring charges and legal costs are excluded, adjusted earnings will be higher than statutory earnings.

The Audit and Risk Committee has oversight of ITV's APMs and actively reviews, challenges, revises and approves the policy for classifying adjustments and exceptional items. Further detail is included in the following section.

Key adjustments for EBITA, adjusted EBITA, adjusted EBITDA, profit before tax and EPS

EBITA is calculated by adjusting operating profit for operating exceptional items and amortisation and impairment.

Adjusted EBITA is calculated by adding back 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.

Adjusted EBITDA, which is used to calculate the Group's leverage, is calculated by adding back depreciation to adjusted EBITA.

Production tax credits

The ability to access tax credits, which are rebates based on production spend, is fundamental to our ITV Studios business across the world when assessing the viability of investment decisions, especially with regards to drama and comedy. ITV reports tax credits generated in the US and other countries (e.g. 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.

Exceptional items

These items are excluded to reflect performance in a consistent manner and in line with how the business is managed and measured on a day-to-day basis. They are typically material amounts related to costs, 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 acquisitions, costs related to major reorganisation and restructuring programmes, material onerous contracts, significant impairments, employee-related tax provisions and other items such as non-routine legal costs (e.g. legal costs related to items which are themselves considered to be exceptional items). We also adjust for the tax effect of these items. Further detail is included in note 2.2 to the financial information.

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 statutory 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.

Material onerous contracts

A contract is considered onerous when the unavoidable costs of the contract exceed the revenues associated with it. In 2020 and 2021, we had exceptional charges for material onerous transmission contract provisions relating to committed costs of transmission capacity on satellite transponders that are no longer used in the M&E business. There are no revenues associated with this capacity as there are no channels on the relevant satellite transponders. This provision remains in 2022, however there were no exceptional charges in the period.

Adjusted EBITDA (used to calculate the Group's leverage) for the year is £770 million (2021: £872 million), calculated by adding back depreciation of £53 million (2021: £59 million) to adjusted EBITA (which is shown in the table above).

Amortisation and impairment

Amortisation and any initial 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 profit before tax 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, exceptional interest on acquisitions, 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.

RECONCILIATION BETWEEN STATUTORY AND ADJUSTED RESULTS

| Twelve months to 31 December | 2022 Statutory £m | 2022 Adjustments £m | 2022 Adjusted £m | 2021 Statutory £m | 2021 Adjustments £m | 2021 Adjusted £m |
|---|-------------------------|---------------------------|------------------------|-------------------------|---------------------------|------------------------|
| EBITA ¹ | 668 | 49 | 717 | 784 | 29 | 813 |
| Exceptional items (operating) ² | (65) | 65 | – | (196) | 196 | – |
| Amortisation and impairment ³ | (84) | 57 | (27) | (69) | 49 | (20) |
| Operating profit | 519 | 171 | 690 | 519 | 274 | 793 |
| Net financing costs ⁴ | (26) | – | (26) | (50) | 19 | (31) |
| Share of profits on JVs and associates | 8 | – | 8 | 12 | – | 12 |
| (Loss)/Gain on sale of non-current assets, subsidiaries and investments | – | – | – | (1) | 1 | – |
| Profit before tax | 501 | 171 | 672 | 480 | 294 | 774 |
| Tax ⁵ | (66) | (69) | (135) | (92) | (61) | (153) |
| Profit after tax | 435 | 102 | 537 | 388 | 233 | 621 |
| Non-controlling interests | (7) | – | (7) | (10) | – | (10) |
| Earnings | 428 | 102 | 530 | 378 | 233 | 611 |
| Shares (million), weighted average | 4,010 | – | 4,010 | 4,005 | – | 4,005 |
| EPS (p) | 10.7p | – | 13.2p | 9.4p | – | 15.3p |
| Diluted EPS (p)⁶ | 10.6p | – | 13.1p | 9.3p | – | 15.1p |

- £49 million (2021: £29 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. EBITA is not a statutory measure but is presented on the Consolidated Income Statement as an additional performance measure and is therefore reconciled to adjusted EBITA in the table above.
- Exceptional items of £65 million (2021: £196 million) largely relate to restructuring, transformation and property costs of £52 million. Refer to the Finance Review.
- £57 million (2021: £49 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.
- £19 million adjustment in 2021 is non-cash interest cost; the adjustment in 2022 is £nil. This provides a more meaningful comparison of how the business is managed and funded on a day-to-day basis.
- 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.
- Weighted average diluted number of shares in the period was 4,046 million (2021: 4,051 million).

Other Alternative Performance Measures

Total revenue

As a vertically integrated producer broadcaster and streamer, we look at the total revenue generated by the business including internal revenue, which is the sale of ITV Studios programmes to M&E. ITV Studios selling programmes to the M&E business is an important part of our strategy as a vertically integrated business and it ensures we own all the rights to the content.

A reconciliation between external revenue and total revenue is provided below.

| Twelve months to 31 December | 2022 £m | 2021 £m |
|---------------------------------|--------------|--------------|
| External revenue (Statutory) | 3,728 | 3,453 |
| Internal supply | 617 | 589 |
| Total revenue (Adjusted) | 4,345 | 4,042 |

Net pension surplus/deficit

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 the unfunded pension scheme holds a charge. See note 3.7.

Profit to cash conversion

This is the measure of our effectiveness at 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.

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 the 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, covenant liquidity and covenant adjusted EBITDA

Covenant net debt is our leverage as defined in our Revolving Credit Facility (RCF) agreement. This calculation is materially different to how net debt is defined and is relevant in demonstrating we have met the required RCF financial covenants at our reporting date.

Covenant adjusted EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) is used to calculate our covenant compliance and our leverage, and is defined in our RCF agreement. The calculation of covenant adjusted EBITDA, covenant net debt and covenant liquidity are detailed in the tables below:

| | 31 December 2022 £m | 31 December 2021 £m |
|---------------------------------------|------------------------------|------------------------------|
| Operating profit | 519 | 519 |
| Exceptional items | 65 | 196 |
| Amortisation and impairment | 84 | 69 |
| EBITA | 668 | 784 |
| Depreciation | 53 | 59 |
| Right of use assets depreciation | (25) | (25) |
| Interest charged on lease liabilities | (4) | (3) |
| Covenant adjusted EBITDA | 692 | 815 |

| | 31 December 2022 £m | 31 December 2021 £m |
|---|------------------------------|------------------------------|
| Net debt (including IFRS 16 lease liabilities) | (623) | (414) |
| Impact of IFRS 16 lease liabilities | 132 | 92 |
| Long-term trade payables | (17) | (18) |
| Other pension asset | 47 | 62 |
| Covenant net debt | (461) | (278) |
| Covenant net debt to adjusted EBITDA* | 0.7x | 0.3x |

| | | |
|-----------------------------|--------------|-------|
| Cash and cash equivalents | 348 | 736 |
| Undrawn RCF | 450 | 630 |
| Undrawn CDS facility | 300 | 148 |
| Covenant liquidity** | 1,098 | 1,514 |

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

** Covenant liquidity is defined as cash and cash equivalents (including restricted cash) plus undrawn committed facilities.

Finance Review

This Finance Review focuses on the more technical aspects of our financial results while the operating and financial performance of the Group, M&E and ITV Studios has been discussed within the Operating and Financial 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.

Group financial performance

| Twelve months to 31 December | 2022 £m | 2021 £m | Change £m | Change % |
|-------------------------------|------------|------------|--------------|-------------|
| ITV Studios total revenue | 2,096 | 1,760 | 336 | 19 |
| Total advertising revenue | 1,931 | 1,957 | (26) | (1) |
| M&E non-advertising revenue | 318 | 325 | (7) | (2) |
| M&E total revenue | 2,249 | 2,282 | (33) | (1) |
| Total non-advertising revenue | 2,414 | 2,085 | 329 | 16 |
| Total Group revenue | 4,345 | 4,042 | 303 | 7 |
| Internal supply | (617) | (589) | (28) | (5) |
| Group external revenue | 3,728 | 3,453 | 275 | 8 |
| Group adjusted EBITA | 717 | 813 | (96) | (12) |
| Group adjusted EBITA margin | 19% | 24% | | |
| Operating profit | 519 | 519 | - | - |
| Adjusted EPS (p) | 13.2p | 15.3p | (2.1p) | (14) |
| Statutory EPS (p) | 10.7p | 9.4p | 1.3p | 14 |
| Dividend per share (p) | 5.0p | 3.3p | 1.7p | 52 |
| Net debt as at 31 December | (623) | (414) | (209) | (50) |

Exceptional items

| Twelve months to 31 December | 2022 £m | 2021 £m |
|---|-------------|--------------|
| Acquisition-related expenses | (4) | (109) |
| Restructuring and reorganisation costs | (28) | (8) |
| Property costs | (24) | (8) |
| Costs relating to the passing of Her Majesty Queen Elizabeth II | (16) | - |
| Sports rights impairment reversal /(impairment) | 5 | (1) |
| Pension-related costs | (4) | (21) |
| Transponder onerous contract | - | (16) |
| Employee-related tax provision | (10) | (22) |
| Insured trade receivable | 23 | - |
| Other costs | (7) | (11) |
| Operating exceptional items | (65) | (196) |
| Exceptional finance costs | - | (10) |
| Total exceptional items | (65) | (206) |

Total exceptional items in the period were £65 million (2021: £206 million). Acquisition-related expenses of £4 million are predominantly integration costs and professional fees, mainly financial due diligence and legal costs incurred on current period acquisitions. Also included are performance based, employment-linked consideration to former owners, with the final determination of the second earnout on the Talpa acquisition accounting for the majority of the amount charged in 2021.

Restructuring and reorganisation costs of £28 million relate to one-off restructuring projects stemming from the Group-wide commitment to reduce the overhead cost base and reorganisation costs to deliver the strategy. In 2022 these costs largely relate to business transformation projects.

£24 million of property costs relate to the London office move to Broadcast Centre and the impairment of assets following the decision to reduce our property footprint in the US.

Following the passing of Her Majesty Queen Elizabeth II in September 2022, the M&E business incurred significant additional costs related to news coverage over and above normal day-to-day costs. The business has also written off the remaining Spitting Image episodes featuring the Queen, as they could not be effectively edited and so it is highly unlikely they will ever be screened. In total the business has incurred £16 million of costs in relation to this which is considered exceptional.

The impact of the COVID-19 pandemic on the planned sporting schedule and the consequential impact on (TAR), along with changing forecasts of audience mix and revenues for certain sporting events, resulted in the recognition of a £23 million provision for impairment of specific sports rights in 2020. It is not possible to split this impairment between that caused by the pandemic and underlying market movements. In 2022 the remaining sports events that this provision related to were cancelled by the relevant governing body and a refund is expected to be received. The remaining £5 million provision is no longer required and has therefore been released.

Pension-related costs in 2022 relate to a one-off pension insurance risk premium payable on the completion of the buyout of Section C of the ITV Pension Scheme. The exceptional costs in 2021 represent an increase in the Box Clever provision. There has been no change to the provision in 2022 and the total exceptional provision held is £52 million. Further detail is included in note 3.7.

Employee-related tax provisions of £10 million reflects an increase in the provision for potential employment taxes due to HMRC in relation to the employment status of individuals contracted by the Group for periods prior to 2022. Further detail is included in note 2.2.

In 2017, the Group recorded a bad debt provision of US\$41 million related to trade receivables for The Voice of China. As the Directors anticipated recovering the amount either from the counterparty or from trade credit insurance, US\$37 million was treated as an exceptional cost and the insurance excess of US\$4 million treated as an operating cost. All balances were held in US dollars.

US\$34 million of cash received in 2018 and 2019 on behalf of the debtor was placed under review and the bad debt provision remained in place. This review is now complete and the cash received accepted, and has reduced the bad debt provision. As such, the corresponding bad debt provision has been released with US\$31 million treated as an exceptional credit and US\$3 million treated as an operating credit, consistent with the treatment of the original expense. This results in a £23 million credit to exceptional items in 2022.

Other costs include legal costs in respect of legal matters which are considered to be outside the normal course of business, including Box Clever, The Voice of Holland and the UK Competition and Markets Authority (CMA) investigation.

Exceptional finance costs of £10 million in 2021 was principally interest accrued on exceptional acquisition-related expenses.

Net financing costs

| Twelve months to 31 December | 2022 £m | 2021 £m |
|--|-------------|-------------|
| Financing costs directly attributable to loans and bonds | (26) | (26) |
| Cash-related net financing costs | 1 | (4) |
| Amortisation on bonds and gilts | (1) | (1) |
| Adjusted financing costs | (26) | (31) |
| Exceptional interest | – | (10) |
| Other net financial losses and unrealised foreign exchange | – | (9) |
| Statutory net financing costs | (26) | (50) |

Adjusted financing costs were down £5 million year-on-year at £26 million (2021: £31 million) reflecting lower levels of gross debt in the year. Net financing costs were £26 million, which was down £24 million year-on-year (2021: £50 million), largely due to interest payable on exceptional earnout costs relating to acquisition-related expenses in the prior year.

JVs and associates

Our share of profits from JVs and associates in the period was £8 million (2021: £12 million). This was our share of the net profit arising from our investments, such as BritBox International, Bedrock Entertainment and Blumhouse Television. This reflects the investment we are making in BritBox International, in content and marketing, as we drive international subscriptions.

Profit before tax

Statutory profit before tax increased year-on-year to £501 million (2021: £480 million). Production tax credits increased to £49 million (2021: £29 million). Adjusted profit before tax was down 13% to £672 million (2021: £774 million).

Profit before tax (PBT)

| Twelve months to 31 December | 2022 £m | 2021 £m |
|---|------------|------------|
| Statutory profit before tax | 501 | 480 |
| Production tax credits | 49 | 29 |
| Exceptional items (excluding exceptional finance costs) | 65 | 196 |
| Loss/(Gain) on sale of non-current assets | – | 1 |
| Amortisation and impairment* | 57 | 49 |
| Adjustments to net financing costs | – | 19 |
| Adjusted profit before tax | 672 | 774 |

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

Tax

Tax charge

The total adjusted tax charge for the period was £135 million (2021: £153 million), corresponding to an effective tax rate on adjusted PBT of 20.1% (2021: 19.9%), which is higher than the standard UK corporation tax rate of 19% (2021: 19%). We expect the adjusted effective tax rate to be around 23.5% in 2023, and then move to around 25% over the medium term as a result of the increase in the UK statutory rate to 25% from April 2023.

On a statutory basis, the tax charge is £66 million (2021: £92 million) and corresponds to an effective tax rate of 13.2% (2021: 19.2%). This rate in 2022 is lower than the previous year due to the non-tax deductible exceptional Talpa earnout cost in 2021 impacting the rate and is lower than the statutory rate primarily due to the production tax credits received in 2022. 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 below.

| Twelve months to 31 December | 2022 £m | 2022 Effective tax rate | 2021 £m | 2021 Effective tax rate |
|---|------------|-------------------------------|------------|-------------------------------|
| Statutory tax charge | 66 | 13.2% | 92 | 19.2% |
| Production tax credits | 49 | 100% | 29 | 100% |
| Charge for exceptional items | 8 | 12.3% | 16 | 8.2% |
| Charge in respect of amortisation and impairment* | 12 | 21.1% | 12 | 24.5% |
| Charge in respect of adjustments to net financing costs | – | – | 4 | 21.1% |
| Adjusted tax charge** | 135 | 20.1% | 153 | 19.9% |

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

** As a percentage of adjusted profit before tax.

Cash tax

Cash tax paid in the period was £55 million (2021: £119 million) and is net of £31 million of production tax credits received (2021: £13 million). The majority of the cash tax payments were made in the UK. The temporary differences recognised through deferred tax include a £27 million movement as a result of the restructure of the pension scheme and a £19 million movement on US tax losses being utilised in the year*. The cash tax paid is lower compared to the previous year due to the current tax clawback of £33 million from the restructuring of the defined benefit pension scheme. 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 | 2022 £m | 2021 £m |
|---|-------------|--------------|
| Tax charge (statutory) | (66) | (92) |
| Temporary differences recognised through deferred tax* | 44 | (12) |
| Prior year adjustments to current tax | (9) | 7 |
| Current tax, current year | (31) | (97) |
| Phasing of tax payments (including in respect of pension contribution benefits) | (6) | (6) |
| Production tax credits – timing of receipt | (18) | (16) |
| Cash tax paid (statutory) | (55) | (119) |

* Further detail is included within note 2.3.

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 2022, 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 14% to £537 million (2021: £621 million). Non-controlling interest was a share of profit of £7 million (2021: £10 million) which is the net result from the non-ITV owned share in entities, such as Tomorrow Studios, Cattleya, Tetra Media and BritBox UK.

Adjusted basic EPS was down 14% to 13.2p in the year (2021: 15.3p). The weighted average number of shares increased to 4,010 million (2021: 4,005 million). Diluted adjusted EPS was 13.1p (2021: 15.1p) reflecting a weighted average diluted number of shares of 4,046 million (2021: 4,051 million).

Statutory EPS increased by 14% to 10.7p (2021: 9.4p) due to higher operating exceptional costs in 2021.

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

Dividend per share

Reflecting ITV's strong operational and financial performance in the year, and in line with previous guidance, the Board intends to propose a final dividend of 3.3p, giving a full year dividend of 5.0p per share (2021: 3.3p). The Board intends to pay a full year ordinary dividend of at least 5.0p for 2023 which it expects to grow over time whilst balancing further investment to support our strategy and our commitment to investment grade metrics over the medium term.

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. The 2022 final dividend will be paid on 25 May 2023.

Acquisitions

Since 2012, we have acquired a number of content businesses in the UK, US and 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 global creator, producer and distributor.

On 1 July 2022 ITV plc completed the acquisition of a majority shareholding of 79.5% in Plimsoll Productions (through its holding company Escapade Bidco Limited), the largest independent producer of natural history programmes in the world and a growing premium factual producer, for a cash consideration of approximately £103.5 million (£20.5 million consideration for shares, and £83 million repayment of debt). Put and call options are in place over the remaining shareholding. This acquisition is a further milestone in ITV's strategy of expanding its international content business. It further diversifies ITV Studios production base and will enable ITV to take advantage of the strong demand for content across the ever-popular natural history and factual genres. Plimsoll Productions has a strong network with all of the global streamers and this acquisition will strengthen and deepen ITV Studios relationships with the streamers.

On 31 October 2022, ITV plc completed the acquisition of Lingo Pictures Pty Limited, a multi-award winning Australian production company. Lingo Pictures is the Group's first Australian scripted label.

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 IP, 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 table above 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 £89 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 £74 million and £177 million. 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 £89 million have increased by £10 million since 31 December 2021. This is the net of an increase in future payments associated with the Plimsoll and Lingo acquisitions in 2022 and the payment made on the acquisition of an additional 19% in Cattleya Srl.

As at 31 December 2022, £47 million of expected future payments had been recorded on the balance sheet, with the balance of £42 million to be accrued over the period in which the sellers are required to remain with the business.

ACQUISITIONS – BETWEEN 2012 AND 2022 (UNDISCOUNTED)

| Company | Geography | Genre | Initial consideration £m | Additional consideration paid £m | Expected future payments* £m | Total expected consideration** £m | Expected payment period*** |
|----------------------------|----------------|-----------------------------------|-----------------------------|-------------------------------------|---------------------------------|--------------------------------------|----------------------------|
| Total for 2012–2022 | Various | Content & Broadcast TV | 1,067 | 502 | 89 | 1,658 | 2019-2028 |

* 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 £2.6 billion.

*** £10 million is expected to be paid in 2023.

Cash generation Profit to cash conversion

| Twelve months to 31 December | 2022 £m | 2021 £m |
|--|------------|------------|
| Adjusted EBITA | 717 | 813 |
| Working capital movement | (150) | (141) |
| Adjustment for The Voice of China cash received* | 23 | - |
| Adjustment for production tax credits | (18) | (16) |
| Depreciation | 53 | 59 |
| Share-based compensation | 19 | 12 |
| Acquisition of property, plant and equipment and intangible assets** | (78) | (45) |
| Lease liability payments (including lease interest) | (26) | (29) |
| Adjusted cash flow | 540 | 653 |
| Profit to cash ratio | 75% | 80% |

* Cash received in 2018 and 2019 for The Voice of China was placed under review and treated as an exceptional cash receipt and excluded from the profit to cash conversion calculation. In 2022, the review completed and the cash was released. This adjustment shows the conversion of exceptional cash to operation cash.

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

Cash generated from operations is reconciled to the adjusted cash flow as follows:

| Twelve months to 31 December | 2022 £m | 2021 £m |
|--|------------|------------|
| Cash generated from operations | 537 | 407 |
| Cash outflow from exceptional items | 53 | 307 |
| Cash generated from operations excluding exceptional items | 590 | 714 |
| Adjustment for production tax credits | 31 | 13 |
| Adjustment for The Voice of China cash received | 23 | - |
| Acquisition of property, plant and equipment and intangible assets | (78) | (45) |
| Lease liability payments (including lease interest) | (26) | (29) |
| Adjusted cash flow | 540 | 653 |

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 in scripted content and ITVX, through having a disciplined approach to cash and costs. 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, an important focus of which going forward includes a further step up in our content investment for ITVX.

In the year, we generated £540 million of operational cash (2021: £653 million) from £717 million of adjusted EBITA (2021: £813 million), resulting in a profit to cash ratio of 75% (2021: 80%). While we continue to manage our working capital tightly, profit to cash conversion was lower in 2022. This is as a result of our growing Studios business and the timing of deliveries. In addition, it reflects the increased commissions for ITVX where we have taken delivery of programmes but not yet made them available on the platform. This was partly offset by our strong TAR revenues in 2022 and tight working capital management.

Free cash flow

| Twelve months to 31 December | 2022 £m | 2021 £m |
|--|------------|------------|
| Adjusted cash flow | 540 | 653 |
| Net interest paid (excluding lease interest) | (37) | (40) |
| Adjusted cash tax* | (86) | (132) |
| Pension funding | (137) | (74) |
| Free cash flow | 280 | 407 |

* Adjusted cash tax of £86 million is total cash tax paid of £55 million plus receipt of production tax credits of £31 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 was £280 million (2021: £407 million).

Funding and liquidity

Debt structure and liquidity

The Group's financing policy is to manage its liquidity and funding risk to maintain an investment grade credit rating for the medium to long term. ITV uses debt instruments with a range of maturities and has access to appropriate short-term borrowing facilities and a policy to maintain a minimum of £250 million of cash and undrawn committed facilities available at all times. As at 31 December 2022, we had two committed facilities in place to maintain our financial flexibility – a £500 million Revolving Credit Facility (RCF) and a £300 million bilateral financing facility. The RCF was originally due to mature in January 2027 with the opportunity to renew for one or two years from the expiry date. A one year extension was negotiated that came into effect in January 2023, and therefore maturity is currently extended to 2028 but a further extension opportunity may allow for funding until 2029. The financial covenants in the new RCF remain unchanged (refer to APMs for further detail), requiring 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. The new RCF is also linked to the delivery of ITV's science-based carbon emissions targets. Under the terms, ITV will benefit from a lower interest rate if it delivers emissions reductions in line with its Net Zero roadmap, which will be assessed on an annual basis and verified through independent assurance.

As at 31 December 2022, ITV's financial position was well within its covenants.

The bilateral financing facility is free of financial covenants and matures on 30 June 2026.

These two committed facilities 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 2022, £50 million of the £500 million RCF was drawn and the £300 million bilateral facility was fully available, which with cash and cash equivalents of £348 million provided total liquidity of £1,098 million (31 December 2021: £1,514 million).

After acquisitions and acquisition-related costs, pension and tax payments, 2022 net debt was £623 million (31 December 2021: £414 million).

Net debt

| At 31 December | 2022 £m | 2021 £m |
|--|--------------|--------------|
| Gross cash* | 348 | 736 |
| Gross debt (including IFRS 16 lease liabilities) | (971) | (1,150) |
| Net debt | (623) | (414) |

* Gross cash in 2021 includes £50 million of restricted cash in relation to the LTVC Pension Funding Partnership. This was nil at 31 December 2022 as the restriction has now been removed and the cash replaced with a surety bond.

Financing – gross debt

We are financed using debt instruments and facilities with a range of maturities. Borrowings at 31 December 2022 were repayable as follows:

| Amount repayable as at 31 December 2022 | £m | Maturity |
|---|------------|----------|
| £500 million Revolving Credit Facility* | 50 | Jan 2023 |
| €600 million Eurobond** | 539 | Sep 2026 |
| €259 million Eurobond*** | 230 | Dec 2023 |
| Other loans | 20 | Various |
| Total debt repayable on maturity**** | 839 | – |

* Whilst the debt matures in Jan 2023, the facility matures in Jan 2028.

** Includes £8 million currency component of swaps held against euro denominated bond.

*** Includes £1 million currency component of forwards and swaps held against euro denominated bond.

**** Excludes £132 million of IFRS 16 Lease Liabilities.

The intention is to re-finance the Eurobond maturing in December 2023, rather than repay from our cash resources. We are currently exploring medium to long-term refinancing options and have full availability under the £500 million RCF and £300 million CDS facilities should we need to utilise these.

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 2022 our leverage, or net debt to adjusted EBITDA was 0.8x (31 December 2021: 0.5x). Our priorities remain as follows: to invest organically in our key assets and value drivers in line with our strategic priorities; maintain an investment-grade balance sheet; sustain a regular ordinary dividend that can grow over the medium term; continue to consider value creating inorganic investment against strict financial and strategic criteria, and any surplus capital will be returned to shareholders.

Credit ratings

We continue to be rated investment grade by two ratings agencies. Our current ratings are BBB- (stable outlook) by Standard and Poor's and Baa3 (stable outlook) by Moody's Investor Services. 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.

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 keep these balances to a minimum and 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.

Production work in progress, contract assets and liabilities

In 2022, production work in progress increased by £133 million, contract assets decreased by £4 million and contract liabilities increased by £13 million compared to 31 December 2021. These increases were predominantly driven by ITV Studios, where production work in progress rose by £133 million reflecting higher production volumes during the year.

Programme rights and other inventory

Programme rights and other inventory has increased by £64 million to £377 million (£2021: £313 million) as a result of the launch of ITVM. Inventory levels have increased due to the wider variety of programmes available on ITVM and a change in accounting policy to allocate programme rights to both linear and streaming based on expected patterns of viewing. The change in accounting policy did not have a material impact on 2021 figures and therefore do not require restatement. See note 3.1.

Pensions

The net pension surplus for the defined benefit schemes at 31 December 2022 was £192 million (31 December 2021: £8 million deficit). The surplus in the year was principally due to the Scheme's liabilities reducing in the year from higher bond yields and deficit funding contributions which were partly offset by an increase in inflation assumptions.

The net pension assets include £47 million of gilts, 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 within note 3.7.

Actuarial valuation

The 31 December 2019 actuarial valuation of the main section of the ITV Pension Scheme was agreed during the year. The deficit as at 31 December 2019 amounted to £252 million, down from £489 million at 1 January 2017. The Group has revised the existing deficit reduction contribution plan in order to eliminate the deficit of £252 million.

Deficit funding contributions

The deficit funding contributions are driven by the actuarial deficit valuation, and not the accounting (IAS 19) valuation. The Group's deficit funding contributions in 2022 were £137 million, with £40 million following the agreement of the triennial valuation of the main section of the Scheme, £83 million relating to the extension of the SDN pension funding partnership (see below) and £11 million and £3 million annual payments under the existing SDN and London Television Centre pension funding partnerships respectively. Further details are included within note 3.7. Deficit contributions for 2023 to 2025 consist of contributions agreed with the Trustees following the triennial valuation (£43 million, £48 million and £28 million respectively) and the annual payments under the SDN PFP and London Television Centre PFP (£16 million and £3 million respectively). Therefore total deficit contributions for 2023 to 2025 will be £62 million, £67 million and £47 million.

SDN pension funding partnership

In 2010, ITV established a Pension Funding Partnership (PFP) with the Trustees backed by SDN, which was subsequently extended in 2011. The PFP addressed £200 million of the funding deficit in Section A of the defined benefit pension scheme and under the original agreement, a payment of up to £200 million was due in 2022. The existing PFP agreement has been amended and extended to 2031. As a result of this agreement, an upfront payment of £80 million was paid to the pension scheme in the period and an additional deficit contribution of £3 million was paid for the period between the end of the original agreement and the date the extension agreement was signed. In 2022, ITV has made a total payment under the SDN PFP arrangement of £94 million as there was a payment of £11 million in respect of the final income payment under the original arrangement. The Group is committed to up to nine annual payments of £16 million from 2023. The partnership's interest in SDN provides collateral for these payments. The Group retains day-to-day operational control of SDN and SDN's revenues, profits and cash flows continue to be consolidated in the Group's accounts. On completion of the final payment in 2031, the Scheme's partnership interest will have been repaid in full and it will have no right to any further payments.

Planning assumptions for full year 2023

Profit and Loss impact

- Total content costs are expected to be around £1.3 billion, rather than £1.35 billion as previously guided, largely due to a reduction in 2023 content amortisation to reflect the windowing of content between linear and streaming
- Permanent overhead cost savings are expected to be around £15 million in 2023. This is part of the £50 million of permanent cost savings to be delivered by 2026, as previously guided
- Adjusted financing costs are expected to be around £30 million
- The adjusted effective tax rate is expected to be around 23.5% in 2023, and then move to around 25% over the medium term due to the increase in the UK statutory tax rate to 25% in April 2023
- Exceptional items are expected to be around £40 million, mainly due to costs associated with our digital transformation and London property move

Cash impact

- Total capex is expected to be around £75 million as we further invest in our digital capabilities
- The cash cost of exceptionals is expected to be around £35 million, largely relating to costs associated with our digital transformation and London property move
- Profit to cash conversion is expected to be around 70% and 75%, reflecting increases in working capital as we continue to grow ITV Studios and invest in ITVX
- Total pension deficit funding contribution for 2023 is £62 million, made up of £43 million relating to the main section of the Scheme, £16 million relating to the SDN PFP arrangement and £3 million relating to the LTVC PFP
- The Board has proposed a final dividend of 3.3p, giving a 2022 full year dividend of 5.0p per share. The final dividend will be paid in May 2023. Going forward, the Board intends to pay a full year ordinary dividend of at least 5.0p which it expects to grow over time

CMA investigation

As reported in our interim financial statements, on 12 July 2022, the UK Competition and Markets Authority (CMA) opened an investigation into certain conduct of ITV and other named companies in the sector relating to the production and broadcasting of sports content in the United Kingdom. The investigation is at an early stage and it is not currently possible to reliably quantify any liability that might result from the investigation. ITV is committed to complying with competition law and is cooperating with the CMA's enquiries.

The Voice of Holland

In early 2022 allegations of inappropriate behaviour on the set of The Voice of Holland were made public, resulting in a mid-season suspension of series 12. A provision was made in 2021 to cover the committed costs relating to the series in production, impairment of the carrying value of work in progress and other costs. An external investigation of the allegations is currently ongoing. While unquantifiable at present, there may be further financial impact on the Group.

Foreign exchange sensitivity

The following table highlights ITV Studios sensitivity, on a full year basis (using internal forecasts), 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 | ±57-70 | ±6-7 |
| Euro | ±42-51 | ±8-9 |

Chris Kennedy

Group Chief Finance Officer & Chief Operating Officer

Risks and Uncertainties

Our risk landscape

Our business is changing and so is our risk landscape. The increasing pace of change in the industry and the continued impact of the macroeconomic environment means we must, more than ever, manage our risks effectively to achieve our vision, deliver our strategy and create sustainable shareholder value.

Risk culture

We recognise that our long-term success depends to a significant extent on how we identify and address the current and emerging risks we face as a business. To reflect this, risk is embedded as an integral part of our culture and forms the foundation of our Code of Ethics and Conduct, as well as being actively promoted by the Management Board and plc Board.

Risk management framework

Our approach to risk management is simple and consistent across the whole of ITV. It forms the foundation of how we empower our people to make intelligent decisions at the right time to achieve our business objectives rather than it being seen as a process that stifles creativity. Importantly, it acts as the guardrails to shape the day-to-day interactions between our Central Teams and the business.

To keep pace with the change, we continue to evolve our approach to risk management to deliver a proportionate approach to managing risk across ITV. Our focus in 2022 has been on optimising the practices and behaviours of the 2nd line of defence to introduce more collaboration and structure. This allows us to provide clarity to the business on expectations around managing the risks we face. To achieve this, we have established a consistent approach to better understand our key risk categories and drive standardisation and operational effectiveness across ITV.

Risk oversight and governance

The Board has overall responsibility for ensuring that ITV is appropriately identifying and managing the risks the business is exposed to. We have enhanced our risk oversight and governance structure during 2022 to assist the Board in overseeing the management of risk across ITV. In particular, we have focused on building on the interrelationship between ITV Studios Board and the M&E Board with the Management Board.

Board

Has ultimate accountability for:

- Setting strategic objectives
- Reviewing and evaluating principal risks and uncertainties
- Setting our strategy on risk and establishing tolerance levels and risk appetite
- Ensuring the effective operation of the risk management framework and internal control systems

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 associated policies
- Monitoring operation of the 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
- Reviewing the risk capacity in relation to liquidity, capital and investor value

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 identifying and challenging risks, risk assessment ratings and mitigations, including relevant reports or other performance indicators
- Continuously reviewing risk exposure and ensuring that decisions taken are in line with the risk appetite set by the Board and within the defined tolerance levels
- Reviewing emerging risks

Risk & Compliance Steering Committee (New)

Established to support the Management Board:

- Embed a centralised and consistent approach to risk management practices
- Drive the second line of defence (2LOD) operational efficiency
- Ensure robust oversight of risk management across ITV

Has responsibility for:

- Collating risk and compliance data from the Divisions and Central Functions to identify themes and trends and enable a consistent and coordinated response
 - Establishing a clear route to escalate risks from and across the Divisions and Central teams
 - Reviewing and challenging crisis preparedness to respond to major risks
-

Divisional Boards and Central Functions

Have responsibility for ensuring appropriate risk management and internal controls practices are operating 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 and risk appetite
 - Reviewing emerging risks identified through the risk management framework
 - Ensuring risk has been considered as part of new strategic initiatives and projects
-

Group Risk Function

Has responsibility for:

- Developing and 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, ensuring consistency in approach
 - Developing risk capability and culture in the business
 - Supporting and advising the business on the development of risk management solutions
-

Risk appetite

The Board has developed statements that define our risk appetite for each of our risk categories, to better focus risk management activities and help the business strike the right balance between risk taking and risk mitigation. This includes, but is not limited to, third parties and supply chain, cyber security, data privacy, liquidity, and people. 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.

During 2022, we enhanced our articulation of risk appetite and the associated tolerances to ensure that this represented the greatest areas of risk to our business in the fulfilment of our strategic goals. As we move into 2023, we will continue to build on our risk appetite statements by providing further direction to the business on how to apply them in decision-making. Additionally, we intend to enhance appetite reporting to better support the Board's role in monitoring compliance against risk appetite.

Principal risks

As part of our risk management framework, we have a process to oversee all risks which may threaten ITV, with particular Board scrutiny over our principal and emerging risks. Each principal risk is owned by a member of the Management Board, who is responsible for monitoring and implementing mitigation on an ongoing basis.

The risk owner is also responsible for identifying any potential opportunities associated with the risk and capitalising on those as appropriate. 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 assessed by the Board twice a year.

Macroeconomic

We continue to monitor the impact of the broader macroeconomic environment on ITV, in particular inflation and geo-political issues.

With further economic challenges predicted for 2023, there remains uncertainty as to the impact this will have on our principal risks. Where relevant, we have provided commentary in each of our principal risks below.

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 have the potential to significantly impact our business model and/or operations at some time in the future (beyond the period considered in respect of our principal risks).

The Board and Management are responsible for identifying emerging risks and ITV's Group Risk team supports this by undertaking horizon scanning, maintaining ongoing dialogue with the business and keeping up to date with wider market developments. Emerging risks are tracked and escalated through the risk oversight and governance structure and are formally assessed by the Board twice a year.

Our key emerging risks fall into the Environmental, Social and Governance categories. In addition, we closely monitor the technological environment to understand how disruptive technology creates emerging risk and opportunity for our business.

Environmental, Social and Governance (ESG) issues

ESG matters underpin everything we do and are core to our Social Purpose strategy. We understand that purpose driven organisations are more resilient to external threats and therefore we need to have strong risk management processes around emerging ESG-related issues.

Environmental

We recognise the climate crisis and the risks and opportunities it poses for ITV. In 2022, we significantly increased our focus on environmental risks and opportunities as part of our Task Force on Climate-related Financial Disclosure (TCFD) report. This included performing climate scenario analysis to assess the resilience of our strategy against the risks posed by climate and environmental change. As we move into 2023, we will continue to assess and track this emerging risk to further understand the longer-term impact it could have on ITV. Further detail on the risks and opportunities specifically related to climate change are provided in our TCFD report.

Social

As a public company, ITV is particularly exposed to societal risks. Conversely, we are uniquely positioned to use our scale and visibility to increase awareness around social issues. Failure to recognise and respond to social issues may impact the relevance of our content and, in turn, our viewing. In addition, failure to implement processes to address social inequality within our business may result in ITV being perceived as a less attractive employer and impact our ability to attract and retain talent. Our Social Purpose strategy and internal values are centred around using our platform to educate viewers, our colleagues and the general public on social issues. Please refer to further information on the work we are doing as part of our Social Purpose.

Governance

ITV is committed to implementing the highest standards of corporate governance, in order to provide transparency to our shareholders and wider stakeholders and to ensure we remain compliant with laws and regulations. We recognise failure to implement adequate corporate governance standards may result in failure to attract investment and impact how our business is valued. For further information, please refer to our Corporate Governance report.

Overall, whilst we do not categorise ESG as a standalone principal risk, which could materially threaten our viability or strategy, we recognise that ESG matters need to be considered as part of our everyday activities and are intrinsically linked to many of our risks. These risks are identified and managed through our existing bottom-up risk process, with escalation through the risk oversight and governance structure as required. Importantly, all these emerging risks also present opportunities for our business, therefore we manage them in a way to enhance our brand and perception in the market. Where relevant, we have provided ESG commentary on each of our principal risks below.

Principal risks and mitigations

Strategic/Financial, External risks

External business environment risks that may impact ITV's financial position or delivery of strategic vision

1. Changing viewing habits

Management Board owner: Kevin Lygo

| Description | Context | Mitigating activities | Risk direction |
|---|--|---|---|
| A failure to anticipate or respond to fast changing viewer habits and behaviours, may impact total viewing and the success of our channels/ services. | <ul style="list-style-type: none">• Viewing habits continue to evolve with the shift towards digital viewing• The options available to audiences around how they consume content is also increasing• The change in habits and increased competition in the market is having a direct impact on the linear audiences• Our advertising revenue and continued success is dependent on being able to retain viewers and increase the volume of content they consume on our services <p>Changes in direction of travel These trends are continuing to be observed amongst all demographics. The growing level of competition for viewer attention, coupled with the acceleration of video on demand viewing (even amongst traditionally linear-skewed viewers) has resulted in this risk continuing to trend upwards.</p> | <p>Our strategy is focused on enabling our audiences to access our content wherever, whenever and however they choose to watch. This involves continuing to broadcast great content on our channels to encourage mass simultaneous reach and focus on strengthening our Streaming proposition, to better serve evolving audience preferences, which we will seek to do through ITVX which launched in December 2022.</p> <p>As we move into 2023, we will continue to focus on the growth of ITVX, focusing on understanding viewer habits to optimise the relationship between linear and streaming to help drive the way we commission content for ITVX to grow our overall reach.</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.</p> <p>Board oversight Regular updates on viewing figures and evolving viewer behaviours at the Board (including briefings from external informed commentators)</p> | <p>2022</p> <ul style="list-style-type: none">• Increasing <p>2021</p> <ul style="list-style-type: none">• Increasing |

2. Advertising market changes

Management Board owner: Kelly Williams

| Description | Context | Mitigating activities | Risk direction |
|---|--|--|---|
| Continued changes in the advertising market may result in reduced demand for ITV's advertising products and a longer term decline in advertising revenue. | <ul style="list-style-type: none"> • The macroeconomic environment creates a challenging backdrop • Competition from large streamers through their introduction of new advertising tiers • The number of diverse participants entering the advertising and ad-tech market continues to grow • The decline of linear viewing is driving price inflation for TV advertising • An increasing proportion of advertising budgets is being spent on digital offerings and with media owners with advanced features, such as audience attribution <p>All of these pose a threat to the volume, our market share and the value we are able to realise from our advertising.</p> <p>We also continue to monitor the potential impact associated with actual or potential advertising restrictions. Including (but not limited to) gambling, food & drink and high carbon emitting products & services.</p> <p>Changes in direction of travel Continued increase in competition and the economic downturn is contributing to this risk trending upwards.</p> | <p>We also continue to monitor the potential impact associated with actual or potential advertising restrictions including (but not limited to) gambling, food and drink, and high carbon emitting productions and services.</p> <p>Our Commercial strategy is focused on demonstrating the benefits of advertising on ITV, whilst seeking to increase awareness within growing sectors. We continue to innovate our solutions to compete with digital offerings, including by investing in enhanced addressability. Our Planet V platform is seen as a UK TV market leading video on demand advertising proposition that provides advertisers an easy to use, self-service platform to deliver highly targeted ads on our Streaming products. ITVX seeks to deliver a more compelling proposition for advertisers seeking to reach an addressable audience at scale.</p> <p>We continue to monitor the regulatory landscape and engage with parliamentarians and the UK government to make the case for evidence based regulation of advertising to ensure that any restrictions are both proportionate and justifiable. Specifically, in relation to the intended pre-9pm. ban on TV advertising for high fat, sugar and salt products (to be introduced from 1 October 2025) 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.</p> <p>We have also been actively participating in the government's consultation on the future of gambling regulation in the UK, drawing particular attention to trends in TV viewing, declining advertising exposure and rigorous regulation.</p> <p>More broadly, we seek to use our content to educate our viewers on social issues, such as healthy foods and the environment as a more effective way of changing behaviour.</p> <p>Board oversight Strategy session with the Board on our Commercial strategy, in light of this risk (July 2022) and an update on the outcome of an independent expert review of our commercial strategy (December 2022)</p> | <p>2022</p> <ul style="list-style-type: none"> • Increasing <p>2021</p> <ul style="list-style-type: none"> • Increasing |

3. Evolving demand in the content markets

Management Board owner: Julian Bellamy

| Description | Context | Mitigating activities | Risk direction |
|---|--|--|---|
| 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. | <ul style="list-style-type: none"> • The demand for content globally remains high, in particular from streaming platforms seeking to grow their subscriber base and advertising reach • However, as streaming platforms grow, there is a risk that the larger streamers may seek to make more content in-house impacting demand for ITV content • There continues to be uncertainty as to the impact the intensifying competition in the free-to-air and streaming market will have on price & distribution rights deals – which could negatively impact margin • Ongoing costs associated with general inflation, new ways of working and competition for a limited pool of production resources, continues to drive up the cost of production • Costs associated with carbon offsetting and new technologies to reduce the environmental impact of our productions may also impact margins in the future • There also continues to be some uncertainty around the longer-term qualification of UK made content as European Works for the purposes of EU TV and streaming quotas, which could at some stage in the future result in reduced demand for UK made content • The government is also reviewing the threshold for High-end Television (HETV) tax credits in the UK and depending on the nature of the changes, this could affect some of the lower budget HETV projects. There may be other changes arising from the government's review, for instance around increases in the percentage of expenditure that qualifies for the tax credit and the percentage of the credit itself which could affect other dramas <p>Changes in direction of travel The global demand for content remains good and the overall market continues to grow. Regulatory review and ongoing general inflation are greater risks, however we are able to use our scale to support us in how we manage the risk associated with the rising cost of production, resulting in this risk remaining static.</p> | <p>We continue to invest in developing, attracting and retaining world class creative talent to ensure we can create quality content globally. We are also growing and maintaining relationships with a diversified set of local and global customers, with varied business models, including streaming platforms. In 2022, we significantly increased the volume of drama hours we produce and increasingly worked with streaming customers.</p> <p>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 optimise filming.</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.</p> <p>We are assessing the implications in relation to the qualification of UK made content as European Works as well as undertaking targeted advocacy, research and coalition building, whilst we await further detail on developments (if any).</p> <p>We are actively engaged in helping lead an industry coalition on the HETV review including advocacy in public and with government.</p> <p>ITV was also actively involved in the development of industry wide production protocols to support the industry return to work following the COVID-19 pandemic. These protocols were rolled out across our productions internationally to support our production resilience and to ensure that contingency plans are in place in the event of further production pauses/stoppages.</p> <p>Board oversight Strategy sessions focused on ITV Studios, and response to risks and changes in the market</p> | <p>2022</p> <ul style="list-style-type: none"> • Static <p>2021</p> <ul style="list-style-type: none"> • Static |

4. Partnership relationships risk

Management Board owner: Chris Kennedy

| Description | Context | Mitigating activities | Risk direction |
|---|--|---|---|
| An inability to develop and maintain adequate relationships with major platform and distribution providers may result in reduced brand prominence, viewers being unable to find our content and not achieving fair value for our content. | <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. However, commercial relationships with the owners of these platforms are increasingly complex and multi-faceted, particularly as these owners are commonly also customers, suppliers and partners in co-creation activities 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 on demand viewing and other ways viewers now or will choose to consume ITV content The PSB ecology is integral to the broader society in the UK and a lack of regulatory intervention to protect this ecology may threaten this wider societal benefit. There is a risk that global platforms may use their scale and influence to limit the visibility and prominence of PSB content and/or the value PSBs are able to take from the content PSBs distribute on their platforms In the absence of regulatory protections, we must form strong distribution relationships with major platform providers and under mutually favourable terms, to allow viewers to continue to easily find our content and in order to fully monetise that content As we continue to develop ITVX, we must ensure the distribution is built into our deals with platforms to ensure the product is available as widely as possible <p>Changes in direction of travel Negotiating deals with our partners/competitors is becoming increasingly complex resulting in this risk trending upwards.</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 2022. We continue to focus on this as a priority as we deliver our enhanced Streaming strategy.</p> <p>We have a growing dedicated team that has developed relationships and commercial arrangements 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 ensure 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 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 in new legislation. The government has committed to bringing forward a Media Bill to modernise this regulation but the date of its introduction to Parliament is still to be confirmed. Following the decision not to privatise Channel 4, the Labour Party is now supportive of bringing forward the Media Bill too.</p> <p>Board oversight Ad-hoc updates on partnership and platform developments</p> | <p>2022</p> <ul style="list-style-type: none"> Increasing <p>2021</p> <ul style="list-style-type: none"> Increasing |

5. Pension deficit increase

Management Board owner: Chris Kennedy

| Description | Context | Mitigating activities | Risk direction |
|---|--|---|---|
| A financial crisis or macroeconomic change could impact the value of pension scheme investments and liabilities and increase the deficit. | <ul style="list-style-type: none"> Changes in credit spreads or UK government bond yields 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' investment strategy has continued to evolve focusing on limiting the impact of market volatility on the scheme, resulting in this risk remaining static.</p> | <p>The pension scheme assets are invested in a diversified portfolio, with a significant proportion held in lower risk bonds, with interest rate and inflation hedging in place, designed to match the cash outflows of the scheme liabilities as far as possible. Appropriate levels of collateral are maintained to support the strategy. We have worked with the pension trustees to manage contributions to the pension schemes through a series of asset backed arrangements.</p> <p>Board oversight Annual pension process and controls review at the Audit and Risk Committee (December 2022)</p> | <p>2022</p> <ul style="list-style-type: none"> Static <p>2021</p> <ul style="list-style-type: none"> Static |

6. Regulatory and policy changes

Management Board owner: Magnus Brooke

| Description | Context | Mitigating activities | Risk direction |
|---|--|---|---|
| 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 broadcasting, our business model and/or the cost of operations. | <ul style="list-style-type: none"> • There remains uncertainty around the precise timing of the Media Bill being enacted and how Public Service Broadcasting (PSB) regulation will be reformed to respond to changes in viewer behaviours and the increasing scale of digital media companies • Changes in advertising regulation for certain sectors may have a negative impact on the revenue we are able to generate from these sectors • There also continues to be some uncertainty around the longer-term qualification of UK made content as European Works for EU TV and streaming quotas, which could result in reduced demand for UK content • The government's current review of the UK's High-end Television (HETV) tax credit regime may result in some lower budget comedy and drama programming no longer qualifying for the credit. The consultation is not yet concluded and we are actively engaged and supported by much of the industry • Other areas of regulation and policy which could have an impact on our business include sustainability and child protection • An emerging consideration for ITV is the potentiality for unregulated TV platform relationships to result in a loss of value for ITV. The passing of the Media Bill is very important for mitigation of this risk <p>Changes in direction of travel Reform of the PSB regime remains a significant uncertainty and critical component to the ongoing health of the PSB ecology. The lack of movement results in this risk remaining static.</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 many other topics affecting our industry. This includes actively participating in consultations on areas which may impact ITV and collaborating with other organisations in the industry, where appropriate in line with our competition law obligations.</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 in how to implement processes in order to comply. This has 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 • Deep dive by the Board in January 2023 on the 'continuation of ITV as a PSB' • Regular updates on emerging regulatory and policy issues | <p>2022</p> <ul style="list-style-type: none"> • Static <p>2021</p> <ul style="list-style-type: none"> • Increasing |

Strategic, Internal/Change risks

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

7. Content pipeline risk

Management Board owner: Kevin Lygo

| Description | Context | Mitigating activities | Risk direction |
|--|---|---|---|
| Failure to sustain a diversified commissioning and content strategy that is both resilient and financially viable, may reduce profitability. | <ul style="list-style-type: none"> • Rising production costs and increased competition in the market continues to drive the cost of content up • Viewer preferences continue to change and the content pipeline must reflect this. In particular, the need to commission programmes with a broad appeal that attract younger audiences • The public response to the Black Lives Matter movement has further highlighted the need to respond to increasing scrutiny of on-screen diversity • The environmental impact of our programming and how environmental behaviours are presented in our content is becoming more important • Our Streaming strategy requires us to invest in more content and we must balance these rising costs with the need to grow number of viewers and total viewing time <p>Changes in direction of travel 2022 has seen an evolution in our content strategy and resulting content pipeline which has resulted in this risk staying static.</p> | <p>We are evolving how we commission and acquire content to broaden our offering and grow our overall reach and scale. Focus remains on better understanding audience preferences and the success of programmes.</p> <p>ITVX launched in Q4 2022 with over 19,000 hours of content. To ensure this remains fresh and attractive to the consumer, we will need to ensure that we continue to strengthen our content offering including weekly exclusive content drops</p> <p>Within our Broadcast business unit, our commissioning focus remains on live mass simultaneous reach and identifying programmes and formats which have national appeal, led by our experienced Commissioning team. In order to increase the resilience of our pipeline and reduce our reliance on historically successful programmes, we continue to invest in new premium formats, live sports and high-end drama.</p> <p>A content approach has been developed as part of the launch of ITVX, and will focus on implementing the content strategy needed to attract and retain viewers on ITVX, including content acquisitions, original commissions and content windowing approaches.</p> <p>We also have dedicated Research and Data teams, who provide insight on audience preferences and report on the success of programmes. We use this insight to adapt our commissioning strategy.</p> <p>We have 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. In 2022, we updated our commitment in the 'Climate Content Pledge', which outlines principles that we will commit to in order to help our audiences engage with this topic.</p> <p>Board oversight Sessions on content strategy in light of this risk (January 2023) and regular updates on ITVX</p> | <p>2022</p> <ul style="list-style-type: none"> • Static <p>2021</p> <ul style="list-style-type: none"> • Increasing |

8. Insufficient growth in our Streaming products

Management Board owner: Rufus Radcliffe

| Description | Context | Mitigating activities | Risk direction |
|---|---|--|---|
| ITVX does not grow at the pace required to deliver the desired strategic or financial outcomes. | <ul style="list-style-type: none"> The video streaming market is a highly competitive market, both in the UK and internationally. In order to deliver against our streaming growth ambition, we have developed and launched ITVX The success of the advertiser funded element of ITVX is dependent on maximising the number of viewers on the product (reach) and then maximising the volume of content they view (viewing hours). If we are unable to drive both reach and consumption, this will impact the amount of advertising revenue we are able to generate from ITVX The subscription streaming market continues to grow. As ITVX grows, we need to capitalise on this opportunity and provide the opportunity for viewers to convert to paying customers (and retaining them) Maintain strong relationships with platforms and distributors is key to maximising the availability and reach of all our streaming products <p>Changes in direction of travel ITV is pursuing a streaming growth strategy in a competitive market and recent mergers in this market have intensified competition, resulting in this risk trending upwards.</p> | <p>We have significantly invested in supercharging our streaming strategy and delivered our free, ad-funded streaming service, ITVX, to the market in Q4 2022.</p> <p>In addition, ITVX has a compelling premium proposition. ITVX aims to drive viewing amongst lighter and harder to reach viewers that may not otherwise engage with ITV content.</p> <p>We will invest heavily in content through both acquisitions and original commissions for streaming. Our service offering for streaming also includes creative ways to deliver this content, including curated collections, fast channels, streaming exclusive premieres and simulcast/live viewing.</p> <p>We have developed a product and technology workstream, to deliver a compelling user experience and functionality. In addition, we continue to invest in data to improve the user experience, drive viewing and maximise revenues.</p> <p>In order to extend our reach, we have developed distribution deals to make our products available on a growing number of major platforms and devices. We have also aligned our commercial and streaming strategies to ensure improvements for advertisers are a central part of the strategy.</p> <p>We have revised KPIs to track and evaluate the performance of our streaming strategy and will both monitor these internally and report them externally.</p> <p>We continue to monitor the external market to assess if there are any developments, which will require a pivot or change in our approach.</p> <p>Board oversight Board strategy sessions on streaming</p> | <p>2022</p> <ul style="list-style-type: none"> Increasing <p>2021</p> <ul style="list-style-type: none"> Static |

9. Strategic and digital transformation risk

Management Board owner: Chris Kennedy

| Description | Context | Mitigating activities | Risk direction |
|--|---|---|---|
| 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. | <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 articulate the digital strategy, identify the most important digital projects and effectively manage the implementation of these projects could impact ITV's ability to keep pace with changes in the market and ultimately future growth Our culture needs to support agility, collaboration and openness to new initiatives, in order to allow us to continually evolve and deliver our strategy 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 protect our viewer and staff data and protect our operations. 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>Changes in direction of travel The Transformation Operations Director's Office (TODO) has driven up standards across our strategic and digital change transformation programmes and therefore this risk is static.</p> | <p>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 Group CFO & COO.</p> <p>The Transformation Operations Director's Office (TODO) was formed in June 2022 to bring a strong focus on operational issues and to reduce risk involved in transformation activities. It is responsible for supporting transformation and monitoring the associated delivery risks across the business.</p> <p>Underpinning this, we have Management Board sponsors for each of the transformation programmes and run a monthly Transformation Steering Group (TSG) which is responsible for tracking the overall portfolio delivery, programme dependencies and setting expectations for effective risk management. A Group Design Authority (GDA) and Group Investment Committee (GIC) have been formed to drive holistic thinking and better manage technical design and investment across the portfolio.</p> <p>The TODO continue to focus on increasing the efficiency and managing the dependencies of the transformation portfolio.</p> <p>Board oversight Deep dive session with the Board on execution and delivery risks associated with the strategy and transformation agenda (October 2022)</p> | <p>2022</p> <ul style="list-style-type: none"> Static <p>2021</p> <ul style="list-style-type: none"> Increasing |

Operational risks

Risks that could impact our operational and business as usual activities

10. Duty of care and health & safety incident

Management Board owner: Carolyn McCall

| Description | Context | Mitigating activities | Risk direction |
|--|--|---|---|
| Failure to extend an adequate duty of care or the occurrence of a major health and safety incident could result in physical and mental harm, loss of human life and reputational damage. | <ul style="list-style-type: none"> • We have a responsibility to maintain adequate duty of care (DoC) to our staff, cast, crew, programme participants and the general public. General expectations with regards to mental health and duty of care continue to intensify, meaning more is expected of ITV as an employer and content maker/broadcaster • As we continue to increase production hours, our risks in relation to Health and Safety (H&S) continue to increase. We need to consider the DoC across all aspects of productions, taking into account the physical health and safety risks and broader aspects of mental wellbeing <p>Changes in direction of travel Whilst this area remains a topic of high interest and scrutiny from the public, media and regulators, we have enhanced our processes and oversight and therefore this risk remains static.</p> | <p>We have a central team with responsibility for implementing controls and processes for DoC and H&S which covers both physical and mental health and safety for staff, cast, crew and programme participants. This includes our participant aftercare programme.</p> <p>We have 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. Particular focus in 2022 has been on improving processes with regards to participant aftercare and clinical support.</p> <p>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 Chief Executive (CEO) and includes senior representation from our Studios, Media & 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> <p>Board oversight Deep dive on DoC risk with the Audit and Risk Committee</p> | <p>2022</p> <ul style="list-style-type: none"> • Static <p>2021</p> <ul style="list-style-type: none"> • Increasing |

11. Legal and regulatory non-compliance

Management Board owner: Kyla Mullins

| Description | Context | Mitigating activities | Risk direction |
|--|---|---|---|
| Failure to comply with applicable laws and regulation could result in reputational damage, financial penalties or suspension of our licences to operate. | <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 As we develop our data and digital strategy, and evolve the way we use personal data to deliver transformation in our Media & Entertainment business, we need to demonstrate compliance with data protection and privacy regulation at all times <p>Changes in direction of travel Significant work has taken place during 2022 to establish improved and robust foundations for managing our compliance obligations. However, the constantly changing external regulatory environment and increasing external expectations result in this risk trending upwards.</p> | <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>We operate a compliance programme which is embedded across ITV. Internal policies are owned by business leaders and regularly reviewed with high risk policies being approved 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 compliance policies.</p> <p>Training is a key component of ITV's compliance programme and its content is kept under review. In 2022, ITV's Code of Ethics & Conduct training module (which covers topics such as anti-bribery and corruption, anti-money laundering) was updated to incorporate an introduction to competition law compliance. Certain business areas in both M&E and Studios also undertook additional bespoke workshop-style competition law training in 2022 designed to apply legal requirements to practical business scenarios. Further, ITV's mandatory training programme has been reviewed in 2022 to include additional modules on Competition law compliance, ABAC and Economic Crime to be delivered in 2023.</p> <p>During 2022, the Data Protection team has enhanced the Group's data protection framework, which has included working closely with the Chief Data Officer to implement effective data mitigations to ensure ITV is able to leverage data in an appropriate way when delivering its data strategy. A key enhancement by the team has been to embed data privacy and cyber specialists into the data transformation programme, to support designing privacy and security into new processes and activities from the outset.</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 Deep dives on compliance framework and data protections with the Audit and Risk Committee (February and July 2022)</p> | <p>2022</p> <ul style="list-style-type: none"> Increasing <p>2021</p> <ul style="list-style-type: none"> Increasing |

12. Cyber attack or data breach incident

Management Board owner: Mark Smith

| Description | Context | Mitigating activities | Risk direction |
|--|--|--|---|
| 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. | <ul style="list-style-type: none"> • Cyber security threats continue to trend upwards. We operate in a highly public environment and, due to our reputation and the industry we operate in, 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 • 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 The increasing threat of malicious activity, our enhanced digital strategy and the increases in the level of technological change in the business and dependency on certain third parties, results in this risk continuing to increase.</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 enhancements to our controls and technical measures in response to the increased risk caused by remote working and adoption of digital tools.</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 is to be followed in the event a cyber or data breach incident occurs.</p> <p>In the event that ITV is subject to a ransomware attack, we have insurance provisions in place to cover the costs associated with restoring our systems.</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 Update on cyber risk with the Board and Audit and Risk Committee (January, April & September 2022)</p> | <p>2022</p> <ul style="list-style-type: none"> • Increasing <p>2021</p> <ul style="list-style-type: none"> • Increasing |

13. Recruitment and retention of talent risk

Management Board owner: David Osborn

| Description | Context | Mitigating activities | Risk direction |
|--|---|--|---|
| An inability to attract, develop and retain key creative, commercial, technical and managerial talent could adversely affect our business. | <ul style="list-style-type: none"> The market for talent continues to be extremely competitive, with salary expectations materially increasing in areas of key talent (e.g. technology, data and streaming) Our success depends on being 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 Activity in the job market has increased, however, our overall attrition rate is below the national average. We are still experiencing challenges in sourcing skilled technologists and our inability to offer remuneration packages that are comparable with certain of our global competitors, has resulted in this risk increasing.</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 ensure those needs are met.</p> <p>We also continue to strengthen our existing capability, through a combination of learning, development and performance. The Board Nominations Committee is responsible for reviewing the skills and capability of senior leadership and the whole Board joins a Committee meeting annually to undertake a deep dive on senior management succession planning and bench strength.</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>We have also implemented a new People Strategy which aims to supercharge our capabilities across the business and manage overall business costs during the economic downturn.</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 Ongoing updates to and succession planning reviews with the Nominations Committee</p> | <p>2022</p> <ul style="list-style-type: none"> Increasing <p>2021</p> <ul style="list-style-type: none"> Increasing |

Long-term Viability Disclosure

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 aspects of the strategy at Board meetings
- Performing a full review of the principal and emerging risks twice a year
- Performing periodic deep dives on specific risk areas, to further scrutinise the effectiveness of risk mitigation approaches and confirm operation within risk appetite

As part of the assessment of prospects and risks the Board and management routinely consider topics related to changing audience behaviours, new market entrants and competitor strategies, and broader advertising and studios market developments globally. The Board has also received specific briefing sessions on the evolving Streaming strategy and how that supports our longer term prospects; the global content market and ITV Studios longer term prospects and position within this market; business resilience to environmental and climate-related risks; technological advancements in the areas of addressable advertising and how the ITV Strategy responds to these; and sessions led by external analysts on the market perception of the ITV business.

Underpinning this the Board and management continued to closely scrutinise the impact of the current macroeconomic climate on the business. This included identifying cost interventions/mitigations to respond to severe downside scenarios; and increasing the focus and detail provided in financial performance reviews and reforecasting to track performance.

How we assess viability

When assessing the longer-term viability of ITV, we considered (i) ITV's strategy and business plan; (ii) the principal risks and uncertainties; (iii) the Group's financing facilities including covenant clauses 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 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 first three years of the long range financial plan and cash forecast both individually and in parallel, in order to assess viability.

Whilst all principal risks identified could have an impact on ITV's performance, the scenarios reflect the specific risks which could potentially most likely impact the Group's financial position and long-term viability.

The output from this work was reviewed by the Audit and Risk Committee in detail, with a report from the Committee to the Board to support the Board's review and approval. In reaching its view, the Board and Committee also considered external views, including analyst and other industry commentary, to understand the wider market views on the Group's future prospects, and the external auditor's findings and conclusions on this matter.

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 (this year, to 31 December 2025) continues to be most appropriate. The factors the Board considered in adopting this time frame were as follows:

- Visibility over ITV's advertising business is relatively short term. Advertising remains cyclical and closely linked to the UK and global economic growth, which may continue to be impacted by uncertainties in the UK macroeconomic climate
- The commissioning process and life cycle of programming gives the ITV Studios division a 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 rapidly 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 long-term capital projects that would require a longer-term horizon assessment or returns

Assumptions applied

For the LTVS scenario, we have assumed:

- EBITA impacts from LTVS scenarios flow through to cash in full except for tax savings, with the exception of settlement impacts (in scenarios 4 and 5) which are assumed to be disallowable for tax purposes
- Any Box Clever or other major litigation settlement will be treated as an exceptional item
- Any ICO fine pertaining to a cyber breach will be treated as an exceptional item
- That no acquisitions are made (consistent with 'Base case')
- £200m annual dividends are continued to be paid throughout the period (consistent with 'Base case')

We have also assumed the revolving credit facility of £500 million and the Credit Suisse CDS facility of £300 million are available throughout the period, and that the remaining Eurobond is to be re-financed (and not repaid from cash).

Taking into account current operational and financial performance, the Board has in particular analysed the impact of following hypothetical scenarios. These scenarios were assessed in isolation, as combinations of two or three risks and all simultaneously to further stress test viability:

Refer to Principal risks or Accounting judgements and estimates within the Financial Information.

| Scenario 1 | |
|--|--|
| Scenario modelled | Principal risks |
| <p>A significant and sustained downturn in advertising revenue from 2023, as a result of audience and/or market decline, driven by macroeconomic factors or increased competition/challenge from large streamers. In this scenario we also fail to replace the advertising revenue lost as a result of the confirmed restrictions on HFSS and potential restrictions on other advertising categories (e.g. gambling and high carbon products).</p> <p>Advertising revenues (2023 vs 2022 – (2%); 2024 vs 2023 – (9%); 2025 vs 2024 – 12%)</p> <p>Business area impacted: Media & Entertainment</p> | <p>Changing viewing habits: A failure to anticipate or respond to fast changing viewer habits and behaviours may impact total viewing and the success of our channels.</p> <p>Advertising market changes: Continued 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>Policy and regulatory changes: Changes to policy and regulation or a failure by the government to regulate may have a negative impact on the future of public service broadcast, our business model and/or the cost of operation.</p> <p>Partnership relationships: An inability to develop and maintain adequate relationships with major platform and distribution providers may result in reduced brand prominence, viewers being unable to find our content and lack of fair value for that content.</p> <p>Further detail of how we are mitigating these risks is provided in the principal risk and uncertainties section</p> |
| Scenario 2 | |
| Scenario modelled | Principal risks |
| <p>Our Streaming strategy fails to fully deliver the expected consumption hours (for the ad-funded streaming element) or subscriber growth (for the subscription streaming element), impacting revenue.</p> <p>This scenario assumes we under-deliver against our viewing and subscriber growth plans for ITVX (resulting in EBITA reductions of £2 million in 2023, £7 million in 2024 and £31 million in 2025).</p> <p>Business area impacted: Media & Entertainment</p> | <p>Insufficient Streaming growth: Our Streaming products do not grow at the pace required to deliver the desired strategic or financial outcomes.</p> <p>Changing viewing habits: A failure to anticipate or respond to fast changing viewer habits and behaviours may impact total viewing and the success of our channels.</p> <p>Further detail of how we are mitigating these risks is provided in the principal risk and uncertainties section</p> |
| Scenario 3 | |
| Scenario modelled | Principal risks |
| <p>A number of key programme brands within the ITV Studios division are not recommissioned and new format growth does not materialise.</p> <p>The scenario assumes key shows come to an end from 2023 (2023 impact: c. £39 million; 2024 impact c. £57 million and 2025 impact: c. £83 million).</p> <p>Business area impacted: Studios</p> | <p>Content pipeline: Fundamental changes in the content market and/or failure to sustain a diversified commissioning pipeline that is both resilient and commercially viable, may result in reduced opportunities and/or profitability.</p> <p>Further detail of how we are mitigating these risks is provided in the principal risk and uncertainties section</p> |
| Scenario 4 | |
| Scenario modelled | Accounting judgements and estimates |
| <p>Settlements for ongoing litigation are significantly higher than estimated, resulting in large one-off cash payments.</p> <p>This scenario assumes a higher than provisioned cash outflow in 2024 in respect of settlements for ongoing litigation.</p> <p>Given the current status of the various claims, management do not expect there to be any cash outflow in respect of litigation during the viability period. However, a cash outflow has been modelled as a potential severe downside scenario.</p> <p>Business area impacted: Group</p> | <p>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> <p>Further detail of the accounting judgements and estimates applied to ongoing litigation and earnouts are provided in Section 1 to the Financial Information. An overview the assessments performed by the Audit and Risk Committee with respect to these accounting judgements is provided within the Audit and Risk Committee report.</p> |

| Scenario 5 | |
|---|--|
| Scenario modelled | Principal risks |
| <p>ITV is subject to a cyber attack which results in a major operational disruption, critical system outage or loss of intellectual property (IP), customer or business data.</p> <p>This scenario assumes that a class action is filed against ITV which requires a substantial compensation payment and results in a fine from the Information Commissioner's Office (ICO).</p> <p>Business area impacted:</p> <p>Group</p> | <p>Cyber Security and Data Breach</p> <p>Further detail of how we are mitigating this risk is provided in the principal risk and uncertainties section</p> |
| Scenario 6 | |
| Scenario modelled | Principal risks |
| <p>A combination of scenarios 1 to 3 above occurring simultaneously.</p> <p>This scenario materialising is deemed unlikely (resulting in EBITA impact of £79 million in 2023, £241 million in 2024 and £348 million in 2025). Importantly in this scenario, no covenants are breached at any time during the assessment period.</p> <p>Business area impacted:</p> <p>Group</p> | <p>Changing viewing habits</p> <p>Advertising market changes</p> <p>Policy and regulatory changes</p> <p>Partnership relationships</p> <p>Insufficient Streaming growth</p> <p>Content pipeline</p> <p>Please see risks 1-3 for more detail.</p> <p>Further detail of how we are mitigating this risk is provided in the principal risk and uncertainties section</p> |

We have considered the impact of climate change risks and do not believe they would have a significant financial impact on the business in the assessment period. Please refer to our TCFD report for further detail.

Viability assessment

Our balance sheet and liquidity position remains strong. Our liquidity at 28 February 2023 is £1,113 million, comprising cash of £313 million, the undrawn Revolving Credit Facility of £500 million (expiring January 2028) and the undrawn bilateral facility/CDS of £300 million (expiring June 2026).

During the viability period, the Group's €259 million Eurobond maturing in December 2023 is assumed to be refinanced.

We have considered both the individual scenarios and various combinations of the scenarios in order to assess viability. If any of the above scenarios were to occur in isolation we would maintain sufficient liquidity and, considering our RCF mechanism which allows us to increase our leverage covenant to 4.0x, would only marginally breach this banking covenant in 2025. £4.5 million of EBITA mitigation in year would bring ITV in line with this banking covenant.

Management and the Board are of the view that the likelihood of all the above scenarios and sensitivities occurring concurrently is very remote. We have developed mitigations for each of the above risks which are detailed in the principal risks and uncertainties section. If all the above scenarios were to occur in combination and no action was taken to mitigate the financial losses sustained, ITV would maintain sufficient liquidity but would risk breaching the net debt/EBITDA covenant for the RCF in 2025 (the RCF interest cover covenant is not breached at any point in the assessment period). However, if action were taken to increase the threshold for breaching the covenant to 4.0x, then £4.5 million of EBITA mitigations in 2025, would bring us in line with this banking covenant.

Potential mitigations

In the unlikely event that all scenarios were to impact ITV concurrently and in order to avoid breaching our covenants, we could deploy various mitigations in 2025. ITV has a mechanism in relation to its RCF which allows a one-time adjustment to the RCF Net Debt/EBITDA covenant up to 4.0x from the baseline of 3.5x for up to two consecutive half-yearly financial periods. Deploying this mechanism in 2025 would lead to a marginal breach, as the Net Debt/EBITDA ratio of ITV will be 4.07x in 2025, in the unlikely event each scenario were to occur. £4.5 million of EBITA increase, which could be delivered through revisions to the 2025 bonus plan, would bring ITV below the revised 4.0x covenant threshold. It should be noted that ITV benefits from a highly supportive banking group and benefited from covenant waivers, which were taken as a precautionary measure, during the peak of the COVID-19 pandemic.

Viability statement

Based on the above, the Board has a reasonable expectation that ITV will remain viable and be able to continue operations and meet its liabilities as they fall due over the three year period ending 31 December 2025. 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 Chief Finance Officer & Chief Operating Officer
2 March 2023

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. |

Contents

Primary Statements

Consolidated Income Statement
Consolidated Statement of Comprehensive Income
Consolidated Statement of Financial Position
Consolidated Statement of Changes in Equity
Consolidated Statement of Cash Flows

Section 1: Basis of Preparation

Section 2: Results for the Year

2.1 Profit before tax
2.2 Exceptional items
2.3 Taxation
2.4 Earnings per share

Section 3: Operating Assets and Liabilities

3.1 Working capital
3.2 Property, plant and equipment
3.3 Intangible assets
3.4 Acquisitions
3.5 Investments
3.6 Provisions
3.7 Pensions

Section 4: Capital Structure and Financing Costs

4.1 Net debt
4.2 Borrowings
4.3 Managing market risks: derivative financial instruments
4.4 Net financing costs
4.5 Fair value hierarchy
4.6 Lease liabilities
4.7 Equity
4.8 Share-based compensation

Section 5: Other Notes

5.1 Related party transactions
5.2 Contingent assets and liabilities
5.3 Subsidiaries exempt from audit

ITV plc Company Financial Information

Notes to the ITV plc Company Financial Information

Consolidated Income Statement

| For the year ended 31 December | Note | 2022 £m | 2021 £m |
|---|----------|----------------|------------|
| Revenue | 2.1 | 3,728 | 3,453 |
| Operating costs | 2.1 | (3,209) | (2,934) |
| Operating profit | | 519 | 519 |
| Presented as: | | | |
| Earnings before interest, tax and amortisation (EBITA) before exceptional items | 2.1 | 668 | 784 |
| Operating exceptional items | 2.2 | (65) | (196) |
| Amortisation and impairment | 3.3, 3.5 | (84) | (69) |
| Operating profit | | 519 | 519 |
| | | | |
| Financing income | 4.4 | 13 | 8 |
| Financing costs | 4.4 | (39) | (58) |
| Net financing costs | | (26) | (50) |
| Share of profits after tax of joint ventures and associated undertakings | 3.5 | 8 | 12 |
| Loss on sale of subsidiaries and investments | | – | (1) |
| Profit before tax | | 501 | 480 |
| Taxation | 2.3 | (66) | (92) |
| Profit for the year | | 435 | 388 |
| | | | |
| Profit attributable to: | | | |
| Owners of the Company | | 428 | 378 |
| Non-controlling interests | 4.7.6 | 7 | 10 |
| Profit for the year | | 435 | 388 |
| | | | |
| Earnings per share | | | |
| Basic earnings per share | 2.4 | 10.7p | 9.4p |
| Diluted earnings per share | 2.4 | 10.6p | 9.3p |

Consolidated Statement of Comprehensive Income

| | | | Re-presented* |
|--|-------|------------|---------------|
| For the year ended 31 December | Note | 2022 £m | 2021 £m |
| Profit for the year | | 435 | 388 |
| Other comprehensive (expense)/income: | | | |
| Items that are or may be reclassified to profit or loss | | | |
| Revaluation of financial assets | 4.7.4 | (19) | — |
| Net (loss)/gain on cash flow hedges and costs of hedging | 4.7.3 | (2) | 15 |
| Exchange differences on translation of foreign operations (net of hedging) | 4.7.3 | 75 | 16 |
| Income tax credit/(charge) on items that may be reclassified to profit or loss* | 2.3 | 6 | (6) |
| Items that will never be reclassified to profit or loss | | | |
| Remeasurement gains/(losses) on defined benefit pension schemes | 3.7 | 80 | (58) |
| Income tax (charge)/credit on items that will never be reclassified to profit or loss* | 2.3 | (23) | 9 |
| Other comprehensive expense for the year, net of income tax | | 117 | (24) |
| Total comprehensive income for the year | | 552 | 364 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 537 | 355 |
| Non-controlling interests | 4.7.6 | 15 | 9 |
| Total comprehensive income for the year | | 552 | 364 |

* Income tax (charge)/credit has been re-presented on the Consolidated Statement of Comprehensive Income to differentiate between tax on items that are or may be reclassified to profit or loss and tax on items that may never be reclassified to profit or loss. In 2021, the income tax credit was not disaggregated.

Consolidated Statement of Financial Position

| | Note | 31 December 2022 £m | Re-presented* 31 December 2021 £m |
|---|----------|------------------------|---|
| Non-current assets | | | |
| Property, plant and equipment | 3.2 | 286 | 254 |
| Intangible assets | 3.3 | 1,609 | 1,478 |
| Investments in joint ventures, associates and equity investments | 3.5 | 130 | 98 |
| Derivative financial instruments | 4.3 | 2 | – |
| Distribution rights | 3.1.2 | 17 | 21 |
| Contract assets | 3.1.6 | – | 6 |
| Defined benefit pension surplus | 3.7 | 172 | 26 |
| Other pension asset | 3.7 | 47 | 62 |
| Deferred tax asset | 2.3 | 19 | 37 |
| | | 2,282 | 1,982 |
| Current assets | | | |
| Programme rights and other inventory | 3.1.1 | 377 | 313 |
| Trade and other receivables due within one year | 3.1.3 | 692 | 589 |
| Trade and other receivables due after more than one year | 3.1.3 | 44 | 42 |
| Trade and other receivables | | 736 | 631 |
| Contract assets | 3.1.6 | 185 | 183 |
| Production work in progress | 3.1.7 | 493 | 360 |
| Current tax receivable | 2.3 | 52 | 32 |
| Derivative financial instruments | 4.3 | 2 | 3 |
| Restricted cash | 4.1 | – | 50 |
| Cash and cash equivalents | 4.1 | 348 | 686 |
| | | 2,193 | 2,258 |
| Current liabilities | | | |
| Borrowings | 4.1, 4.2 | (289) | (290) |
| Lease liabilities | 4.6 | (21) | (21) |
| Derivative financial instruments | 4.3 | (7) | (5) |
| Trade and other payables due within one year | 3.1.4 | (901) | (849) |
| Trade payables due after more than one year | 3.1.5 | (17) | (18) |
| Trade and other payables | | (918) | (867) |
| Contract liabilities | 3.1.6 | (372) | (359) |
| Current tax liabilities | 2.3 | (7) | (20) |
| Provisions | 3.6 | (139) | (120) |
| | | (1,753) | (1,682) |
| Net current assets | | 440 | 576 |
| Non-current liabilities | | | |
| Borrowings | 4.1, 4.2 | (541) | (732) |
| Lease liabilities | 4.6 | (111) | (71) |
| Derivative financial instruments | 4.3 | (8) | (37) |
| Defined benefit pension deficit | 3.7 | (27) | (96) |
| Deferred tax liabilities | 2.3 | (57) | (12) |
| Other payables | 3.1.5 | (72) | (67) |
| Provisions | 3.6 | (30) | (25) |
| | | (846) | (1,040) |
| Net assets | | 1,876 | 1,518 |
| 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 | 211 | 215 |
| Translation reserve | 4.7.3 | 107 | 41 |
| Fair value reserve | 4.7.4 | (1) | 13 |
| Retained earnings | 4.7.5 | 928 | 634 |
| Total equity attributable to equity shareholders of the parent company | | 1,822 | 1,480 |
| Non-controlling interests | 4.7.6 | 54 | 38 |
| Total equity | | 1,876 | 1,518 |

* Production work in progress has been re-presented on the face of the Consolidated Statement of Financial Position. The balance was previously included within Contract Assets and separately disclosed in the Notes to the Accounts.

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 2022 | 4.7 | 403 | 174 | 215 | 41 | 13 | 634 | 1,480 | 38 | 1,518 |
| Total comprehensive income for the year | | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | 428 | 428 | 7 | 435 |
| Other comprehensive (expense)/income | | | | | | | | | | |
| Revaluation of financial assets | 4.7.4 | – | – | – | – | (19) | – | (19) | – | (19) |
| Net loss on cash flow hedges and costs of hedging | 4.7.3 | – | – | – | (2) | – | – | (2) | – | (2) |
| Exchange differences on translation of foreign operations (net of hedging) | 4.7.3 | – | – | – | 67 | – | – | 67 | 8 | 75 |
| Remeasurement gain on defined benefit pension schemes | 3.7 | – | – | – | – | – | 80 | 80 | – | 80 |
| Income tax credit/(charge) on other comprehensive income/(expense) | 2.3 | – | – | – | 1 | 5 | (23) | (17) | – | (17) |
| Total other comprehensive income/(expense) | | – | – | – | 66 | (14) | 57 | 109 | 8 | 117 |
| Total comprehensive income/(expense) for the year | | – | – | – | 66 | (14) | 485 | 537 | 15 | 552 |
| Transactions with owners, recorded directly in equity | | | | | | | | | | |
| Contributions by and distributions to owners | | | | | | | | | | |
| Equity dividends | | – | – | – | – | – | (201) | (201) | (3) | (204) |
| Movements due to share-based compensation | 4.8 | – | – | – | – | – | 19 | 19 | – | 19 |
| Movements in the employee benefit trust | | – | – | – | – | – | (2) | (2) | – | (2) |
| Tax on items taken directly to equity | 2.3 | – | – | – | – | – | (7) | (7) | – | (7) |
| Total transactions with owners | | – | – | – | – | – | (191) | (191) | (3) | (194) |
| Changes in non-controlling interests | 4.7.6 | – | – | (4) | – | – | – | (4) | 4 | – |
| Balance at 31 December 2022 | 4.7 | 403 | 174 | 211 | 107 | (1) | 928 | 1,822 | 54 | 1,876 |

* See note 4.3 for further breakdown of Translation Reserve, including Hedging Reserve and Cost of Hedging Reserve.

Consolidated Statement of Changes in Equity continued

| | 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 2021 | 4.7 | 403 | 174 | 224 | 7 | 18 | 296 | 1,122 | 29 | 1,151 |
| Total comprehensive income for the year | | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | 378 | 378 | 10 | 388 |
| Other comprehensive (expense)/income | | | | | | | | | | |
| Net gain on cash flow hedges and costs of hedging | 4.7.3 | – | – | – | 15 | – | – | 15 | – | 15 |
| Exchange differences on translation of foreign operations (net of hedging) | 4.7.3 | – | – | – | 17 | – | – | 17 | (1) | 16 |
| Remeasurement losses on defined benefit pension schemes | 3.7 | – | – | – | – | – | (58) | (58) | – | (58) |
| Income tax (charge)/credit reclass** | | – | – | – | 7 | (4) | (3) | – | – | – |
| Income tax (charge)/credit on other comprehensive income/(expense) | 2.3 | – | – | – | (5) | (1) | 9 | 3 | – | 3 |
| Total other comprehensive income/(expense) | | – | – | – | 34 | (5) | (52) | (23) | (1) | (24) |
| Total comprehensive income/(expense) for the year | | – | – | – | 34 | (5) | 326 | 355 | 9 | 364 |
| 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 | – | – | – | – | – | 12 | 12 | – | 12 |
| Tax on items taken directly to equity | 2.3 | – | – | – | – | – | 1 | 1 | – | 1 |
| Total transactions with owners | | – | – | – | – | – | 13 | 13 | (1) | 12 |
| Changes in non-controlling interests | 4.7.6 | – | – | (9) | – | – | (1) | (10) | 1 | (9) |
| Balance at 31 December 2021 | 4.7 | 403 | 174 | 215 | 41 | 13 | 634 | 1,480 | 38 | 1,518 |

* See note 4.3 for further breakdown of Translation Reserve, including Hedging Reserve and Cost of Hedging Reserve.

** Income tax on other comprehensive income has been reallocated to the relevant reserves from Retained Earnings in 2021.

Consolidated Statement of Cash Flows

| For the year ended 31 December | Note | £m | 2022 £m | £m | 2021 £m |
|--|------|-------|------------|-------|------------|
| Cash flows from operating activities | | | | | |
| Cash generated from operations before exceptional items | 2.1 | | 590 | | 714 |
| Cash flow relating to operating exceptional items: | | | | | |
| Operating exceptional items | 2.2 | (65) | | (196) | |
| Increase/(decrease) in exceptional payables | | 12 | | (111) | |
| | | | | | |
| Cash outflow from exceptional items | | | (53) | | (307) |
| Cash generated from operations | | | 537 | | 407 |
| Defined benefit pension deficit funding | | (137) | | (74) | |
| Interest received | | 15 | | 10 | |
| Interest paid* | | (56) | | (53) | |
| Net taxation paid | | (55) | | (119) | |
| | | | (233) | | (236) |
| Net cash inflow from operating activities | | | 304 | | 171 |
| Cash flows from investing activities | | | | | |
| Acquisition of property, plant and equipment | | (34) | | (22) | |
| Acquisition of intangible assets | | (44) | | (23) | |
| Acquisition of subsidiary undertakings, net of cash acquired | | (96) | | – | |
| Acquisition of investments | | (13) | | (19) | |
| Loans granted to associates and joint ventures | | (13) | | (5) | |
| Loans repaid by associates and joint ventures | | 4 | | 4 | |
| Net cash outflow from investing activities | | | (196) | | (65) |
| Cash flows from financing activities | | | | | |
| Bank and other loans – amounts repaid | | (539) | | (18) | |
| Bank and other loans – amounts raised | | 282 | | 21 | |
| Release of restricted cash | | 50 | | – | |
| Payment of lease liabilities** | | (22) | | (26) | |
| Acquisition of non-controlling interests | | (25) | | (11) | |
| Dividends paid to non-controlling interests | | (3) | | (1) | |
| Equity dividends paid | | (201) | | – | |
| Net cash outflow from financing activities | | | (458) | | (35) |
| Net (decrease)/increase in cash and cash equivalents | | | (350) | | 71 |
| Cash and cash equivalents at 1 January | 4.1 | | 686 | | 618 |
| Effects of exchange rate changes and fair value movements | | | 12 | | (3) |
| Cash and cash equivalents at 31 December | 4.1 | | 348 | | 686 |

* Interest paid includes interest on bank, other loans, derivative financial instruments and lease liabilities.

** Net cash flow on lease liabilities in note 4.1 of £26 million (2021: £29 million) includes interest on lease liabilities included in interest paid of £4 million (2021: £3 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 UK-adopted accounting standards, amendments and interpretations, and whether they are effective in 2022 or later years. We explain how these changes are expected to impact the financial position and performance of the Group.

The financial information consolidate 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 registered in England and Wales.

These Group financial information were prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The accounting policies have been applied consistently in the financial years presented, other than where new policies have been adopted.

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

The notes form part of the financial information.

Going concern

As at 31 December 2022, the Group was in a net debt position of £623 million (2021: £414 million), including gross borrowings of £971 million (2021: £1,150 million) offset by unrestricted cash of £348 million (2021: £686 million) and restricted cash of £nil (2021: £50 million).

In addition to £348 million of unrestricted cash (31 December 2021: £686 million), the Group has a syndicated £500 million Revolving Credit Facility entered into during 2022 and expiring in January 2028, of which £50 million was drawn at 31 December 2022. This facility replaces the £630 million Revolving Credit Facility held at 31 December 2021 which was due to expire in December 2023. The Group also has a £300 million committed and undrawn bilateral facility expiring in June 2026 (of which £152 million was drawn at 31 December 2021), providing £1,098 million (31 December 2021: £1,464 million) of liquidity.

The €335 million Eurobond maturing in September 2022 was repaid using available cash. There are no financial covenants in relation to bonds in issue, although there are cross default provisions.

The 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). In addition, there are ESG targets linked to the delivery of ITV's science-based carbon emissions targets. As at 31 December 2022, the Group had covenant net debt of £461 million (31 December 2021: £278 million) and its financial position was well within its covenants. The leverage and interest cover tests will be tested again on 30 June 2023.

The Revolving Credit Facility (RCF) contains Scope 1, 2 and 3 greenhouse gas emissions targets which align to ITV's stated objective to have Net Zero carbon emissions by 2030. These targets are measured at the end of each financial year and independently verified in July following the relevant December year end. Scope 1 and 2 emissions are measured separately to Scope 3 emissions. The margin on the facility reduces by 2.5bps if Scope 1, 2 and 3 targets are met, by 1.25bps if either Scope 1 and 2 targets are met or Scope 3 targets are met, and increases by 2.5bps if neither target is met. Failing to meet targets does not impact the availability of the RCF. The Group met Scope 1, 2 and 3 targets for 2021, 2022 emissions will not be verified until July 2023. Over the life of the facility, it may be necessary to recalibrate the baseline emissions level set in 2019, particularly in relation to Scope 3 emissions and there is a mechanism in the RCF documentation that allows for this.

The Directors have prepared forecasts for three cash flow scenarios (mid, high and low cases), for the period of three years from 1 January 2023 (in line with the viability assessment period). The mid case scenario is the basis for the 2023 Board approved budget. The key assumptions in the scenarios relate to fluctuations in the advertising market due to audience and/or market decline and the evolving demand in the content market, specifically relating to content pipeline. The former assumption relates to the Group's advertising revenue while the latter impacts the scale and timing of productions for ITV Studios. All scenarios have embedded inflationary impacts with increased production costs in the short to medium term as well as continued structural changes in the advertising market and viewing habits with increased focus on streaming. The Directors have also considered a number of sensitivities to the mid case scenario to arrive at a severe but plausible downside scenario that has been used to assess the appropriateness of preparing these consolidated financial information using the going concern basis.

These sensitivities include settlements in respect of ongoing litigation, lost and/or delayed Studios productions, a failure to deliver the expected consumption hours or subscriber growth for Streaming, a decline in advertising revenue in

comparison to 2021 and a cyber security breach. In addition, as an equivalent of a reverse stress test, consideration has been given to all scenarios impacting simultaneously. In this highly unlikely (possibly not plausible) downside scenario the Group experiences significant loss of profit and cash outflows but remains able to operate within its financial covenants and has sufficient liquidity during the going concern period to 30 June 2024.

The Directors propose a final dividend of 3.3 pence per share, which equates to a full year dividend of 5.0 pence per share, subject to approval by shareholders at the AGM on 4 May 2023 (2021: 3.3 pence). The Directors intend to at least maintain this dividend over the medium term (this was included in all scenarios modelled). The Directors will continue to balance shareholder returns with a commitment to maintain investment grade credit metrics over the medium term and to continue to invest in the Group's strategy.

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 these 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 is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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 or losses, less any dividends received 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 initially at cost as a proxy for fair value.

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 Consolidated Statement of Financial Position in accordance with IFRS 9 'Financial Instruments':

- Financial assets/liabilities at fair value through OCI – measured at fair value through other comprehensive income – separately disclosed as financial assets/liabilities in current and non-current assets and liabilities or equity investments in non-current assets
- Financial assets/liabilities at fair value through profit or loss – separately disclosed as derivative financial instruments in current and non-current assets and liabilities and included in other payables (put option liabilities and contingent consideration) or convertible loan receivable within other receivables
- Financial assets measured at amortised cost – separately disclosed as cash and cash equivalents and trade and other receivables
- 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, requiring assessment of contractual provisions that do or may change the timing or amount of contractual cash flows. Details of 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 Consolidated 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 Consolidated 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 are 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).

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.

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.

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. The current macroeconomic environment has caused greater estimation and judgement to be applied, particularly in respect of pension obligations and discount rates used for impairment reviews.

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 and sources of estimation uncertainty applied by management are set out in the accounting policies section of the relevant notes:

| Area | Key judgements | Key sources of estimation uncertainty |
|---|---|---|
| Exceptional items (See note 2.2) | The classification of income or expenses as exceptional items | |
| Defined benefit pension (See note 3.7) | | Estimates of the assumptions for valuing the defined benefit obligation |
| Provisions related to Box Clever (see note 3.6) | The basis for calculating the provision | Estimates of the amount required to settle the potential liability |
| Employee-related provisions (See note 3.6) | The individuals who are included in the calculation | Estimates of the amounts required to settle the liability |
| Acquisition-related liabilities (See note 3.1.4 and 3.1.5) | Whether future amounts payable are linked to employment | Estimates of cash-flow forecasts to support the calculation of the future liabilities |
| Transmission commitments (See note 3.1.1) | Whether the transponder contracts should be classified as leases in accordance with IFRS 16 | |

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. The key areas underlying estimation uncertainty include the reviews of onerous contracts and impairment provisions in relation to sports rights, allocation of programme rights to ITVX, impairment of intangible assets, purchase price allocation in business combinations and taxation. More detail on each of these items is given in the relevant notes.

The Directors recognise the climate crisis and the potential impact it may have on both the wider world and the success of ITV. The threat continues to evolve and businesses globally have a responsibility to take meaningful action to mitigate and prevent further climate change. The Directors are committed to reducing the impact of ITV on the environment. Climate-related risks have been identified as an emerging business risk; however, the Directors do not view them as a source of material estimation uncertainty for the Group. For further detail, see the Risks and Uncertainties section of the Strategic Report.

New or amended accounting standards

The following new standards and/or amendments are effective 1 January 2022, but have not had a significant impact on the Group's results or Consolidated Statement of Financial Position.

| Accounting standard | Requirement | Impact on financial information |
|---|---|--|
| Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before intended use | The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. | No material change to the Group's financial position or performance. |
| Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets': Onerous Contracts – Cost of Fulfilling a Contract | The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. | No material change to the Group's financial position or performance. |
| Annual Improvements to IFRS Standards 2018-2020 | The following improvements were finalised in May 2020: <ul style="list-style-type: none"> IFRS 9 'Financial Instruments' – clarifies which fees should be included in the 10% test for derecognition of financial liabilities. IFRS 16 'Leases' – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives. | No material change to the Group's financial position or performance. |
| Amendments to IFRS 3 'Business Combinations' – Reference to the Conceptual Framework | Minor amendments were made to IFRS 3 'Business Combinations' to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and Interpretation 21 'Levies'. The amendments also confirm that contingent assets should not be recognised at the acquisition date. | No material change to the Group's financial position or performance. |

Accounting standards effective in future periods

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

Notes to the Financial Statements

Section 2: Results for the Year

2.1 Profit before tax

In this section

This section focuses on the results and performance of the Group. On the following pages, you will find disclosures explaining the Group's results for the year, segmental information, exceptional items, taxation and earnings per share.

Keeping it simple

This section analyses the Group's profit before tax by reference to the activities performed by the Group and an analysis of key operating costs.

Total revenue and adjusted earnings before interest, tax and amortisation (adjusted EBITA) (both as defined in the APMs) are the Group's key performance and profit indicators. They reflect 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 measurement and 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. Variable consideration is estimated based on the achievement of agreed targets, such as audience targets. Variable consideration is recognised only to the extent that it is highly probable that a significant reversal of revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Revenue is stated exclusive of VAT and equivalent sales taxes.

Complexity in advertising revenue measurement and recognition is driven by a combination of automated and manual processes involved in measuring the value delivered to the customer and therefore the value of variable consideration due.

In assessing the transaction price, any non-cash consideration received from a customer is included. Non-cash consideration is measured at fair value. It takes into account the value of what the Group is receiving rather than the value of what the Group is giving up.

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 particularly in respect of contracts in the ITV Studios division to assess whether revenue should be recognised at a point in time or over time.

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

| Segment | Major classes of revenue and revenue recognition policy | Payment terms |
|-------------------------------|---|---|
| ITV Studios | | |
| Programme production | <ul style="list-style-type: none"> Revenue generated from the programmes produced for broadcasters and streaming 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, over the term of the contract | <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 and revenue recognition policy | Payment terms |
|----------------------------------|---|--|
| Media & Entertainment | | |
| 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 is generated from selling advertising on ITVX (ITV Hub before the launch of ITVX) 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 |
| Subscriptions | <ul style="list-style-type: none"> 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 |
| Partnerships and other revenue | <ul style="list-style-type: none"> Revenue from platforms such as Sky and Virgin Media O2, and third-party commissions. Revenue related to performance obligations delivered over time (e.g. provision of HD and SD channels and updated library content) are recognised over the term of the contract while revenues related to one-time provision of content are recognised on delivery of the content (point in time) Interactive revenue is earned from entries to competitions and is recognised as the event occurs (point in time) Minorities revenues is the revenue received from Channel 3 licencees that are not part of the ITV Group. The performance obligations are delivered as programming is delivered to the licensee and revenue is recognised over the term of the contract (over time) Other categories of revenues within 'Partnerships and other revenue' are individually immaterial | <ul style="list-style-type: none"> Payment term is over the term of the contract Payment term is within two months of the competition being aired Payment term is over the term of the contract |

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

| | 2022 £m | 2022 % of total | 2021 £m | 2021 % of total |
|----------------------------------|--------------|--------------------|--------------|--------------------|
| ITV Studios UK | 822 | | 683 | |
| ITV Studios US | 467 | | 372 | |
| ITV Studios International | 465 | | 407 | |
| Global Formats and Distribution | 342 | | 298 | |
| Total ITV Studios* | 2,096 | 48% | 1,760 | 44% |
| Total advertising revenue (TAR) | 1,931 | 44% | 1,957 | 48% |
| Subscriptions | 54 | | 42 | |
| SDN | 55 | | 70 | |
| Partnerships and other revenue | 209 | | 213 | |
| Media & Entertainment | 2,249 | 52% | 2,282 | 56% |
| Total revenue** | 4,345 | | 4,042 | |

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

** Includes internal supply as discussed in the APMs.

Digital revenues of £411 million (2021: £347 million) include digital advertising revenue and subscription revenue, digital sponsorship and partnership revenue, ITV Win and other revenues from digital business ventures.

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 Management Board. The Management Board is regarded as the chief operating decision-maker and considers the business, primarily from an operating activity perspective.

The Groups' segments are Media & Entertainment and ITV Studios, the results of which are outlined in the following tables:

| | ITV Studios ¹ 2022 £m | Media & Entertainment 2022 £m | Consolidated 2022 £m |
|---|--|--|----------------------------|
| Total segment revenue | 2,096 | 2,249 | 4,345 |
| Intersegment revenue | (611) | (6) | (617) |
| Revenue from external customers | 1,485 | 2,243 | 3,728 |
| Adjusted EBITA² | 259 | 464 | 723 |
| Unrealised profit in stock adjustment | | | (6) |
| Group adjusted EBITA³ | | | 717 |

| | Restated ITV Studios ^{1,4} 2021 £m | Media & Entertainment 2021 £m | Restated Consolidated ⁴ 2021 £m |
|---|--|--|---|
| Total segment revenue | 1,760 | 2,282 | 4,042 |
| Intersegment revenue | (583) | (6) | (589) |
| Revenue from external customers | 1,177 | 2,276 | 3,453 |
| Adjusted EBITA² | 213 | 598 | 811 |
| Unrealised profit in stock adjustment | | | 2 |
| Group adjusted EBITA³ | | | 813 |

1 Intersegment revenue originates mainly in the UK.

2 Adjusted EBITA is 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.

3 Group adjusted EBITA removes the profit recorded in the ITV Studios business related to content sold to the Media & Entertainment business but unutilised and held on the balance sheet at the year end.

4 ITV Studios Adjusted EBITA for 2021 has been restated to remove the unrealised profit in stock adjustment as this is an adjustment required on consolidation only. The launch of ITVX in the M&E segment is likely to increase the levels of content held on the Statement of Financial Position, potentially requiring a larger profit in stock adjustment and therefore management believes the adjustment should be recorded at a consolidated level only.

The Group's principal operations are in the United Kingdom. Revenue from external customers in the United Kingdom is £2,376 million (2021: £2,365 million) and revenue from external customers in other countries is £1,352 million (2021: £1,088 million), of which revenue of £655 million (2021: £485 million) was generated in the US during the year. The Operating and Financial 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 Media & Entertainment 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 or building occupancy of each segment. This is consistent with the basis of reporting to the Board of Directors.

There are two media buying agencies (2021: two) 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, with £548 million (2021: £593 million) and £355 million (2021: £353 million) respectively, revenue derived from these customers. This revenue is attributable to the Media & Entertainment segment.

The following table shows the total of non-current assets other than financial instruments, deferred tax assets, and pension assets broken down by location of the assets:

| | 2022 £m | 2021 £m |
|---------------------------------|--------------|--------------|
| UK | 1,415 | 1,242 |
| US | 472 | 421 |
| Rest of the world | 155 | 187 |
| Total non-current assets | 2,042 | 1,850 |

Timing of revenue recognition

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

| | 2022 £m | 2021 £m | 2022 £m | 2021 £m |
|---|--|--------------|---|------------|
| | Products and services transferred at a point in time | | Products and services transferred over time | |
| Total advertising revenue, subscriptions, SDN and other M&E | 1,902 | 1,952 | 341 | 324 |
| Programme production, programme distribution rights | 1,169 | 914 | 236 | 184 |
| Format licences | 76 | 74 | 4 | 5 |
| Total external revenue | 3,147 | 2,940 | 581 | 513 |

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):

| | 2023 £m | 2024 £m | 2025 £m | Beyond £m |
|-------------------------------|------------|------------|------------|--------------|
| Media & Entertainment | 143 | 80 | 59 | 50 |
| ITV Studios | 206 | 98 | 40 | — |
| Total revenue | 349 | 178 | 99 | 50 |
| Internal supply | (82) | (26) | — | — |
| Total external revenue | 267 | 152 | 99 | 50 |

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. net advertising revenue (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 65% of ITV main channel spend on commissioned programming (2021: 70%). Programming is also sold to other UK broadcasters, networks and streaming 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, Spain, the Netherlands, Sweden, Norway, Finland and Denmark where content is produced for local and international broadcasters, networks and streaming 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 Studios Global Formats and Distribution division operates three centres of excellence – The Creative Network, Global Distribution and Global Entertainment. This enables the Group to create more hits, to build better brands and formats internationally and to monetise them 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.

Media & Entertainment

Media & Entertainment (M&E) operates two business streams – Broadcast and Streaming. The Broadcast business is the home of ITV main channel, ITV3 and ITV4 channels, and continues to deliver ITV's USP of mass simultaneous reach. The Streaming business focuses on driving digital viewing by providing content that appeals to audiences who do most or all of their viewing on demand, and serving it to them in whatever way they want to access it. It includes our advertiser funded channels of ITVX, ITV2, ITVBe and CITV and subscription streaming service through ITVX Premium and BritBox.

Group 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 Financial Performance Review for the detailed explanation of the Group's use of adjusted performance measures. A reconciliation of Group adjusted EBITA to statutory profit before tax is provided as follows:

| | Note | 2022 £m | 2021 £m |
|--|------|------------|------------|
| Group adjusted EBITA | | 717 | 813 |
| Production tax credits | | (49) | (29) |
| EBITA before exceptional items | | 668 | 784 |
| Operating exceptional items | 2.2 | (65) | (196) |
| Amortisation and impairment | | (84) | (69) |
| Net financing costs | 4.4 | (26) | (50) |
| Share of profits of joint ventures and associated undertakings | | 8 | 12 |
| Loss on sale of subsidiaries and investments | | – | (1) |
| Profit before tax | | 501 | 480 |

Cash generated from operations

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

| | Note | 2022 £m | 2021 £m |
|--|------|------------|------------|
| Cash flows from operating activities | | | |
| Profit before tax | | 501 | 480 |
| Add back: | | | |
| Loss on sale of subsidiaries and investments (exceptional items) | | – | 1 |
| Share of profits of joint ventures and associated undertakings | | (8) | (12) |
| Net financing costs | 4.4 | 26 | 50 |
| Operating exceptional items | 2.2 | 65 | 196 |
| Depreciation of property, plant and equipment (net of exceptional items) | 3.2 | 53 | 59 |
| Amortisation and impairment | | 84 | 69 |
| Share-based compensation | 4.8 | 19 | 12 |
| Increase in programme rights and distribution rights | | (70) | (6) |
| Increase in receivables and contract assets | | (133) | (270) |
| Increase in payables and contract liabilities | | 53 | 135 |
| Movement in working capital | | (150) | (141) |
| Cash generated from operations before exceptional items | | 590 | 714 |

Operating costs

The major components of operating costs of £3,209 million (2021: £2,934 million) are content costs of £1,216 million (2021: £1,154 million), other net costs of production of £1,444 million (2021: £1,124 million), staff costs of £347 million (2021: £332 million), depreciation, amortisation and impairment of £137 million (2021: £128 million) and operating exceptional items of £65 million (2021: £196 million).

Following the launch of ITVX, the content costs above include network schedule costs and the content costs previously allocated to BritBox UK. The comparatives above have been represented to reflect this change.

Staff costs

Staff costs can be analysed as follows:

| | 2022 £m | 2021 £m |
|--|------------|------------|
| Wages and salaries | 497 | 441 |
| Social security and other costs | 80 | 69 |
| Share-based compensation (see note 4.8) | 19 | 12 |
| Pension costs | 35 | 31 |
| Total staff costs* | 631 | 553 |
| Less: staff costs allocated to productions, exceptional items or capitalised | (284) | (221) |
| Net staff costs | 347 | 332 |

* Staff costs includes the management board including two executive directors but excludes the non-executives and the Chairman.

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:

| | 2022 | 2021 |
|-----------------------|-------|-------|
| ITV Studios | 4,042 | 3,816 |
| Media & Entertainment | 2,635 | 2,499 |
| | 6,677 | 6,315 |

The monthly average number of people employed over the year is:

| | 2022 | 2021 |
|-----------------------|-------|-------|
| ITV Studios | 4,144 | 4,109 |
| Media & Entertainment | 2,681 | 2,509 |
| | 6,825 | 6,618 |

The increase in headcount is due to the investment in digital and technical expertise to drive our digital revenue primarily on ITVX as well as converting freelance contractors to fixed term or permanent employees.

Depreciation

Depreciation in the year was £53 million (2021: £59 million), of which £33 million (2021: £39 million) relates to ITV Studios and £20 million (2021: £20 million) to Media & Entertainment. A further £8 million in respect of accelerated depreciation following a change in useful life of the related assets in relation to the move to a new London site has been included in exceptional items. See notes 2.2 and 3.2 for further details.

Audit fees

The Group's auditor is PwC LLP. The Group may engage PwC 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. In 2022, no non-audit fees, other than in respect of audit-related assurance services (being the review of the interim results for the six months to 30 June 2022) were paid to PwC (2021: PwC: £nil). Fees paid to PwC and its associates during the year are set out below:

| | PwC 2022 £m | PwC 2021 £m |
|--|-------------------|-------------------|
| For the audit of the Group's annual financial statements | 1.8 | 1.8 |
| For the audit of subsidiaries of the Group | 1.3 | 1.5 |
| Audit-related assurance services | 0.2 | 0.2 |
| Total audit and audit-related assurance services | 3.3 | 3.5 |
| Other assurance services | – | – |
| Total non-audit services* | – | – |
| Total fees paid to auditor | 3.3 | 3.5 |

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

There were no fees payable in 2022 or 2021 to PwC or their associates for the auditing of financial statements 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.

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 Consolidated Income Statement. See the Operating and Financial 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. | 2022 £m | 2021 £m |
|--|------|-------------|--------------|
| Operating exceptional items: | | | |
| Acquisition-related expenses | A | (4) | (109) |
| Restructuring and transformation costs | B | (28) | (8) |
| Property costs | C | (24) | (8) |
| Pension related costs | D | (4) | (21) |
| Costs related to the passing of Her Majesty Queen Elizabeth II | E | (16) | – |
| Sports rights | F | 5 | (1) |
| Transponder onerous contract | G | – | (16) |
| Employee-related tax provision | H | (10) | (22) |
| Insured trade receivable provision | I | 23 | – |
| Other | J | (7) | (11) |
| Total operating exceptional items | | (65) | (196) |
| Tax on operating exceptional items | | 8 | 16 |
| Total operating exceptional items net of tax | | (57) | (180) |
| Non-operating exceptional items: | | | |
| Financing exceptional item: acquisition-related | K | – | (10) |
| Total non-operating exceptional items | | | (10) |
| Tax on non-operating exceptional items | | – | – |
| Total exceptional items net of tax | | (57) | (190) |

A. Acquisition-related expenses

Acquisition-related expenses of £4 million (2021: £109 million) relate primarily to integration costs and professional fees, mainly financial due diligence and legal costs incurred on current period acquisitions. Also included are performance-based, employment-linked expected payments to former owners, with the final determination of the second earnout on the Talpa acquisition accounting for the majority of the amount charged in 2021.

B. Restructuring and transformation costs

Restructuring and transformation costs of £28 million (2021: £8 million) relate to one-off significant restructuring and transformation programmes of the business. Significant programmes in the year include the ITV Together programme which includes the implementation of a new cloud-based ERP solution, a software as a service (SaaS) solution where the implementation costs are expensed as incurred. The implementation of the programme commenced in 2021 and will continue into 2023 and 2024. Additional exceptional costs related to the ITV Together programme of between £8 million and £10 million are expected to be incurred to complete foundational stage of the programme.

C. Property costs

Following the decision to move to Broadcast Centre in early 2022, £17 million (2021: £8 million) of property costs and move related costs have been recognised as exceptional, including accelerated depreciation following a change in useful life of the related assets. Additional exceptional costs related to the property move of £10 million is expected to be incurred in 2023. An additional £7 million impairment on leasehold improvements and right of use asset has been provided following the decision to vacate our New York office and reduce our property footprint in the US.

D. Pension related costs

The Box Clever provision was increased by £21 million in 2021 reflecting an increase in management's estimate of the provision required. The treatment of this increase as exceptional is consistent with the recognition of the £31 million provision in 2020 as an exceptional charge. There has been no change to the provision in 2022. See 3.6 for further details.

In April 2022, the Pension Trustee completed a buyout of Section C of the ITV Pension Scheme, which in practical terms split the bulk annuity policy into individual annuity policies for each scheme member. £4 million (2021: £nil) which related to the risk premium of Section C was paid. Further details are provided in note 3.7.

E. Costs related to the passing of Her Majesty Queen Elizabeth II

Following the passing of Her Majesty Queen Elizabeth II in September 2022, the M&E business incurred significant additional cost related to news coverage associated with the reporting of the death of the Queen and the funeral. These costs were over and above normal day-to-day cost and do not include any financial impact of the advertising blackout in force during this period. The business has also written off remaining Spitting Image episodes featuring the Queen as it is highly unlikely they will ever be screened and are unable to be effectively edited. In total the business has incurred £16 million of cost which is considered exceptional.

F. Sports rights

The impact of COVID-19 on the planned sporting schedule and the consequential impact on TAR, along with changing forecasts of audience mix and revenues for certain sporting events, resulted in the recognition of a £23 million provision for impairment of specific sports rights in 2020. It is not possible to split this impairment between that caused by the COVID-19 pandemic and underlying market movements. In 2022 the remaining sports events that this provision related to were cancelled by the relevant governing body and the related provision held of £5 million was released as a refund is expected.

G. Transponder onerous contract

In 2021 we provided £16 million for an onerous contract for a second transponder. This followed a review of our transponder capacity usage in the second half of 2020 and early 2021.

H. Employee-related tax provisions

The determination of the employment tax status of some individuals contracted by the Group is complex. In March 2021, HMRC issued an initial assessment on several individuals engaged by the Group during the tax year 2016/17 as employed for tax purposes. In June 2021, HMRC updated guidance on factors determining the employment tax status of TV and Radio presenters.

Landmark court cases were heard by the Court of Appeal in early 2022. Whilst the Group was not involved in these cases, judgements handed down impact how employment tax status is being determined for TV and Radio presenters generally. These judgements will therefore have a bearing on how much tax might be payable by the Group.

In 2021, we provided £22 million for periods up to 31 December 2020. During 2022, we have further increased the provision by £20 million, of which £10 million relates to periods up to 31 December 2021, and is therefore considered exceptional. The increase largely relates to where the Group believes the case for self-employment has weakened in light of recent case law and HMRC's hardening stance.

Due to ongoing reviews by HMRC and court cases on this matter, the final amount payable could be significantly different to amounts currently provided. See note 3.6 for further details.

I. Insured trade receivable provision

In 2017, the Group recorded a bad debt provision of US\$41 million related to trade receivables for The Voice of China. As the Directors anticipated recovering the amount either from the counterparty or from trade credit insurance, US\$37 million was treated as an exceptional cost and the insurance excess of US\$4 million treated as an operating cost. All balances were held in US dollars.

US\$34 million of cash received in 2018 and 2019 on behalf of the debtor was placed under review and the bad debt provision remained in place. This review is now complete and the cash received accepted and has reduced the bad debt provision. As such, the corresponding bad debt provision has been released with US\$31 million treated as an exceptional credit and US\$3 million treated as an operating credit, consistent with the treatment of the original expense. This results in a £23 million credit to exceptional items in 2022.

J. Other

Included in other are legal costs in relation to litigation outside the normal course of business, including Box Clever, The Voice of Holland and CMA investigation, offset by income received on a COVID-19 insurance claim for costs that were treated as exceptional.

K. Acquisition-related (financing exceptional item)

In 2021, exceptional finance costs of £10 million related principally to interest accrued on exceptional acquisition-related expenses.

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 Consolidated 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 Consolidated Income Statement, the Consolidated 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 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 and judgement of the additional taxes that are likely to become due. Amounts are accrued based on management's interpretation of specific tax law and the likelihood of settlement. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made.

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 – Consolidated Income Statement

The total taxation charge in the Consolidated Income Statement is analysed as follows:

| | 2022 £m | 2021 £m |
|--|------------|------------|
| Current tax: | | |
| Current tax charge on profit before exceptional items | (38) | (108) |
| Current tax credit on exceptional items | 7 | 11 |
| | (31) | (97) |
| Adjustments related to prior periods | 9 | (7) |
| | (22) | (104) |
| Deferred tax: | | |
| Origination and reversal of temporary differences | (34) | 1 |
| Deferred tax credit on exceptional items | 1 | 5 |
| Impact of changes to statutory tax rates | (6) | (4) |
| | (39) | 2 |
| Adjustments related to prior periods | (5) | 10 |
| | (44) | 12 |
| Total taxation charge in the Consolidated Income Statement | (66) | (92) |

In order to understand how, in the Consolidated Income Statement, a tax charge of £66 million (2021: £92 million) arises on a profit before tax of £501 million (2021: £480 million), the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

| | 2022 £m | 2021 £m |
|---|------------|------------|
| Profit before tax | 501 | 480 |
| Notional taxation charge at UK corporation tax rate of 19% (2021: 19%) on profit before tax | (95) | (91) |
| Non-taxable income/non-deductible expenses | (15) | (9) |
| Overseas non-deductible exceptional expenses | – | (26) |
| Prior year adjustments | 4 | 3 |
| Other taxes | (8) | (7) |
| Current year losses not recognised | (8) | (1) |
| Impact of overseas tax rates | (1) | 10 |
| Impact of changes in tax rates | (6) | (4) |
| Movement on tax provisions | (1) | (5) |
| Production tax credits | 64 | 38 |
| Statutory taxation charge in the Consolidated Income Statement | (66) | (92) |

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 £9 million credit (2021: £7 million charge) relating to prior years, and the deferred tax charge includes a £5 million charge (2021: £10 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.

Other taxes of £8 million charge (2021: £7 million charge) includes state taxes of £4 million in the US, local taxes of £2 million in Germany, Italy and France plus £2 million of irrecoverable withholding tax in the UK.

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 2022, the total impact is £1 million charge (2021: £10 million credit) due to profits arising in higher tax jurisdictions.

The increase in the UK corporation tax rate from 19% to 25%, which is effective from 1 April 2023, will increase the Group's future current tax charge. A deferred tax liability has been calculated and the current year movement on the change in the tax rate is a £6 million charge through the Consolidated Income Statement and a £5 million charge through other comprehensive income or equity.

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.

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 Consolidated 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 13.2% (2021: 19.2%), and is the statutory tax charge on the face of the Consolidated Income Statement expressed as a percentage of the profit before tax. The tax rate is lower than in 2021 primarily due to the exceptional earnout charge in relation to the Talpa BV acquisition, which was not deductible for tax purposes and impacted the tax rate and an increase in production tax credits in the year. 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 20.1% (2021: 19.9%).

In 2022, the current year movement recognised in the Consolidated Income Statement on origination and reversal of temporary differences (excluding exceptional items) is a charge of £34 million, compared with a credit of £1 million in 2021.

Taxation – Other comprehensive income (OCI) and equity

As analysed in the table below a deferred tax charge of £23 million (2021: £2 million charge) has been recognised on actuarial movements on pensions. Other temporary differences recognised in other comprehensive income include, a deferred tax credit of £5 million (2021: charge of £1 million) on gilts, £1 million deferred tax credit on derivatives (2021: £4 million charge) and no deferred tax movement on the cost of hedging (2021: £2 million credit). A deferred tax charge of £7 million (2021: £2 million credit) has been recognised in equity in respect of share-based payments.

There has been no current tax recognised in other comprehensive income in the current period on foreign exchange movements net of hedging (2021: £3 million charge) or on pensions (2021: £11 million credit). There has been no current tax recognised in equity in the current period in relation to share-based compensation (2021: £nil).

Taxation – Consolidated Statement of Financial Position

The table below outlines the deferred tax assets/(liabilities) that are recognised in the Consolidated Statement of Financial Position, together with their movements in the year:

| | At 1 January 2022 £m | Recognised in the income statement £m | Recognised in OCI and equity £m | Other* £m | Foreign exchange £m | At 31 December 2022 £m |
|-----------------------------|-------------------------------|--|--|--------------|---------------------------|---------------------------------|
| Tangible assets | 4 | (3) | – | – | – | 1 |
| Intangible assets | (45) | 1 | – | (3) | (2) | (49) |
| Pension scheme | (6) | (27) | (23) | – | – | (56) |
| Tax losses | 32 | (8) | – | – | 3 | 27 |
| Share-based compensation | 11 | 5 | (7) | – | – | 9 |
| Other temporary differences | 29 | (12) | 6 | 4 | 3 | 30 |
| | 25 | (44) | (24) | 1 | 4 | (38) |

* £3 million of the movement in Other relates to business acquisitions

| | At 1 January 2021 £m | Recognised in the income statement £m | Recognised in OCI and equity £m | Foreign exchange £m | At 31 December 2021 £m |
|-----------------------------|-------------------------------|--|--|---------------------------|---------------------------------|
| Tangible assets | 8 | (3) | – | (1) | 4 |
| Intangible assets | (41) | (5) | – | 1 | (45) |
| Pension scheme | (5) | 1 | (2) | – | (6) |
| Tax losses | 35 | (3) | – | – | 32 |
| Share-based compensation | 8 | 1 | 2 | – | 11 |
| Other temporary differences | 9 | 23 | (3) | – | 29 |
| | 14 | 14 | (3) | – | 25 |

At 31 December 2022, the net deferred tax liability position is £38 million (2021: £25 million asset), consisting of total deferred tax assets of £133 million (2021: £134 million) and total deferred tax liabilities of £171 million (2021: £109 million). The Consolidated Statement of Financial Position presents deferred tax after netting off balances within countries – a deferred tax asset of £19 million and a deferred tax liability of £57 million (2021: deferred tax asset of £37 million and a deferred tax liability of £12 million).

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 temporary differences on the IAS 19 pension surplus and SDN and LTVC pension funding partnerships
- 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 financial instruments

The deferred tax balance associated with the pension surplus reflects the current tax benefit obtained in 2022 following the employer contributions to the Group's defined benefit pension scheme. The adjustment in other comprehensive income to the deferred tax balances relates to the actuarial gain recognised in the year.

A deferred tax asset of £27 million (2021: £32 million) has been recognised for tax losses where a full recovery is expected based on forecasted taxable profits. A deferred tax asset of £558 million (2021: £559 million) in respect of capital losses of £2,231 million (2021: £2,237 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 the deferred tax asset in respect of the capital losses compared to the prior year is due to the dissolution of two companies that held capital losses. Due to uncertainty over the timing and extent of their utilisation, the Group has not recognised deferred tax assets of £13 million (2021: £12 million) in respect of UK losses of £53 million (2021: £48 million), £19 million (2021: £15 million) in respect of overseas losses of £84 million (2021: £67 million) including £3 million in respect of losses that expire between 2023 and 2027 and £5 million (2021: £nil) in respect of other overseas short-term timing differences of £16 million.

Subsidiaries of ITV PLC Group have undistributed earnings of £26 million (2021: £16 million) which, if paid out as dividends, would be subject to tax in the hands of the recipient. An assessable temporary difference exists, but no deferred tax liability has been recognised as ITV PLC Group is able to control the timing of the distributions from these subsidiaries and is not expected to distribute these profits in the foreseeable future.

During 2021, the OECD published a framework for the introduction of a global minimum effective tax rate of 15%, applicable to large multinational groups. HM Treasury has published draft legislation to implement these 'Pillar Two' rules for accounting periods starting on or after 31 December 2023. The Group is reviewing these draft rules, which have not been substantively enacted, to understand any potential impacts.

On 17th November 2022, the UK government announced plans to reform the current system of AV tax credits and has opened a consultation on its proposals to merge the four existing AV schemes (film, high-end TV, children's TV and animation) into a single scheme and modernise the criteria for the high-end TV scheme. In addition, the government is proposing reform of the entire system, changing it from a system of tax relief to expenditure credits. The outcome of the consultation may change the economic value of high-end TV tax credits to ITV and the way they are claimed and accounted for. ITV has responded to the consultation and will continue to monitor future developments.

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 £428 million (2021: £378 million) divided by 4,010 million (2021: 4,005 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

| | 2022 | 2021 |
|--|--------------|-------|
| Profit for the year attributable to equity shareholders of ITV plc (£m) | 428 | 378 |
| Weighted average number of ordinary shares in issue – million | 4,010 | 4,005 |
| Basic earnings per ordinary share | 10.7p | 9.4p |

Diluted earnings per share

| | 2022 | 2021 |
|--|--------------|-------|
| Profit for the year attributable to equity shareholders of ITV plc (£m) | 428 | 378 |
| Weighted average number of ordinary shares in issue – million | 4,010 | 4,005 |
| Dilution due to share options | 36 | 46 |
| Total weighted average number of ordinary shares in issue – million | 4,046 | 4,051 |
| Diluted earnings per ordinary share | 10.6p | 9.3p |

Adjusted earnings per share

| | Ref. | 2022 £m | 2021 £m |
|---|------|--------------|------------|
| Profit for the year attributable to equity shareholders of ITV plc | | 428 | 378 |
| Exceptional items (net of tax) | A | 57 | 180 |
| Profit for the year before exceptional items | | 485 | 558 |
| Amortisation and impairment of acquired intangible assets | B | 45 | 37 |
| Loss on sale of subsidiaries and investments | C | – | 1 |
| Adjustments to net financing costs | D | – | 15 |
| Adjusted profit | | 530 | 611 |
| Total weighted average number of ordinary shares in issue – million | | 4,010 | 4,005 |
| Adjusted earnings per ordinary share | | 13.2p | 15.3p |

Diluted adjusted earnings per share

| | 2022 | 2021 |
|--|--------------|-------|
| Adjusted profit (£m) | 530 | 611 |
| Weighted average number of ordinary shares in issue – million | 4,010 | 4,005 |
| Dilution due to share options | 36 | 46 |
| Total weighted average number of ordinary shares in issue – million | 4,046 | 4,051 |
| Diluted adjusted earnings per ordinary share | 13.1p | 15.1p |

Details of the adjustments to earnings are as follows:

A. Exceptional items (net of tax) £57 million (2021: £180 million)

Exceptional items of £65 million (2021: £196 million), net of related tax credit of £8 million (2021: £16 million).

The exceptional items have been taxed in accordance with the tax treatment of the underlying transaction at the tax rate of the jurisdiction to which they relate. The £65 million exceptional charge comprises exceptional costs of £91 million and an exceptional credit of £26 million. £13 million of the exceptional costs were disallowed for tax purposes and so there is no associated tax credit. The £23 million exceptional credit related to the insured trade receivable provision held in the Netherlands released in the year for The Voice of China, which is taxed at 26%, and results in a tax charge of £6 million. The majority of the remaining net exceptional costs of £75 million were taxed at the UK tax rate of 19%, giving a tax credit of £14 million. See note 2.2 for the detailed composition of exceptional items

B. Amortisation and impairment of acquired intangible assets of £45 million (2021: £37 million)

Amortisation and impairment of assets acquired through business combinations and investments of £84 million (2021: £69 million), excluding amortisation of software licences and development of £27 million (2021: £20 million), net of related tax credit of £12 million (2021: £12 million)

C. Loss on sale of non-current assets and investments of £nil (2021: £1 million)

Loss on sale of investments of £nil (2021: £1 million), net of related tax credit of £nil (2021: related tax charge of £nil)

D. Adjustments to net financing costs £nil (2021: £15 million)

Adjustments to net financing costs includes exceptional finance costs of £nil (2021: £10 million) relating principally to interest accrued on exceptional acquisition-related expenses; foreign exchange, pension interest charges and the unwind of discounting on acquisition related liabilities of £nil (2021: £9 million), net of related tax credit of £nil (2021: £4 million)

Notes to the Financial Statements

Section 3: Operating Assets and Liabilities

3.1 Working capital

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.

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, contract assets and liabilities and production work in progress.

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 note, 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 Consolidated 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.

Programme rights

ITVX, our new, free, ad-funded streaming service (with a premium subscription proposition) launched in December 2022, combining ITV Hub, ITV Hub+ and BritBox UK. In preparation for the launch, the Group reviewed its policies around programme rights as ITVX has a wider variety of programming compared to the ITV Hub service. The policies reviewed included how the programme rights are allocated to linear and ITVX, when programme rights are recognised in the Consolidated Statement of Financial Position; when these costs are released to the Consolidated Income Statement; and the impairment review of the carrying values of programme rights held.

In order to establish the new policies, the Group set out to understand the pattern in which the programme right is expected to be consumed on linear and the new streaming platform. The Group then established a method to allocate the programme right asset between streaming and linear based on a pattern of viewing. Consumption of content varies based on the type of programme right as well as the type of platform it is transmitted on. Programme rights are expensed through operating costs reflecting the pattern in which management expects the right to be consumed.

| Type of programme | Streaming policy | Linear policy |
|-------------------------------------|---|--|
| Acquired content | Cost charged to the Income Statement on a declining-balance method over the licence period. | Cost charged to the Income Statement over a number of linear transmissions (episodic). |
| Commissioned content | Cost charged to the Income Statement on a declining-balance method over the licence period | Cost charged to the Income Statement on first linear transmission (episodic). |
| Sports rights | Cost charged to the Income Statement on first transmission. | Cost charged to the Income Statement on first linear transmission. |
| Current affairs, live events, soaps | Cost charged to the Income Statement on first transmission. | Cost charged to the Income Statement on first linear transmission. |
| Library of content (ITVX only) | Straight-line amortisation over licence windows. | |

Acquired programme rights are purchased for the primary purpose of broadcasting on the ITV family of channels, including ad-funded streaming service and subscription streaming service platforms. These are recognised within current assets the earlier of when payments are made or when the rights are ready for exploitation.

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.

The net realisable value assessment for acquired and commissioned rights (excluding sports rights) is based on estimated airtime value. 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.

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

| | 2022 £m | 2021 £m |
|---------------------------|------------|------------|
| Acquired programme rights | 225 | 177 |
| Commissions | 103 | 78 |
| Sports rights | 49 | 58 |
| | 377 | 313 |

£6 million relates to stock that will be transmitted in 2024 and beyond (2021: £13 million transmitted in 2023 and beyond)

Included within programme rights and other inventory is £49 million (2021: £58 million) relating to programme rights that have been paid for but that are not yet in licence. These amounts are considered to be prepayments but are included within programme rights and other inventory as it is more useful to the reader to show all such rights together.

Following the passing of Her Majesty Queen Elizabeth II in September 2022, the business has written off remaining Spitting Image episodes featuring the Queen (£9 million) as it is highly unlikely they will ever be screened and are unable to be effectively edited.

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.

The application of IFRS 16 'Leases' requires judgement regarding the classification of transmission commitments. The Group has concluded that these contracts do not constitute leases as defined in IFRS 16 as the Group does not control these assets due to the nature of the operation of the assets and the rights retained by the supplier under the contracts.

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 including ITVX and on BritBox UK.

The Group has onerous contract provisions of £34 million (2021: £32 million) in respect of transponder capacity usage and sports rights commitments. See note 3.6 for further details.

Commitments in respect of these transactions, which are not reflected in the Consolidated Statement of Financial Position, are due for payment as follows:

| 2022 | Transmission £m | Programme £m | Total £m |
|--|--------------------|-----------------|-------------|
| Within one year | 25 | 466 | 491 |
| Later than one year and not more than five years | 19 | 349 | 368 |
| | 44 | 815 | 859 |

| 2021 | Transmission £m | Programme £m | Total £m |
|--|--------------------|-----------------|-------------|
| Within one year | 25 | 552 | 577 |
| Later than one year and not more than five years | 43 | 488 | 531 |
| | 68 | 1,040 | 1,108 |

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 Consolidated 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:

| | 2022 £m | 2021 £m |
|---------------------|------------|------------|
| Distribution rights | 17 | 21 |

During the year, £25 million was charged to the Consolidated Income Statement (2021: £46 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.

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

To measure expected credit losses, trade receivables and contract assets have been grouped by shared credit risk characteristics and days past due. As part of the expected credit losses, the Group may make additional provisions for the receivables of particular customers if the deterioration of financial position was observed. The carrying value of trade receivables is considered to approximate fair value. Trade and other receivables can be analysed as follows:

| | 2022 £m | 2021 £m |
|--|------------|------------|
| Due within one year: | | |
| Trade receivables | 476 | 434 |
| Other receivables | 162 | 107 |
| Prepayments | 54 | 48 |
| | 692 | 589 |
| Due after more than one year: | | |
| Trade receivables | 24 | 33 |
| Other receivables | 20 | 9 |
| | 44 | 42 |
| Total trade and other receivables | 736 | 631 |

£500 million (2021: £467 million) of total trade receivables, stated net of provisions for impairment, are aged as follows:

| | 2022 £m | 2021 £m |
|--------------------------------|------------|------------|
| Current | 437 | 427 |
| Up to 30 days overdue | 34 | 26 |
| Between 30 and 90 days overdue | 20 | 10 |
| Over 90 days overdue | 9 | 4 |
| | 500 | 467 |

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

| | 2022 £m | 2021 £m |
|-------------------------|------------|------------|
| At 1 January | 43 | 46 |
| Charged during the year | 14 | 6 |
| Unused amounts reversed | (33) | (9) |
| At 31 December* | 24 | 43 |

* £8 million (2021: £7 million) of the provision relates to contract assets and is included in the balance disclosed in note 3.1.6.

Of the provision total, £22 million relates to balances overdue by more than 90 days (2021: £41 million) and less than £1 million relates to current balances (2021: less than £2 million).

£5 million (2021: £30 million) of the provision relates to the overdue receivable for The Voice of China. During the year, the review of cash received in 2018 and 2019 was completed and the provision unwound with a credit in exceptional items, consistent with the original treatment (see note 2.2). For the remaining amount, discussions with the credit insurers remain in progress, as a result the Group is not yet able to demonstrate sufficient certainty to be able to recognise a receivable at 31 December 2022.

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:

| | 2022 £m | 2021 £m |
|--|------------|------------|
| Trade payables | 141 | 91 |
| VAT and social security | 38 | 60 |
| Other payables | 146 | 122 |
| Acquisition-related liabilities – employment-linked contingent consideration | 2 | 3 |
| Acquisition-related liabilities – payable to sellers under put options agreed on acquisition | 1 | 22 |
| Accruals | 573 | 551 |
| | 901 | 849 |

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:

| | 2022 £m | 2021 £m |
|--|------------|------------|
| Trade payables | 17 | 18 |
| Other payables | 28 | 28 |
| Acquisition-related liabilities – employment-linked contingent consideration | 6 | 6 |
| Acquisition-related liabilities – payable to sellers under put options agreed on acquisition | 38 | 33 |
| | 72 | 67 |
| Total trade and other payables due after more than one year | 89 | 85 |

Trade payables due after more than one year relates primarily to royalties in both 2022 and 2021. Other payables due after more than one year relates primarily to film creditors of £22 million (2021: £17 million).

Acquisition-related liabilities or performance-based employment-linked earnouts are the estimated amounts payable to previous owners. The estimated future payments that are accrued over the period the sellers are required to remain with the business are treated as exceptional costs (see note 2.2). 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 2022 were £47 million (2021: £64 million) which represents the amount accrued to date at their time discounted value. The total undiscounted estimated future payments of £89 million (2021: £79 million) are sensitive to forecast profits as they are based on a multiple of earnings. The range of reasonably possible outcomes for the undiscounted liability is between £74 million and £177 million. The liabilities due after more than one year are expected to be settled between 2024 and 2028.

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.

3.1.6 Contract assets and liabilities

Contract assets (accrued income) primarily relate to the Group's right to consideration for work unbilled at the reporting date. Many of the programmes the Studios division produces are sold internationally and also used within the ITV network.

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:

| | 2022 | | 2021 | |
|---|-----------------------|----------------------------|--|----------------------------|
| | Contract assets £m | Contract liabilities £m | Re-presented ¹ Contract assets £m | Contract liabilities £m |
| Balance at 1 January | 189 | (359) | 155 | (271) |
| Decrease due to balance transferred to trade receivables | (180) | – | (140) | – |
| Increases as a result of the changes in the measure of progress | 170 | – | 174 | – |
| Decreases due to revenue recognised in the period | – | 405 | – | 260 |
| Increase due to cash received | – | (383) | – | (348) |
| Acquisitions | 6 | (35) | – | – |
| Balance at 31 December ² | 185 | (372) | 189 | (359) |

1 Production work in progress has been re-presented on the face of the Statement of Financial Position. The balance was previously included within contract assets. In 2021.

2 Contract assets is stated net of provisions for impairment of £8 million (2021: £7 million) which have been included in the reconciliation in note 3.1.3. Non-current contract assets of £nil (2021: £6 million) is included in the above reconciliation.

3.1.7 Production work in progress

Production work in progress relates to costs capitalised by ITV Studios in the course of fulfilling production contracts. These costs are capitalised when they relate directly to a contract or to a specifically identifiable anticipated contract, the costs generate or enhance the resources of the entity that will be used in satisfying or continuing to satisfy performance obligations in the future, and the costs are expected to be recovered.

These costs are presented as production work in progress assets and represent actual costs incurred on the production. The asset is amortised as the performance obligations are satisfied. Production work in progress was previously included within contract assets; however, has been re-presented separately due to its differing nature to contract assets.

Production work in progress at the year end is detailed below:

| | 2022 £m | 2021 £m |
|-----------------------------|------------|------------|
| Production work in progress | 493 | 360 |

During the year, £368 million was charged to the Consolidated Income Statement for completed productions delivered (2021: £264 million).

3.1.8 Working capital management

Cash and working capital management has been a critical area of focus during 2022 and 2021. During the year, the cash outflow from working capital was £150 million (2021: outflow of £141 million) derived as follows:

| | 2022 £m | 2021 £m |
|--|--------------|--------------|
| Increase in programme rights and distribution rights | (70) | (6) |
| Increase in receivables and contract assets | (133) | (270) |
| Increase in payables and contract liabilities | 53 | 135 |
| Working capital outflow | (150) | (141) |

3.2 Property, plant and equipment

Keeping it simple

The following note 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 or for right of use assets, the discounted future lease payments. A depreciation expense is charged to the Consolidated 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 the business 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 note 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.

Property, plant and equipment

Property, plant and equipment can be analysed as follows:

| | Freehold land and buildings £m | Improvements to leasehold land and buildings Long £m | Short £m | Vehicles, equipment and fittings Owned £m | Right of use assets £m | Total £m |
|-----------------------------|--------------------------------------|---|-------------|---|---------------------------------|-------------|
| Cost | | | | | | |
| At 1 January 2021 | 12 | 80 | 28 | 222 | 147 | 489 |
| Additions | 1 | 8 | — | 12 | 13 | 34 |
| Reclassifications | — | — | (2) | 5 | — | 3 |
| Foreign exchange | — | — | — | (1) | (1) | (2) |
| Disposals and retirements | (1) | (1) | — | (3) | (5) | (10) |
| At 31 December 2021 | 12 | 87 | 26 | 235 | 154 | 514 |
| Additions | — | 2 | — | 33 | 57 | 92 |
| Additions from acquisitions | — | — | — | 4 | 1 | 5 |
| Foreign exchange | — | 2 | — | 4 | 6 | 12 |
| Disposals and retirements | — | (6) | — | (62) | (10) | (78) |
| At 31 December 2022 | 12 | 85 | 26 | 214 | 208 | 545 |
| Depreciation | | | | | | |
| At 1 January 2021 | 2 | 22 | 16 | 117 | 47 | 204 |
| Charge for the year | — | 4 | 1 | 37 | 25 | 67 |
| Reclassifications | (2) | — | 2 | — | — | — |
| Foreign exchange | — | — | — | — | (1) | (1) |
| Disposals and retirements | — | (1) | — | (2) | (7) | (10) |
| At 31 December 2021 | — | 25 | 19 | 152 | 64 | 260 |
| Charge for the year | 1 | 3 | 1 | 31 | 25 | 61 |
| Foreign exchange | — | — | — | 3 | 2 | 5 |
| Disposals and retirements | — | (1) | — | (62) | (4) | (67) |
| At 31 December 2022 | 1 | 27 | 20 | 124 | 87 | 259 |
| Net book value | | | | | | |
| At 31 December 2022 | 11 | 58 | 6 | 90 | 121 | 286 |
| At 31 December 2021 | 12 | 62 | 7 | 83 | 90 | 254 |

Included within property, plant and equipment are assets in the course of construction of £34 million (2021: £17 million).

Included within the depreciation charge for the year of £61 million (2021: £67 million) is £8 million (2021: £8 million) in respect of accelerated depreciation following a change in useful life of the related assets in relation to the move to a new London site. This depreciation has been included in exceptional items. See note 2.2 for further details.

Included in net book value of right of use assets is £121 million (2021: £89 million) related to properties and £nil (2021: £1 million) relating to vehicles, equipment and fittings.

Capital commitments

The Group has capital commitments of £11 million at 31 December 2022 (2021: £6 million). In 2021, the Group reported capital commitments of £45 million for the right of use assets for lease agreements on the move to Broadcast Centre. This commitment has been recognised as an addition to right of use assets during the year.

3.3 Intangible assets

Keeping it simple

The following note identifies 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 Consolidated 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 note 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. Goodwill is stated at its recoverable amount being cost less any accumulated impairment losses and is allocated to the business to which it relates.

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. The identification of acquired assets and liabilities and the allocation of the purchase price to them is considered a key judgement and is based on the Group's understanding and experience of the media business. 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 Consolidated Income Statement. The determination of fair value is based on an estimate of 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.

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 | 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 |
| Customer relationships | Straight-line | 5 to 10 years | 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 |
| Contractual arrangements | Straight-line | up to 13 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. Public service broadcasting (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 |

Cloud computing arrangements

Cloud computing arrangements are reviewed to determine if they are within the scope of IAS 38 'Intangible Assets', IFRS 16 'Leases', or a service contract. This is to determine if the Group has control of the software intangible asset. Control is assumed if the Group has the right to take possession of the software and run it on its own or a third-party's computer infrastructure or if the Group has exclusive rights to use the software whereby the supplier cannot make the software available to other customers.

Configuration of the software involves the setting of various flags or switches within the application software or defining values to set up the software's existing code to function in a specified way. Customisation involves modifying the software code in the application or writing additional code. Customisation generally changes or creates additional functionalities within the software. In both situations, the Group also needs to assess if there is a separate intangible asset. If no separate intangible asset is identified, then these costs are expensed when incurred. If an asset is identified, it is capitalised and amortised over the life of the asset.

Fair value on acquisition

Determining the fair value of the purchase consideration allocated to 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 that reflects 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 Consolidated 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 Consolidated 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 Consolidated 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 identification of the relevant CGUs for assessing impairment of goodwill is considered a key judgement. The Directors have identified three CGUs, Media & Entertainment, ITV Studios and SDN.

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.

There is a wide range of potential outcomes regarding the possible future performance of each of ITV Group's cash-generating units, Media & Entertainment, ITV Studios and SDN. In the impairment review the Directors used the scenarios utilised for the viability statement. The Directors, however, do not consider that any reasonably possible changes in the key assumptions would cause the recoverable amount of the Group's cash-generating units to fall below their carrying values and therefore they are not considered key sources of estimation uncertainty.

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 2021 | 3,895 | 547 | 441 | 11 | 176 | 103 | 228 | 5,401 |
| Additions | — | — | — | — | — | — | 15 | 15 |
| Acquisitions | 1 | — | 1 | — | — | — | — | 2 |
| Reclassifications | — | — | — | — | — | — | (3) | (3) |
| Foreign exchange | (3) | (20) | (1) | — | — | 1 | — | (23) |
| At 31 December 2021 | 3,893 | 527 | 441 | 11 | 176 | 104 | 240 | 5,392 |
| Additions | — | — | — | — | — | — | 44 | 44 |
| Acquisitions | 107 | 1 | 13 | — | — | — | — | 121 |
| Disposals | — | — | — | — | — | — | (5) | (5) |
| Foreign exchange | 37 | 21 | 8 | — | — | 2 | 1 | 69 |
| At 31 December 2022 | 4,037 | 549 | 462 | 11 | 176 | 106 | 280 | 5,621 |
| Amortisation and impairment | | | | | | | | |
| At 1 January 2021 | 2,654 | 435 | 427 | 11 | 124 | 91 | 114 | 3,856 |
| Charge for the year | — | 41 | 5 | — | 5 | 1 | 20 | 72 |
| Reclassifications | — | — | — | — | — | — | — | — |
| Foreign exchange | — | (16) | 1 | — | — | 1 | — | (14) |
| At 31 December 2021 | 2,654 | 460 | 433 | 11 | 129 | 93 | 134 | 3,914 |
| Charge for the year | — | 41 | 6 | — | 2 | — | 27 | 76 |
| Disposals | — | — | — | — | — | — | (5) | (5) |
| Foreign exchange | — | 19 | 7 | — | — | — | 1 | 27 |
| At 31 December 2022 | 2,654 | 520 | 446 | 11 | 131 | 93 | 157 | 4,012 |
| Net book value | | | | | | | | |
| At 31 December 2022 | 1,383 | 29 | 16 | — | 45 | 13 | 123 | 1,609 |
| At 31 December 2021 | 1,239 | 67 | 8 | — | 47 | 11 | 106 | 1,478 |

Goodwill impairment tests

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

| | 2022 £m | 2021 £m |
|-----------------------|--------------|--------------|
| ITV Studios | 921 | 777 |
| Media & Entertainment | 386 | 386 |
| SDN | 76 | 76 |
| | 1,383 | 1,239 |

There has been no impairment charge for any CGU during the year (2021: £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 1.5% (2021: 2%). 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 and Plimsoll in 2022.

The key assumptions on which the forecast cash flows for the whole CGU were based (as represented by the approved financial budget for 2023 and forecast to 2025) 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.

A pre-tax discount rate of 10.5% (2021: 8.4%) has been used in discounting the projected cash flows. No reasonably possible change in assumptions or discount rate would lead to an impairment.

Media & Entertainment

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. Media & Entertainment 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 (as represented by the approved financial budget for 2023 and forecast to 2025) 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 Media & Entertainment goodwill is the size of the television and streaming advertising market. In forming its assumptions about the television and streaming 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.

An impairment charge of £2,309 million was recognised in the Media & Entertainment 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 impaired 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 discount rate of 10.4% (2021: 8.4%) has been used in discounting the projected cash flows. No reasonably possible change in assumptions or discount rate would lead to an impairment.

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. SDN's multiplex licence was renewed during 2022 and expires in 2034.

The main assumptions on which the forecast cash flows are based (as represented by the approved financial budget for 2023 and forecast to 2025) 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.

A pre-tax discount rate of 9.4% (2021: 11.7%) has been used in discounting the projected cash flows. No reasonably possible change in assumptions or discount rate would lead to an impairment.

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.

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.

Accounting policies

The Group measures the cost of the acquisition at the fair value of the consideration paid; allocates that cost to the acquired identifiable assets and liabilities based on their fair values; and allocates the rest of the cost to goodwill.

The Group also recognises any excess of acquired assets and liabilities over the consideration paid in the Consolidated Income Statement immediately.

IFRS accounting standards require that when consideration is based on future performance, some of this consideration is 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 recognised as a liability or expense outside of acquisition accounting (put option liabilities and employment-linked contingent payments known as 'earnout' payments).

Where a payment is employment-linked, it is treated as a cash-settled share based payment. The liability is measured at fair value taking into account the terms and conditions of the arrangement and the extent to which employees have rendered service to date. The liability is remeasured at each reporting date with changes in the carrying value recognised in the Income Statement for the period.

The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. The valuation choice is made on an acquisition by acquisition basis.

Acquisitions in the current year

The Group made two acquisitions in the current period. Consideration including net cash and debt acquired was £115 million for these businesses, which are now reported 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. Details of the acquisitions are included below:

Escapade Bidco Limited (Plimsoll Productions)

On 1 July 2022, the Group completed an acquisition of a majority shareholding of Plimsoll Productions (through its holding company Escapade Bidco Limited), the largest independent producer of natural history programmes in the world and a growing premium factual producer. This acquisition is a further milestone in ITV's strategy of expanding its international content business. It further diversifies ITV Studios production base and will enable ITV to take advantage of the strong demand for content across the ever-popular natural history and factual genres. Plimsoll Productions has a strong network with all of the global streamers and this acquisition will strengthen and deepen ITV Studios relationships with the streamers.

Key terms:

At acquisition, the Group made a total payment of £103 million for the purchase of Plimsoll Productions. The total payment was split between an acquisition of shares from the vendors of £20 million and a subscription for new shares of £83 million. The cash generated from the share subscription was used to repay £65 million of loan notes held by the vendors and external debt of £18 million.

Under IFRS 3 'Business Combinations', only the amount paid to the vendors for shares acquisition (£20 million) is treated as consideration. However, as the debt has been repaid as part of the acquisition agreement, the entire cash outflow of £103 million is treated as cost of acquisition in the cash flow statement.

Based on the assessment of non-controlling interest, the Group has control over 93.07% of the business acquired and a non-controlling interest of £4 million has been recognised. Put and call options are in place over the remaining shareholding, with an exercise price based on a multiple of the average EBITA for the years 2023 to 2027.

The maximum total potential consideration, including the initial payment and the additional subscription of shares, is £183 million (undiscounted). This includes put and call options over the non-controlling interests and earnouts. These additional earnout payments are dependent on future performance of the business and linked to ongoing employment, therefore are accounted for as expense. The Group considers these payments as capital in nature, and therefore expenses in relation to these payments are excluded from adjusted profits as exceptional items.

Acquisition accounting:

The Group is still completing its valuation of the intangible and tangible assets acquired with the business. Provisional amounts have been recognised in the Group results and Statement of Financial Position at 31 December 2022 with the surplus of consideration over the current fair value of the share of net assets acquired allocated to goodwill. The Group expects to complete the valuation of intangible assets and other acquired assets and liabilities in the first half of 2023. The value of goodwill will be adjusted by a corresponding amount for the value of intangible assets identified and the difference between the market and book values of the assets and liabilities.

Provisional intangible assets, being the value placed on formats, brands, customer contracts, non-compete arrangements and libraries, of £13 million were identified and goodwill was valued at £103 million. Goodwill represents the value placed on the opportunity to diversify and grow the content.

The Group recognised the non-controlling interests at fair value with a put liability of £4 million being recognised at acquisition. Performance-based employment-linked earnouts will be accrued over the period the sellers are required to remain with the business and will be treated as exceptional costs.

Effect of acquisition

The provisional amounts recognised in respect of the estimated fair value of identifiable assets and liabilities have been included below:

| | 2022 Total £m |
|--|---------------------|
| Consideration transferred: | |
| Initial consideration | 20 |
| Total consideration | 20 |
| Draft fair value of net assets acquired: | |
| Cash | 11 |
| Intangible assets | 13 |
| Deferred tax liabilities | (2) |
| Property, plant and equipment | 4 |
| Deferred tax assets | 1 |
| Production work in progress | 20 |
| Trade and other receivables | 16 |
| Contract assets | 3 |
| Trade and other payables | (17) |
| Lease liabilities | (3) |
| Contract liabilities | (27) |
| Borrowings | (98) |
| Fair value of net liabilities acquired | (79) |
| Non-controlling interest measured at fair value | 4 |
| Goodwill | 103 |
| Purchase consideration – cash outflow | |
| Cash consideration | 20 |
| Additional cash invested to repay loans on acquisition | 83 |
| Total cash paid on acquisition | 103 |
| Cash acquired | (11) |
| Net cash outflow – investing activities | 92 |
| Other information | |
| Present value of the expected liability on put options | 4 |
| Contributions to the Group's performance: | |
| From date of acquisition | |
| Revenue | 32 |
| EBITA before exceptional items | 3 |
| Operating profit | 3 |
| Proforma – January to December | |
| Revenue | 48 |
| EBITA before exceptional items | 3 |
| Operating profit | 3 |

Acquisition costs charged to operating exceptional items in the Consolidated Income Statement amounted to £4 million for financial due diligence and legal costs.

3.5 Investments

Lingo Pictures Pty Limited (Lingo Pictures)

On 31 October 2022, the Group completed an acquisition of a majority shareholding (51%) of Lingo Pictures Pty Limited, a multi-award winning Australian production company. Lingo Pictures is the Groups' first Australian scripted label. The Group paid £6 million cash consideration for £2 million net cash and net assets of £nil. Based on the assessment of non-controlling interest, the Group has control over 100% of the business acquired. Performance-based employment-linked earnouts will be accrued over the period the sellers are required to remain with the business and will be treated as exceptional costs. Provisional amounts have been recognised in these financial information, resulting in goodwill recognition of £4 million. The acquisition accounting is expected to be finalised in the first half of 2023.

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 Consolidated 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 initially at cost as a proxy for fair value.

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

| | Joint ventures £m | Associates £m | Equity investments £m | Total £m |
|------------------------------------|----------------------|------------------|--------------------------|-------------|
| At 1 January 2021 | 24 | 52 | 1 | 77 |
| Additions | 4 | 8 | 3 | 15 |
| Share of profits/(losses) | 14 | (2) | — | 12 |
| Impairments/fair value adjustments | — | (7) | — | (7) |
| Foreign exchange | 1 | — | — | 1 |
| At 31 December 2021 | 43 | 51 | 4 | 98 |
| Additions | 5 | 6 | 7 | 18 |
| Share of profits | 7 | 1 | — | 8 |
| Impairments/fair value adjustments | — | (4) | — | (4) |
| Foreign exchange | 4 | 6 | — | 10 |
| At 31 December 2022 | 59 | 60 | 11 | 130 |

Significant investments in joint ventures include £48 million (2021: £34 million) invested in BritBox LLC in the US. The Group's associates include £38 million (2021: £31 million) relating to a 45% investment in Blumhouse TV Holdings LLC, a film and television production company in the US. The equity investments relate primarily to Group's Media for Equity programme. BritBox LLC is the only investment which is considered material to the Group.

The following table provides summarised unaudited financial information for BritBox LLC aligned to the ITV Group's 31 December year end, prepared by BritBox LLC management. BritBox LLC has a financial year ending on 31 March.

| Summarised balance sheet: BritBox LLC | 2022 £m | 2021 £m |
|---------------------------------------|------------|------------|
| Current assets | | |
| Cash and cash equivalents | 55 | 37 |
| Other current assets | 146 | 58 |
| Total current assets | 201 | 95 |
| Non-current assets | 6 | 4 |
| Total assets | 207 | 99 |
| Current liabilities | | |
| Other current liabilities | (109) | (28) |
| Total current liabilities | (109) | (28) |
| Non-current liabilities | | |
| Other non-current liabilities | (5) | (5) |
| Total non-current liabilities | (5) | (5) |
| Total liabilities | (114) | (33) |
| Net assets | 93 | 66 |

| | 2022 £m | 2021 £m |
|-------------------------------------|------------|------------|
| Reconciliation to carrying amounts: | | |
| Opening net assets 1 January | 66 | 31 |
| Profit for the period | 18 | 34 |
| Foreign exchange impact | 9 | 1 |
| Closing net assets | 93 | 66 |
| Group's share in % | 50% | 50% |
| Group's share in £m | 47 | 33 |
| Goodwill | 1 | 1 |
| Carrying amount | 48 | 34 |

| Summarised statement of comprehensive income: BritBox LLC | 2022 £m | 2021 £m |
|---|------------|------------|
| Revenue | 126 | 86 |
| Depreciation and amortisation | (2) | (1) |
| Income tax expense* | (1) | (1) |
| Profit from continuing operations | 18 | 34 |
| Profit for the period | 18 | 34 |

* Income tax expense relates to state taxes only. The joint venture partners separately account for and pay their share of income taxes on their share of profits.

Please refer to the list of principal investments held at 31 December 2022.

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 Consolidated 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 Consolidated 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 1 January 2022 | 32 | 6 | 107 | 145 |
| Additions | 17 | 4 | 20 | 41 |
| Utilised | (10) | (1) | (2) | (13) |
| Released | (5) | — | — | (5) |
| Foreign exchange | — | — | 1 | 1 |
| At 31 December 2022 | 34 | 9 | 126 | 169 |

Analysed between:

| | | | | |
|-------------|----|---|-----|-----|
| Current | 16 | — | 123 | 139 |
| Non-current | 18 | 9 | 3 | 30 |

Provisions of £139 million are classified as current liabilities (2021: £120 million). Unwind of the discount is £nil in 2022 and 2021.

Contract provisions £34 million (2021: £32 million)

Contract provisions represent liabilities in respect of onerous contracts in relation to individual sports rights of £17 million (2021: £5 million) and transmission capacity supply contracts of £17 million (2021: £27 million).

Sports rights

The Group recognises provisions for onerous contracts for individual sports rights when estimated revenues for individual sports rights are less than the value of the rights held. The provision is sensitive to the changes in the sporting schedule and consequential impact on TAR. In calculating the onerous contract provision for sports rights, 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.

The provision held at 31 December 2022 is £17 million (2021: £5 million). The provision was increased by £17 million in the year (2021: £1 million). £nil (2021: £14 million) has been utilised during the year and £5 million (2021: £nil) was released due to certain sporting events being cancelled and a refund issued to the Group. The remaining provision is expected to be utilised between 2023 and 2025.

Transponders

In 2020 and 2021, the Group reviewed the efficiency of its transponder capacity usage with a view to reducing capacity requirements. This has allowed the Group to reorganise channels over fewer transponders with the result that all channels have been cleared from two transponders. They are no longer utilised and are therefore not generating revenues.

Management has applied judgement in its assessment that the individual element of the contract is separable from the remaining elements of the contract, which are not considered onerous. The contracted future commitment to October 2024 was therefore recognised as a provision in 2020 and 2021 as there are no future economic benefits expected.

The total provision for onerous contracts at 31 December 2022 is £17 million (2021: £27 million). £10 million of the provision was utilised during the year (2021: £7 million).

Property provisions £9 million (2021: £6 million)

These provisions primarily relate to expected dilapidation costs at the Group's rental properties.

Legal and other provisions £126 million (2021: £107 million)

Represents provisions for potential liabilities and their related legal costs. These include £52 million (31 December 2021: £52 million) for the potential liability that may arise as a result of the Box Clever Financial Support Directions (FSDs) issued by the Pensions Regulator (tPR), employee-related tax and other provisions of £59 million (2021: £39 million) and other legal and related costs, including provisions related to The Voice of Holland.

Box Clever Pension Scheme

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 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. 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 which could take several years to resolve.

At 31 December 2003, the Scheme was estimated to have had a deficit on a buyout basis of £25 million. An estimate of the deficit in the Box Clever Group Pension Scheme was calculated at £110 million as at 30 April 2020. 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. This estimate has been updated based on 31 December 2022 market conditions and has reduced to £80 million primarily due to the increase in gilt yields and recent changes in inflation. All 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.

As reported in the interim statement, the Group received a warning notice from tPR that it was considering exercising its power to issue a contribution notice for the amount of £133 million which is based on a buyout estimate as at 31 March 2021 provided by the Scheme's actuarial adviser, plus a prudent margin. The Group responded to the warning notice on 31 October 2022.

There remains a significant number of undecided issues as to the quantum and form of financial support and the Directors continue to believe there are many important factors which need to be taken into account in any decision, and therefore there remains uncertainty around the financial support to be provided. The provision remains at £52 million, and represents the offer made to settle the matter and is based on an IAS 19 valuation to transfer certain liabilities into the existing ITV pension scheme, which we consider to be the most likely form of settlement. We remain willing to engage with tPR to resolve the matter.

Employee-related

The determination of the employment tax status of some individuals contracted by the Group is complex. In March 2021, HMRC issued an initial assessment on several individuals engaged by the Group during the tax year 2016/17 as employed for tax purposes. In June 2021, HMRC updated guidance on factors determining the employment tax status of TV and Radio presenters. Landmark court cases were heard by the Court of Appeal in early 2022. Whilst the Group was not involved in these cases, judgements handed down impact how employment tax status is being determined for TV and Radio presenters generally. These judgements will therefore have a bearing on how much tax might be payable by the Group.

During 2022, we have further reviewed the provision, which has resulted in an increase in the provision of £20 million, of which £10 million relates to periods up to 31 December 2021 and is therefore considered exceptional. The increase largely relates to where the Group believes the case for self-employment has weakened in light of recent case law and HMRC's hardening stance.

Due to ongoing reviews by HMRC and court cases on this matter, the final amount payable could be significantly different to the £56 million currently provided (2021: £36 million). It is difficult to provide a range for the expected final amount payable as case law is continually evolving on this matter, particularly in relation to Front of Camera presenters. Very few cases have reached the higher courts and fact patterns can be very different in individual cases, so determination of employment status for tax purposes remains very subjective.

A further £3 million (2021: £3 million) is provided in relation to other employment related matters.

The Voice of Holland

In early 2022 allegations of inappropriate behaviour on the set of The Voice of Holland were made public, resulting in a mid-season suspension of series 12. A provision has been made to cover the committed costs relating to the series in production and other costs. An external investigation of the allegations is currently ongoing. While unquantifiable at present, there may be further financial impact on the Group.

Other

Other provisions relate to historical environmental provisions in relation to our production sites, closure costs and provision for legal fees for other ongoing litigation.

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 these financial information, but is reflected on the defined benefit pension surplus or 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 (which drives cash funding requirements) was calculated for the last triennial valuation as of 31 December 2019 for Section A of the ITV Pension Scheme, 1 January 2020 for Section C of the ITV Pension Scheme and 30 June 2020 for the UTV Pension Scheme.

Accounting policies

Defined contribution scheme

Obligations under the Group's defined contribution schemes are recognised as an operating cost in the Consolidated Income Statement as incurred. For 2022, total contributions expensed were £29 million (2021: £26 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 Pension 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 note. 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 Consolidated 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 (or funding deficit) is calculated per the last triennial valuation.

The latest triennial valuation of Section A of the ITV Pension Scheme was undertaken as at 31 December 2019 by an independent actuary appointed by the Trustee of the Scheme and agreed in early 2022. The funding deficit of Section A of the ITV Pension Scheme as at 31 December 2019 amounted to £252 million, down from £489 million at 1 January 2017. The Group has revised the existing deficit reduction contributions to eliminate the deficit.

The IAS 19 surplus or deficit does not drive the deficit funding contribution. Following the latest triennial valuation of Section A of the ITV Pensions Scheme, ITV paid deficit reduction contributions of £40 million in 2022, and expects the deficit reduction contributions to be £43 million in 2023, £48 million in 2024 and £28 million in 2025. The next triennial valuation will be as at 31 December 2022. This will determine subsequent contribution rates.

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 £47 million (2021: £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 Pension Scheme within this note combined with the existing ITV Schemes. In November 2021, the triennial valuation of the UTV Pension Scheme at 30 June 2020 was completed. The Scheme had assets of £140 million as at the valuation date and £136 million of liabilities resulting in an agreed Technical Provisions funding surplus of £4 million and hence there are no deficit contributions payable. The next triennial valuation will be as at 30 June 2023.

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

The defined benefit pension surplus/(deficit) (under IAS 19)

Net pension surplus of £192 million at 31 December 2022 (2021: net pension deficit of £8 million) is stated after including the unfunded scheme security asset of £47 million (2021: £62 million). The totals recognised in 2022 and 2021 are:

| | 2022 £m | 2021 £m |
|---|------------|-------------|
| Total defined benefit scheme obligations | (2,292) | (3,943) |
| Total defined benefit scheme assets | 2,437 | 3,873 |
| Defined benefit pension surplus/(deficit) (IAS 19) | 145 | (70) |
| Presented as: | | |
| Defined benefit pension surplus* | 172 | 26 |
| Defined benefit pension deficit | (27) | (96) |
| Defined benefit pension surplus/(deficit) (IAS 19) | 145 | (70) |
| Other pension asset | 47 | 62 |
| Net pension surplus/(deficit) | 192 | (8) |

* Included with the defined benefit pension surplus is the UTV Scheme. The defined benefit scheme assets in the UTV Scheme were valued at £94 million as at 31 December 2022 (2021: £142 million) and the defined benefit scheme obligations were £85 million (2021: £116 million).

The following notes provide further detail on the value of the Schemes' assets and liabilities, how these are accounted for and their 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 note. This interest cost is recognised through net financing costs in the Consolidated 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 note. Actuarial gains or losses are recognised through other comprehensive income
- **Benefits paid** – any cash benefits paid out by the Scheme will reduce the obligation

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

| | 2022 £m | 2021 £m |
|--|--------------|--------------|
| Defined benefit obligation at 1 January | 3,943 | 4,120 |
| Interest cost | 63 | 54 |
| Actuarial gain | (1,119) | (44) |
| Settlement payments from plan assets – buyout of Section C | (439) | – |
| Benefits paid | (156) | (187) |
| Defined benefit obligation at 31 December | 2,292 | 3,943 |

Of the above total defined benefit obligation at 31 December 2022 £40 million relates to the unfunded schemes (2021: £60 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 remains with the scheme.

In April 2022, the Trustee completed a buyout of Section C, which in practical terms split the bulk annuity policy into individual annuity policies for each scheme member. At that time, the relevant scheme assets were transferred to the insurance company, which became responsible for paying the pensions and therefore it removed those liabilities from the pension scheme, represented by 'settlement payments from plan assets – buyout of Section C' in the table above. The value of the assets and liabilities settled was equal and therefore the settlement cost was £nil. The buyout represents a full and definitive settlement of the liabilities insured, which as at 31 December 2021 represented around 13% of ITV's total defined benefit obligation on the IAS 19 accounting basis.

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 and the effect of inflation
- The life expectancy of beneficiaries
- 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 12 years (2021: 15 years).

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

| | 2022 | 2021 |
|---|--------------------------------|------------------------|
| Discount rate | 5.05% | 1.80% |
| Inflation assumption (RPI) | 3.15% | 3.40% |
| | Deferred/ Pensioner | Deferred/ Pensioner |
| Rate of increase in pension payment (LPI* 5% pension increases) | 2.80%/3.00% | 2.90%/3.35% |
| Rate of increase to deferred pensions (CPI) | 2.50% | 2.90% |

* Limited Price Index.

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's approach to setting RPI and CPI inflation assumptions is as follows:

- The Group continued to set RPI inflation in line with the market break-even expectations for inflation less an inflation risk premium of 0.3%
- The assumptions linked to RPI and CPI as at 31 December 2022 have been determined by weighting the cash flows to which the link applies

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 for Section A are:

| | 2022 | 2022 | 2021 | 2021 |
|------------------------------------|-----------|-----------|------|------|
| Retiring today at age | 60 | 65 | 60 | 65 |
| Males | 26.2 | 21.6 | 26.3 | 21.7 |
| Females | 28.9 | 24.1 | 29.0 | 24.1 |
| Retiring in 20 years at age | 60 | 65 | 60 | 65 |
| Males | 27.5 | 22.7 | 27.6 | 22.8 |
| Females | 30.4 | 25.5 | 30.4 | 25.5 |

The net pension surplus/(deficit) is sensitive to changes in assumptions. These are disclosed further in this note.

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 2022, 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 surplus/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 Consolidated Income Statement
- Return on assets arise from differences between the actual return and interest income on Scheme assets and are recognised in the Consolidated Statement of 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:

| | 2022 £m | 2021 £m |
|--|--------------|--------------|
| Fair value of Scheme assets at 1 January | 3,873 | 4,032 |
| Interest income on Scheme assets | 63 | 54 |
| Loss on assets, excluding interest income | (1,039) | (102) |
| Employer contributions | 145 | 82 |
| Settlement payments from plan assets – buyout of Section C | (439) | – |
| Benefits paid | (156) | (187) |
| Administrative expenses paid | (6) | (6) |
| Pension insurance risk premium – buyout of Section C | (4) | – |
| Fair value of Scheme assets at 31 December | 2,437 | 3,873 |

The pension insurance risk premium is a one-off cost that was payable on the completion of the buyout of Section C of the ITV Pension Scheme. See above for further details on the buyout.

How are the Schemes' assets invested?

At 31 December 2022, 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 2022 £m | Quoted 2022 £m | Market value 2022 % | Market value 2021 £m | Quoted 2021 £m | Market value 2021 % |
|--|----------------------------|----------------------|---------------------------|----------------------------|----------------------|---------------------------|
| Liability hedging assets | | | | | | |
| Fixed interest gilts | 365 | 365 | | 514 | 514 | |
| Index-linked interest gilts | 788 | 786 | | 1,139 | 1,127 | |
| Interest rate and inflation hedging derivatives (swaps and repos) | (375) | (401) | | 60 | 25 | |
| | 778 | 750 | 32% | 1,713 | 1,666 | 44% |
| Other bonds | 1,447 | 58 | 59% | 1,767 | 75 | 46% |
| Return seeking investments | | | | | | |
| Infrastructure | 174 | | | 168 | | |
| Property | 171 | | | 148 | | |
| Hedge funds/alternatives | – | | | 1 | | |
| | 345 | | 14% | 317 | | 8% |
| Other investments | | | | | | |
| Cash and cash equivalents | 121 | | | 134 | | |
| Insurance policies | 17 | | | 530 | | |
| Longevity swap fair value | (271) | | | (588) | | |
| | (133) | | (5)% | 76 | | 2% |
| Total Scheme assets | 2,437 | 808 | 100% | 3,873 | 1,741 | 100% |

Included in the above are overseas assets of £315 million (2021: £257 million). None of these assets are quoted.

Following the completion of the buyout (see details above), the assets were removed from the pension scheme. The assets in respect of the buy-in are included in the insurance policies listed above as at 31 December 2021.

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 reduced in 2022 due to a rise in gilt yields used to value the swap.

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 Consolidated 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 liabilities rather than IAS 19 defined pension liabilities. 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 surplus/(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 £25 million |
| | Decrease by 0.1% | Increase by £25 million |
| | Increase by 0.5% | Decrease by £115 million |
| | Decrease by 0.5% | Increase by £125 million |
| Rate of inflation (Retail Price Index) | Increase by 0.1% | Increase by £10 million |
| | Decrease by 0.1% | Decrease by £10 million |
| Rate of inflation (Consumer Price Index) | Increase by 0.1% | Increase by £5 million |
| | Decrease by 0.1% | Decrease by £5 million |
| Life expectancies | Increase by one year | Increase by £75 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 any change in asset values would significantly offset 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 £75 million, the assets would benefit from an estimated increase of the value of the longevity swap by £60 million, resulting in a net increase in the defined pension deficit of £15 million.

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.

Keeping it simple

What was the impact of movements on the Schemes' assets and liabilities?

The notes above describe how the Scheme obligations and assets are comprised and measured. The following note sets out the impact of various movements and expenses on the Scheme on the Group's financial information.

Amounts recognised through the Consolidated Income Statement

Amounts recognised through the Consolidated Income Statement are as follows:

| | 2022 £m | 2021 £m |
|---|-------------|------------|
| Amount charged to operating costs: | | |
| Scheme administration expenses | (6) | (6) |
| | (6) | (6) |
| Amount charged to exceptional costs: | | |
| Pension insurance risk premium – buyout of Section C | (4) | – |
| Total charged in the Consolidated Income Statement | (10) | (6) |

Amounts recognised through the Consolidated Statement of Comprehensive Income

The amounts recognised through the Consolidated Statement of Comprehensive Income are:

| | 2022 £m | 2021 £m |
|---|------------|-------------|
| Remeasurement (losses)/gains | | |
| Loss on scheme assets excluding interest income | (1,039) | (102) |
| Actuarial gains/(losses) on liabilities arising from change in: | | |
| – experience adjustments | (119) | (8) |
| – financial assumptions | 1,228 | 88 |
| – demographic assumptions | 10 | (36) |
| | 1,119 | 44 |
| Total recognised in the Consolidated Statement of Comprehensive Income | 80 | (58) |

The £1,119 million actuarial gain on the Schemes' liabilities was principally due to the increase in bond yields and to a lesser extent by the decrease in market implied inflation and slightly shorter assumed life expectancies. The actuarial gain on the Schemes' liabilities has been partially offset by the impact of high actual inflation over 2022, which would lead to benefits being increased by more than assumed and has been recognised as an experience adjustment.

The £1,039 million loss on the Schemes' assets follows an increase in the gilts yields and to a lesser extent the decrease in the value of the inflation-linked assets. The actuarial loss on the Schemes' assets has been partially offset by an increase in the fair value loss 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 2022 for administration expenses are £6 million (2021: £6 million).

The Group has two asset-backed pension funding agreements with the Trustee – the SDN pension funding partnership and the London Television Centre pension funding partnership which were set up in 2010 and 2014 respectively to address the pension deficit.

SDN Pension Funding Partnership

In 2010, ITV established a Pension Funding Partnership (PFP) with the Trustees backed by SDN, which was subsequently extended in 2011. The PFP addressed £200 million of the funding deficit in Section A of the defined benefit pension scheme and under the original agreement; annual payments of £11 million for 12 years from 2011 were made with the final annual payment in 2022. In addition, a bullet payment of up to £200 million was due in 2022. During 2022, the existing PFP agreement was amended and extended to 2031. As a result of this agreement, an upfront payment of £80 million was paid to the pension scheme in the period and an additional deficit contribution of £3 million was paid for the period between the end of the original agreement and the date the extension agreement was signed. The Group is committed to up to nine annual payments of £16 million from 2023 and the PFP's interest in SDN provides collateral for these payments. On completion of the final payment in 2031, the Scheme's partnership interest will have been repaid in full and it will have no right to any further payments. The letter of credit which was previously used to provide additional collateral to support the original value of the structure (31 December 2021: £152 million) has been released.

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 was previously held in a restricted bank account as a replacement asset in the pension funding arrangement. In 2022 this security was replaced with a surety bond and the cash was released to the Group. This structure continues to be reviewed.

The Scheme's interest in these Partnerships reduces the deficit on a funding basis but does not impact the deficit on an IAS 19 basis as the Scheme's interest is not a transferrable financial instrument.

The total deficit funding contribution for 2022 was £137 million (31 December 2021: £74 million). This includes £15 million deferred from 2020 and £25 million of deficit contributions agreed as part of the triennial valuation, £80 million one-off payment following the extension of the SDN PFP, a £3 million payment on the SDN PFP for the bridging period between the end date of the original agreement and the date of the extension, and £11 million and £3 million annual payments due under the SDN and London Television Centre PFPs respectively.

Deficit contributions for 2023 to 2025 consist of contributions agreed with the Trustees following the triennial valuation (£43 million, £48 million and £28 million respectively) and the annual payments under the SDN PFP and London Television Centre PFP (£16 million and £3 million respectively). Therefore total deficit contributions for 2023 to 2025 will be £62 million, £67 million and £47 million.

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 Statements

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.

4.1 Net debt

Keeping it simple

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 net debt and covenant net debt is included in the Operating and Performance Review.

The tables below analyse movements in the components of net debt during the year:

| | 1 January 2022 £m | Acquisitions** £m | Net cash flow £m | Currency and non-cash movements £m | 31 December 2022 £m |
|---|-------------------------|----------------------|---------------------|---|---------------------------|
| Loans and facilities due within one year | (290) | (19) | 257 | (237) | (289) |
| Loans and facilities due after one year | (732) | — | — | 191 | (541) |
| Total loans and facilities | (1,022) | (19) | 257 | (46) | (830) |
| Currency component of swaps held against euro denominated bonds | (36) | — | — | 27 | (9) |
| Lease liabilities | (92) | — | 26 | (66) | (132) |
| Total debt | (1,150) | (19) | 283 | (85) | (971) |
| Restricted cash* | 50 | — | (50) | — | — |
| Cash | 246 | — | 5 | 6 | 257 |
| Cash equivalents | 440 | — | (355) | 6 | 91 |
| Total cash and cash equivalents* | 686 | — | (350) | 12 | 348 |
| Net debt | (414) | (19) | (117) | (73) | (623) |

* On 1 January 2022 £50 million of cash was presented as restricted in favour of the commitments under the asset-backed pension agreements. This balance is £nil at 31 December 2022 given the restriction has now been removed and the cash has been replaced with a surety bond.

** Loans on acquisition include £98 million for Plimsoll Productions and £4 million for Lingo Pictures. The Plimsoll Productions loan has been reduced by £83 million which was repaid as part of the acquisition using cash raised from the Group's subscription for new shares. This £83 million has been treated as a cash outflow on acquisition rather than a repayment of debt.

| | 1 January 2021 £m | Net cash flow £m | Currency and non-cash movements £m | 31 December 2021 £m |
|--|-------------------------|---------------------|---|---------------------------|
| Loans and facilities due within one year | (7) | (21) | (262) | (290) |
| Loans and facilities due after one year | (1,078) | 18 | 328 | (732) |
| Total loans and facilities | (1,085) | (3) | 66 | (1,022) |
| Currency component of swaps held against euro denominated bonds | (23) | – | (13) | (36) |
| Lease liabilities | (105) | 29 | (16) | (92) |
| Total debt | (1,213) | 26 | 37 | (1,150) |
| Restricted cash | 50 | – | – | 50 |
| Cash | 296 | (50) | – | 246 |
| Cash equivalents | 322 | 121 | (3) | 440 |
| Total cash and cash equivalents* | 618 | 71 | (3) | 686 |
| Net debt | (545) | 97 | 34 | (414) |

Loans and facilities due within one year

In January 2022, the Group entered into a new syndicated £500 million Revolving Credit Facility (RCF) to meet short-term funding requirements of which £50 million was drawn at 31 December 2022. The original terms of the RCF ran until January 2027, however ITV took the opportunity to give notice to extend for one year, pushing current expiry out to January 2028. There is a further extension opportunity in 2024 which means that facility could potentially provide funding out to 2029. The financial covenants in the new RCF are the same as those that applied to the previous RCF, which was terminated. In addition, there are ESG targets linked to the delivery of ITV's science-based carbon emissions targets.

The €335 million Eurobond was repaid in September 2022.

The €259 million Eurobond at a fixed coupon of 2.0%, matures in December 2023 (the principal and final interest payment having been fully hedged with FX forward rate agreements).

Loans and loan notes due after one year

The Group has the following Eurobond in issue:

- €600 million at a fixed coupon of 1.375%, which matures in September 2026 and has been swapped back to sterling (£533 million) 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 good access to liquidity:

- The Group has a £300 million bilateral loan facility which matures on 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. At 31 December 2021 £152 million of the facility was utilised as a letter of credit to support the Group's asset-backed pension scheme arrangement in respect of the defined benefit pension scheme. This pension scheme arrangement has been renewed in the period and the letter of credit has been released. The facility is currently undrawn. See section 3.7 for details.
- As noted above, the Group has £500 million of committed funding through a RCF with a group of relationship banks which is currently available until January 2028. At 31 December 2022, £50 million of the facility was utilised (31 December 2021: £nil). 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. All financial covenants were met and the facility remains available at 31 December 2022. The Revolving Credit Facility (RCF) contains Scope 1, 2 and 3 greenhouse gas emissions targets which align to ITV's stated objective to have Net Zero carbon emissions by 2030. These targets are measured at the end of each financial year and independently verified in July following the relevant December year end. Scope 1 and 2 emissions are measured separately to Scope 3 emissions. The margin on the facility reduces by 2.5bps if Scope 1, 2 and 3 targets are met, by 1.25bps if either Scope 1 and 2 targets are met or Scope 3 targets are met, and increases by 2.5bps if neither target is met. Failing to meet targets does not impact the availability of the RCF. The Group met Scope 1, 2 and 3 targets for 2021, 2022 emissions will not be verified until July 2023. Over the life of the facility, it may be necessary to recalibrate the baseline emissions level set in 2019, particularly in relation to Scope 3 emissions and there is a mechanism in the RCF documentation that allows for this.

4.2 Borrowings

Keeping it simple

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 Consolidated 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), contract assets (see note 3.1.6) 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. Credit risk over contract assets is monitored proactively using daily reports from an external credit risk company. These reports are used to determine contractual obligations, monitor risk and amend terms where required.

Cash and cash equivalents and derivative financial instruments

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. Cash and cash equivalents include money market funds valued at fair value through profit and loss.

Cash and cash equivalents and derivative financial instruments exposure is limited to high credit quality financial institutions rated by two of the key rating agencies used by the Group. Counterparty credit limits are set in relation to these ratings, in order to limit the concentration of exposure to individual counterparties based on their credit quality. As such, investments are sufficiently spread across high credit quality rated counterparties.

Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis and may be updated throughout the year subject to approval of the Group's Audit & Risk Committee. Investment exposure with external counterparties is made only with Board approved counterparties and within credit limits assigned to each counterparty. The credit quality of financial counterparties and the outstanding exposure is monitored throughout the year by the Group's Treasury function in accordance with the Group's policy.

Borrowings

ITV is rated as investment grade by Moody's and S&P. ITV's credit ratings, which in turn are affected by key metrics, such as leverage, 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 were provided during 2022 through bank credit facilities totalling £800 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 had a £500 million Revolving Credit Facility with a group of relationship banks in 2022 (£630 million in 2021).

The new £500 million Revolving Credit Facility is available until January 2028 (with the opportunity to extend for one further year from the expiry date, potentially providing funding out to 2029). This facility replaces the previous £630 million facility, which was due to mature in 2023. The financial covenants in the new Revolving Credit Facility remain unchanged to those in the previous facility. There are ESG targets linked to the delivery of ITV's science-based carbon emissions targets. In addition, the Group has £300 million of financial covenant free financing, which is available until June 2026.

The intention is to re-finance the €259 million Eurobond maturing in December 2023, rather than repay from our cash resources. We are currently exploring medium to long term refinancing options and have full availability under the £500 million RCF and £300 million CDS facilities should we need to utilise these.

Fair value versus book value

The tables below provide fair value information for the Group's borrowings:

| | | Book value | | Fair value | |
|---|-----------|------------|------------|------------|------------|
| | Maturity | 2022 £m | 2021 £m | 2022 £m | 2021 £m |
| Loans due within one year | | | | | |
| €335 (previously €600) million Eurobond | Sept 2022 | – | 281 | – | 284 |
| €259 (previously €500) million Eurobond | Dec 2023 | 229 | – | 227 | – |
| Revolving credit facility* | Jan 2023 | 50 | – | 50 | – |
| Other short-term loans | Various | 10 | 9 | 10 | 9 |
| | | 289 | 290 | 287 | 293 |
| Loans due in more than one year | | | | | |
| €259 (previously €500) million Eurobond | Dec 2023 | – | 218 | – | 225 |
| €600 million Eurobond | Sept 2026 | 531 | 504 | 480 | 518 |
| Other long-term loans | Various | 10 | 10 | 10 | 10 |
| | | 541 | 732 | 490 | 753 |
| | | 830 | 1,022 | 777 | 1,046 |

* The Revolving Credit Facility matures in January 2028.

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 Consolidated 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 Consolidated 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 the change in price between the contracted rates and the market rates at the reporting date. The contracted cash flows are then discounted by the time remaining to the settlement date of the contract, with a discount curve that incorporates credit risk. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to exit the swap at the reporting date, taking into account current interest rates and the Group's current creditworthiness, as well as that of the swap counterparties.

Third-party valuations are used to fair value the Group's cross currency 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, where necessary using foreign currency swaps to exchange balances back into sterling or by buying or selling foreign currencies at spot rates.

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.

During the year, the Board approved the hedging of the €335 million 2022 and €259 million 2023 Eurobond cash outflows. Given the perfect match, these hedging instruments were set up in separate hedge accounting relationships with the hedged bonds to manage foreign exchange volatility until repayment. This required the cessation of the net investment hedge where these Eurobond borrowings, along with other monetary assets and liabilities, were in a hedge accounting arrangement with the Group's euro-denominated net assets. This change in policy provided an opportunity to consider the remaining euro denominated monetary items in isolation on a net basis and therefore manage the remaining foreign exchange volatility in a more efficient way.

The following table highlights the Group's exposure to foreign currency risk resulting from a 10% strengthening/weakening in sterling against the US dollar, euro and Australian dollar, assuming all other variables are held constant:

| | Impact on profit before tax 2022 £m | Impact on profit before tax 2021 £m | Impact on Equity 2022 £m | Impact on Equity 2021 £m |
|----------------------------------|--|--|-----------------------------------|-----------------------------------|
| US dollar – increase 10% | (9) | (3) | 6 | 4 |
| US dollar – decrease 10% | 9 | 3 | (8) | (4) |
| Euro – increase 10%* | (4) | (1) | (3) | 15 |
| Euro – decrease 10%* | 5 | 2 | 4 | (19) |
| Australian dollar – increase 10% | (1) | – | (4) | – |
| Australian dollar – decrease 10% | 1 | – | 4 | – |

* Equity impact is offset by the euro net assets in the translation reserve using the net investment hedge in 2021.

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.

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.

At 31 December 2022, the Group's fixed rate debt represented 93.8% of total gross debt (2021: 99.8%), therefore with the majority of debt issued at fixed interest rates, changes in the floating rates of interest do not significantly affect the Group's net interest charge. There are no other material floating interest rate financial instruments.

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 2022 | Assets £m | Liabilities £m |
|--|--------------|-------------------|
| Current | | |
| Foreign exchange forward contracts and swaps – cash flow hedges | 2 | (6) |
| Foreign exchange forward contracts and swaps – fair value through profit or loss | – | (1) |
| Non-current | | |
| Cross-currency interest swaps – cash flow hedges | – | (8) |
| Foreign exchange forward contracts and swaps – cash flow hedges | 2 | – |
| | 4 | (15) |

| At 31 December 2021 | Assets £m | Liabilities £m |
|--|--------------|-------------------|
| Current | | |
| Foreign exchange forward contracts and swaps – cash flow hedges | 1 | (2) |
| Foreign exchange forward contracts and swaps – fair value through profit or loss | 2 | (3) |
| Non-current | | |
| Cross-currency interest swaps – cash flow hedges | – | (36) |
| Foreign exchange forward contracts and swaps – cash flow hedges | – | (1) |
| | 3 | (42) |

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 five years. In order to fix the sterling cash outflows associated with the commitments and interest payments – which are mainly denominated in US dollars 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.

There is an economic relationship between the hedged items (being between 60% to 100% of the total exposure) and the hedging instruments as the terms of the foreign exchange forward contracts and cross-currency interest rate swaps match the terms of the expected highly probable forecast transactions or firm commitments (i.e. % notional amount and expected receipt or payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange forward contracts are identical to the hedged risk components.

Sources of ineffectiveness include:

- Different interest rate curve applied to discounting the hedged items and hedging instruments
- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items and
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

The Group uses the hedge relationship, credit risk and hedge ratio to measure the hedge effectiveness.

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 £3 million (2021: less than £1 million) of ineffectiveness taken to the Consolidated Income Statement and £33 million of cumulative gain (2021: £30 million of cumulative loss*) was recycled to the Consolidated Income Statement in the year, with £7 million transferred to work in progress.

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 ceased net investment hedging using 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. A change to the risk management objective meant that the remaining euro denominated monetary items on the Consolidated Statement of Financial Position could be considered in isolation on a net basis and therefore manage the remaining foreign exchange volatility in a more efficient way. A foreign exchange gain of less than £1 million (2021: gain of £13 million) relating to the net investment hedges remains within exchange differences related to translation of foreign operations as presented on the Consolidated Statement of Comprehensive Income.

* 2021 has been updated from prior year to better reflect the amounts reclassified from the Consolidated Statement of Comprehensive Income to the Consolidated Income Statement.

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.

| | 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 |
|--|----------------------|------------------------------------|------------------------|-----------------------------|-----------------------------|--------------------|
| At 31 December 2022 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Borrowings | (830) | (865) | (302) | (8) | (550) | (5) |
| Lease liabilities | (132) | (149) | (21) | (26) | (37) | (65) |
| Trade and other payables | (915) | (915) | (898) | (14) | (3) | – |
| Contract liabilities | (372) | (372) | (372) | – | – | – |
| Other payables – non-current | (28) | (28) | – | (25) | (3) | – |
| Other payables – commitments on acquisitions | (47) | (89)* | (8) | (26) | (33) | (22) |
| Derivative financial instruments | | | | | | |
| Foreign exchange forward contracts and swaps – cash flow hedges | | | | | | |
| Inflow | 4 | 480 | 401 | 63 | 16 | – |
| Outflow | (6) | (486) | (409) | (61) | (16) | – |
| Cross-currency swaps – cash flow hedges | | | | | | |
| Inflow | – | 560 | 7 | 7 | 546 | – |
| Outflow | (8) | (596) | (16) | (16) | (564) | – |
| Foreign exchange forward contracts and swaps – fair value through profit or loss | | | | | | |
| Inflow | – | 51 | 45 | 6 | – | – |
| Outflow | (1) | (52) | (46) | (6) | – | – |
| | (2,335) | (2,461) | (1,619) | (106) | (644) | (92) |

| | 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 |
|--|----------------------|------------------------------------|------------------------|-----------------------------|-----------------------------|--------------------|
| At 31 December 2021 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Borrowings | (1,022) | (1,071) | (308) | (229) | (528) | (6) |
| Lease liabilities | (92) | (103) | (21) | (19) | (33) | (30) |
| Trade and other payables | (841) | (841) | (824) | (17) | – | – |
| Contract liabilities | (359) | (359) | (359) | – | – | – |
| Other payables – non-current | (28) | (28) | – | (23) | (5) | – |
| Other payables – commitments on acquisitions | (64) | (79)* | (26) | (1) | (52) | – |
| Derivative financial instruments | | | | | | |
| Foreign exchange forward contracts and swaps – cash flow hedges | | | | | | |
| Inflow | 1 | 193 | 147 | 46 | – | – |
| Outflow | (3) | (196) | (149) | (47) | – | – |
| Cross-currency swaps – cash flow hedges | | | | | | |
| Inflow | – | 539 | 7 | 7 | 525 | – |
| Outflow | (36) | (612) | (16) | (16) | (580) | – |
| Foreign exchange forward contracts and swaps – fair value through profit or loss | | | | | | |
| Inflow | 2 | 312 | 308 | 4 | – | – |
| Outflow | (3) | (311) | (307) | (4) | – | – |
| | (2,445) | (2,556) | (1,548) | (299) | (673) | (36) |

* Undiscounted expected future payments depending on performance of acquisitions; the total maximum consideration is discussed in the Finance Review.

Timing profile of hedging instrument

Keeping it simple

The Group is required to provide a breakdown that discloses a profile of the timing of the nominal amount of the hedging instrument and if applicable, the average price or rate (for example strike or forward prices etc.) of the hedging instrument.

The Group is holding the following foreign exchange and cross-currency interest rate swap contracts

| At 31 December 2022 | Less than 1 year | Between 1 to 2 years | Between 2 to 5 years | Greater than 5 years | Total |
|---|---------------------|-------------------------|-------------------------|-------------------------|-------|
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | (5) | – | – | – | (5) |
| Average forward rate (AUD/EUR) | 1.5688 | – | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | (4) | (12) | (16) | – | (32) |
| Average forward rate (AUD/GBP) | 1.7205 | 1.7967 | 1.7909 | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | 7 | 3 | – | – | 10 |
| Average forward rate (CAD/GBP) | 1.7155 | 1.6446 | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | (2) | – | – | – | (2) |
| Average forward rate (CAD/USD) | 1.2400 | – | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | (1) | – | – | – | (1) |
| Average forward rate (DKK/GBP) | 8.3506 | – | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | (241) | (14) | – | – | (255) |
| Average forward rate (EUR/GBP) | 1.1097 | 1.1485 | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | (6) | – | – | – | (6) |
| Average forward rate (EUR/USD) | 0.8859 | – | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | 8 | – | – | – | 8 |
| Average forward rate (NOK/GBP) | 12.0018 | – | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | (4) | – | – | – | (4) |
| Average forward rate (ZAR/AUD) | 11.7780 | – | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | 67 | 16 | – | – | 83 |
| Average forward rate (USD/GBP) | 1.2627 | 1.1389 | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | (1) | – | – | – | (1) |
| Average forward rate (ZAR/GBP) | 20.8998 | – | – | – | |
| Cross-currency interest rate swaps | | | | | |
| Notional amount (£m) | – | – | 539 | – | 539 |
| Average hedge rate (EUR/GBP) | – | – | 1.1253 | – | |

| At 31 December 2021 | Less than 1 year | Between 1 to 2 years | Between 2 to 5 years | Greater than 5 years | Total |
|---|---------------------|-------------------------|-------------------------|-------------------------|-------|
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | (11) | 5 | – | – | (6) |
| Average forward rate (AUD/GBP) | 2.0825 | 1.8311 | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | 2 | – | – | – | 2 |
| Average forward rate (CAD/GBP) | 1.7302 | – | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | (35) | (1) | – | – | (36) |
| Average forward rate (CAD/USD) | 1.2375 | 1.2400 | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | 1 | – | – | – | 1 |
| Average forward rate (DKK/GBP) | 8.6956 | – | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | (187) | (19) | – | – | (206) |
| Average forward rate (EUR/GBP) | 1.1658 | 1.1152 | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | 6 | – | – | – | 6 |
| Average forward rate (NOK/GBP) | 11.9988 | – | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | 1 | – | – | – | 1 |
| Average forward rate (SEK/GBP) | 12.0070 | – | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | 103 | 10 | – | – | 113 |
| Average forward rate (USD/GBP) | 1.3370 | 1.3387 | – | – | |
| Foreign exchange forward contracts and swaps | | | | | |
| Notional amount (£m) | – | – | 511 | – | 511 |
| Average forward rate (EUR/GBP) | – | – | 1.1253 | – | |

Impact of hedged items on Consolidated Statement of Financial Position, Consolidated Statement of Other Comprehensive Income and Consolidated Statement of Changes in Equity

Keeping it simple

This table provides the following details in relation to cash flow hedge and net investment hedge:

- The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period
- The balances in the cash flow hedge reserve and the foreign currency translation reserve for continuing hedges and
- The balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied

The impact of hedged items on the Consolidated Statement of Financial Position is as follows:

Cash flow hedge

| | 2022 | | | 2021 | | |
|---|--|--|--|--|--|--|
| | Change in fair value used for measuring ineffectiveness £m | Pre-tax closing cash flow hedge reserve £m | Pre-tax closing cost of hedging reserve £m | Change in fair value used for measuring ineffectiveness £m | Pre-tax closing cash flow hedge reserve £m | Pre-tax closing cost of hedging reserve £m |
| At 31 December | | | | | | |
| Highly probable/firm commitment forecast transactions | 3 | 2 | (1) | (4) | (1) | (1) |
| Borrowings | (5) | (4) | (8) | 19 | 1 | (8) |

Net investment hedge

| | 2022 | | 2021 | |
|--|---|--------------------------------------|---|--------------------------------------|
| | Change in fair value used for measuring ineffectiveness | Foreign currency translation reserve | Change in fair value used for measuring ineffectiveness | Foreign currency translation reserve |
| At 31 December | | | | |
| Net investment in foreign subsidiaries | — | — | 13 | 13 |

The amount in the translation reserve relating to continuing hedges up until May 2022 is a gain of less than £1 million (2021: £13 million gain). The net investment hedge ceased in May 2022 and the amount relating to discontinued hedges is a loss of £19 million (2021: £19 million loss).

The hedging gain recognised in the Consolidated Statement of Changes in Equity before tax is equal to the change in fair value used for measuring effectiveness. There is £3 million of ineffectiveness recognised in the Consolidated Income Statement.

Keeping it simple

This table details the effect of the cash flow hedge in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income.

The effect of the cash flow hedge in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income is as follows:

| | Total hedging gain/(loss) recognised in OCI | Ineffectiveness recognised in Income Statement | Line item in the Income Statement | Cost of hedging recognised in OCI | Amounts reclassified from OCI to Income Statement | Line item in the Income Statement |
|---|---|--|-----------------------------------|-----------------------------------|---|-----------------------------------|
| At 31 December 2022 | | | | | | |
| Highly probable/firm commitment forecast transactions | 3 | — | | (4) | 11 | Overheads/Work in progress |
| Borrowing | (5) | 3 | Net financing cost | 4 | (37) | Net financing cost |

| | Total hedging gain/(loss) recognised in OCI* | Ineffectiveness recognised in Income Statement | Line item in the Income Statement | Cost of hedging recognised in OCI | Amounts reclassified from OCI to Income Statement | Line item in the Income Statement |
|---|--|--|-----------------------------------|-----------------------------------|---|-----------------------------------|
| At 31 December 2021 | | | | | | |
| Highly probable/firm commitment forecast transactions | (4) | — | | 1 | (2) | Overheads/ Cost of Sales |
| Borrowing | 19 | (1) | Net financing cost | (1) | 32** | Net financing cost |

* 2021 has been updated from prior year to show periodic movement.

** 2021 has been updated from prior year to better reflect the amounts reclassified from the Consolidated Statement of Comprehensive Income to the Consolidated Income Statement.

Set out below is the reconciliation of each component of the translation reserve reported in the Consolidated Statement of Changes in Equity and the analysis of other comprehensive income:

| | Cash flow hedge reserve £m | Cost of hedge reserve £m | Foreign currency reserve £m | Translation reserve £m |
|--|-------------------------------------|-----------------------------------|--------------------------------------|------------------------------|
| As at 1 January 2021 | (15) | (9) | 31 | 7 |
| Effective portion of changes in fair value arising from: | | | | |
| Foreign exchange forward contracts | (2) | 1 | – | (1) |
| Cross-currency interest rate swaps – borrowings: | | | | |
| • Change in fair value from the effective hedge instrument | (13) | (1) | – | (14) |
| Amount reclassified to Income Statement | | | | |
| • FX forward reclassified to cost of sales/overheads | (2) | – | – | (2) |
| • CCIRS reclassified to finance costs | 32 | – | – | 32 |
| Net gain on cash flow hedges and cost of hedging | 15 | – | – | 15 |
| Foreign currency revaluation of the EUR borrowing | – | – | 13 | 13 |
| Foreign currency revaluation of the net foreign operations | – | – | 4 | 4 |
| Exchange differences on translation of foreign operations (net of hedging) | – | – | 17 | 17 |
| Income tax (charge)/credit reclass* | 7 | – | – | 7 |
| Income tax (charge)/credit on other comprehensive income/(expense) | (4) | 2 | (3) | (5) |
| As at 31 December 2021 | 3 | (7) | 45 | 41 |
| Effective portion of changes in fair value arising from: | | | | |
| Foreign exchange forward contracts | (1) | (4) | – | (5) |
| Cross-currency interest rate swaps – borrowings: | | | | |
| • Change in fair value from the effective hedge instrument | 25 | 4 | – | 29 |
| Amount reclassified to Income Statement | | | | |
| • FX forward reclassified to cost of sales/overheads | 4 | – | – | 4 |
| • FX forward and swaps reclassified to finance costs | (10) | – | – | (10) |
| • Amounts reclassified to work in progress | 7 | – | – | 7 |
| • CCIRS reclassified to finance costs | (27) | – | – | (27) |
| Net loss on cash flow hedges and cost of hedging | (2) | – | – | (2) |
| Foreign currency revaluation of the net foreign operations | – | – | 67 | 67 |
| Exchange differences on translation of foreign operations (net of hedging) | – | – | 67 | 67 |
| Income tax credit on other comprehensive income/(expense) | 1 | – | – | 1 |
| As at 31 December 2022 | 2 | (7) | 112 | 107 |

* Income tax on other comprehensive income has been reallocated to the relevant reserves from Retained Earnings in the prior year.

Netting arrangements of financial instruments

Keeping it simple

This section details the Group's financial assets and financial liabilities that are subject to netting and set-off arrangements. Financial assets and liabilities that are subject to set-off arrangements and disclosed on a net basis in the Group's Statement of Financial Position relate to cash pooling arrangements. Amounts which do not meet the criteria for offsetting on the Consolidated Statement of Financial Position but could be settled net in certain circumstances principally relate to derivative transactions executed under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

| | Gross financial assets/ liabilities £m | Gross collateral assets/liabilities set-off £m | Net financial assets/liabilities per balance sheet £m | Related amounts not set-off in the balance sheet £m | Net £m |
|----------------------------------|---|---|--|--|-----------|
| At 31 December 2022 | | | | | |
| Assets | | | | | |
| Derivative financial instruments | 4 | – | 4 | (4) | – |
| Cash and cash equivalents | 348 | – | 348 | – | 348 |
| Liabilities | | | | | |
| Derivative financial instruments | (15) | – | (15) | 4 | (11) |
| Loans and facilities | (830) | – | (830) | – | (830) |
| At 31 December 2021 | | | | | |
| Assets | | | | | |
| Derivative financial instruments | 3 | – | 3 | (3) | – |
| Restricted cash | 50 | – | 50 | – | 50 |
| Cash and cash equivalents | 686 | – | 686 | – | 686 |
| Liabilities | | | | | |
| Derivative financial instruments | (42) | – | (42) | 3 | (39) |
| Loans and facilities | (1,022) | – | (1,022) | – | (1,022) |

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:

| | 2022 £m | 2021 £m |
|--|-------------|-------------|
| Financing income | | |
| Interest income | 9 | 4 |
| Foreign exchange gain | 3 | 4 |
| Other finance income | 1 | – |
| | 13 | 8 |
| Financing costs | | |
| Interest expense on financial liabilities measured at amortised cost | (18) | (18) |
| Foreign exchange loss | (1) | – |
| Other finance expense* | (20) | (30) |
| Financing exceptional item: acquisition-related | – | (10) |
| | (39) | (58) |
| Net financing costs | (26) | (50) |

* Interest incurred on the cross-currency interest rate swaps in the year is included within other finance expense. In 2021, this interest cost was included within Interest expense on financial liabilities measured at amortised cost. £8 million has been reclassified to other finance expense for 2021 in the table above.

Other finance expense includes lease interest payments, interest on acquisition-related contingent liabilities (not included within the exceptional financing item) and bank charges.

Exceptional finance costs of £10 million in 2021 principally relates to interest accrued on exceptional acquisition-related expenses.

4.5 Fair value hierarchy

Keeping it simple

The financial instruments included in the Consolidated 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. The Group 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 exit prices at the current reporting period. 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 Consolidated Statement of Financial Position at fair value:

| | Fair value 31 December 2022 £m | Level 1 31 December 2022 £m | Level 2 31 December 2022 £m | Level 3 31 December 2022 £m |
|--|---|--------------------------------------|--------------------------------------|--------------------------------------|
| Assets measured at fair value | | | | |
| Financial instruments at fair value through reserves | | | | |
| Other pension assets – gilts (see note 3.7) | 47 | 47 | – | – |
| Financial instruments at fair value through profit or loss | | | | |
| Money market funds | 91 | 91 | – | – |
| Equity investments (see note 3.5) | 11 | – | – | 11 |
| Financial assets at fair value through profit or loss | | | | |
| Convertible loan receivable | 3 | – | – | 3 |
| Financial assets at fair value through reserves | | | | |
| Cash flow hedges | 4 | – | 4 | – |
| | 156 | 138 | 4 | 14 |

| | Fair value 31 December 2022 £m | Level 1 31 December 2022 £m | Level 2 31 December 2022 £m | Level 3 31 December 2022 £m |
|--|---|--------------------------------------|--------------------------------------|--------------------------------------|
| Liabilities measured at fair value | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Foreign exchange forward contracts and swaps | (1) | – | (1) | – |
| Acquisition-related liabilities – payable to sellers under put options agreed on acquisition (see notes 3.1.4 and 3.1.5) | (39) | – | – | (39) |
| Financial liabilities at fair value through reserves | | | | |
| Cash flow hedges | (14) | – | (14) | – |
| | (54) | – | (15) | (39) |

There have been no changes in the classification of assets and liabilities and there have been no movements within levels. Information on the fair value measurements of level 3 assets and liabilities is detailed in the relevant notes referenced above.

4.6 Lease liabilities

| | Fair value 31 December 2021 £m | Level 1 31 December 2021 £m | Level 2 31 December 2021 £m | Level 3 31 December 2021 £m |
|--|---|--------------------------------------|--------------------------------------|--------------------------------------|
| Assets measured at fair value | | | | |
| Financial instruments at fair value through reserves | | | | |
| Other pension assets – gilts (see note 3.7) | 62 | 62 | – | – |
| Financial instruments at fair value through profit or loss | | | | |
| Money market funds | 440 | 440 | – | – |
| Equity investments (see note 3.5) | 4 | – | – | 4 |
| Financial assets at fair value through profit or loss | | | | |
| Foreign exchange forward contracts and swaps | 2 | – | 2 | – |
| Convertible loan receivable | 2 | – | – | 2 |
| Financial assets at fair value through reserves | | | | |
| Cash flow hedges | 1 | – | 1 | – |
| | 511 | 502 | 3 | 6 |

| | Fair value 31 December 2021 £m | Level 1 31 December 2021 £m | Level 2 31 December 2021 £m | Level 3 31 December 2021 £m |
|--|---|--------------------------------------|--------------------------------------|--------------------------------------|
| Liabilities measured at fair value | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Foreign exchange forward contracts and swaps | (3) | – | (3) | – |
| Acquisition-related liabilities – payable to sellers under put options agreed on acquisition (see notes 3.1.4 and 3.1.5) | (55) | – | – | (55) |
| Financial liabilities at fair value through reserves | | | | |
| Cash flow hedges | (39) | – | (39) | – |
| | (97) | – | (42) | (55) |

Refer to note 4.3 for how we value interest rate swaps and forward foreign currency contracts.

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 Consolidated Statement of Financial Position. Lease costs such as property rent are now recognised in the form of depreciation and interest in the Consolidated Income Statement.

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 Consolidated Income Statement. The following table outlines the maturity analysis of the lease liabilities:

| | 2022 £m | 2021 £m |
|--|------------|------------|
| Contractual discounted cash flows | | |
| Less than one year | 21 | 21 |
| Two to five years | 55 | 46 |
| More than five years | 56 | 25 |
| Lease liabilities at 31 December | 132 | 92 |

| | 1 January 2022 £m | Net cash flow £m | Currency and non-cash movements £m | 31 December 2022 £m |
|--------------------------------|-------------------------|---------------------|---|---------------------------|
| Lease liabilities | (92) | 26 | (66) | (132) |
| Total lease liabilities | (92) | 26 | (66) | (132) |

The following amounts have been included in the Consolidated Income Statement:

| | 2022 £m | 2021 £m |
|---|------------|------------|
| Interest expense on lease liabilities | (4) | (3) |
| Amounts recognised in the Consolidated Income Statement | (4) | (3) |

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 2022, this was less than £1 million (2021: less than £1 million).

Variable lease payments that depend on an index or a rate are also less than £1 million (2021: 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 2022 includes one such extension which resulted in an increase in the lease liability of £1 million. There are no other significant extension options.

4.7 Equity

Keeping it simple

This section explains material movements recorded in shareholders' equity, presented in the Consolidated Statement of 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 Consolidated 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 2022 of £403 million (2021: £403 million) and share premium of £174 million (2021: £174 million) is the same as that of ITV plc. Details of this are given in the ITV plc Company financial information section of this Annual Report.

4.7.2 Merger and other reserves

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

| | 2022 £m | 2021 £m |
|---|------------|------------|
| Merger reserves | 95 | 95 |
| Capital reserves | 112 | 112 |
| Capital redemption reserves | 36 | 36 |
| Revaluation reserves | 2 | 2 |
| Put option liabilities arising on acquisition of subsidiaries | (34) | (30) |
| Total | 211 | 215 |

Merger reserves, Capital reserves and Capital redemption reserves relate primarily to balances arising on previous mergers and acquisitions, including the merger of Granada and Carlton in 2003. Put option liabilities arising on acquisition of subsidiaries relates to options and forwards contracts over shares relating to non-controlling interests. The movement in the current year relates to the fair value of the put liability over the non-controlling interests in Escapade Bidco Limited (Plimsoll Productions).

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 movement in the cash flow hedge reserve was a loss of £2 million (2021: gain of £18 million). The loss on cash flow hedges in the period was £2 million (2021: gain of £15 million) and had a related tax charge of £nil million (2021: £4 million).
- There was no net movement in the cost of hedging reserve (2021: no net movement)

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 2022 is a £19 million loss on revaluation (2021: less than £1 million) and a related tax credit of £5 million (2021: £1 million charge). See notes 2.3 and 3.7.

4.7.5 Retained earnings

The retained earnings reserve comprises profit for the year attributable to owners of the Company of £428 million (2021: £378 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, which are described in note 4.8.

Reflecting ITV's strong operational and financial performance in the year, and in line with previous guidance, the Board proposes a final dividend of 3.3p, giving a full year dividend of 5.0p per share. £201 million of dividends were paid (2021: £nil), representing a final 2021 dividend of 3.3p per share and an interim 2022 dividend of 1.7p per share.

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 ITV. The movement for 2022 comprises:

- The share of profit attributable to NCI of £7 million (2021: share of profit attributable to NCI of £10 million)
- Foreign exchange gains of £8 million (2021: losses of £1 million)
- The distributions made to NCI of £3 million (2021: £1 million)
- The share of net assets attributable to NCI relating to subsidiaries acquired, disposed or changes in ownership interest in 2022 of £4 million (2021: £1 million)

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), Executive Share Plan (ESP), 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 Consolidated 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. Expected volatility is based on the historical volatility of ITV plc shares over a three or five year period, based on the life of the options.

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 Consolidated 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 £19 million in 2022 (2021: £12 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) | 2022 Weighted average exercise price (pence) | Number of options (‘000) | 2021 Weighted average exercise price (pence) |
|--|--------------------------------|--|--------------------------------|--|
| Outstanding at 1 January | 98,934 | 24.98 | 106,303 | 24.25 |
| Granted during the year – nil priced | 17,238 | – | 9,075 | – |
| Granted during the year – other | 13,814 | 62.85 | 3,665 | 96.37 |
| Forfeited during the year | (3,095) | 56.49 | (2,158) | 48.56 |
| Exercised during the year – nil priced | (6,201) | – | (4,905) | – |
| Exercised during the year – other | (110) | 50.61 | (457) | 72.34 |
| Expired during the year | (15,851) | 35.87 | (12,589) | 25.51 |
| Outstanding at 31 December | 104,729 | 24.74 | 98,934 | 24.98 |
| Exercisable at 31 December | 4,383 | 30.63 | 877 | 69.35 |

The average share price during 2022 was 78.32 pence (2021: 116.48 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) | 2022 Weighted average remaining contractual life (years) | Weighted average exercise price (pence) | Number of options ('000) | 2021 Weighted average remaining contractual life (years) |
|----------------------------------|---|--------------------------|--|---|--------------------------|--|
| Nil | — | 59,056 | 0.29 | — | 57,336 | 1.12 |
| 20.00 – 49.99 | 49.17 | 29,225 | 1.81 | 49.17 | 31,601 | 2.80 |
| 50.00 – 69.99 | 61.73 | 10,878 | 3.44 | — | — | — |
| 70.00 – 99.99 | 85.22 | 5,351 | 1.35 | 86.31 | 8,420 | 1.17 |
| 100.00 – 109.99 | 105.98 | 90 | 1.46 | 105.98 | 846 | 1.13 |
| 110.00 – 119.99 | — | — | — | — | — | — |
| 120.00 – 149.99 | 130.61 | 129 | 0.94 | 133.44 | 596 | 0.78 |
| 150.00 – 199.99 | — | — | — | 162.55 | 135 | 0.77 |

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 | 13 April 2021 | 122.90 | 97.95 | 41.73 | 3.25 | — | 0.16 | 46.48 |
| 5 Year | 13 April 2021 | 122.90 | 97.95 | 38.12 | 5.25 | — | 0.39 | 51.80 |
| 3 Year | 6 September 2021 | 117.10 | 93.86 | 42.04 | 3.25 | — | 0.23 | 44.30 |
| 5 Year | 6 September 2021 | 117.10 | 93.86 | 36.09 | 5.25 | — | 0.36 | 47.33 |
| 3 Year | 12 April 2022 | 79.08 | 67.72 | 47.00 | 3.25 | — | 1.55 | 21.19 |
| 5 Year | 12 April 2022 | 79.08 | 67.72 | 40.05 | 5.25 | — | 1.58 | 18.45 |
| 3 Year | 5 September 2022 | 62.74 | 57.73 | 47.80 | 3.25 | — | 2.97 | 14.95 |
| 5 Year | 5 September 2022 | 62.74 | 57.73 | 41.03 | 5.25 | — | 2.85 | 12.63 |

Employees' Benefit Trust

The Group has investments in its own shares as a result of shares purchased by the ITV Employees' Benefit Trust (EBT). Transactions with the Group-sponsored EBT are included in these financial 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 2021 and the 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 2022 | 18,478,248 | 1,847,825 |
| LTIP releases | | — | |
| DSA releases | | (1,121,039) | |
| ESP releases | | (11,856) | |
| PSP releases | | (2,650,771) | |
| SAYE releases | | (107,203) | |
| Shares purchased | | — | |
| | 31 December 2022 | 14,587,379 | 1,458,738 |

The total number of shares held by the EBT at 31 December 2022 represents 0.36% (2021: 0.46%) of ITV's issued share capital. The market value of own shares held at 31 December 2022 is £11 million (2021: £20 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.

Notes to the Financial Statements

Section 5: Other Notes

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:

| | 2022 £m | 2021 £m |
|--|------------|------------|
| Sales to joint ventures | 41 | 24 |
| Sales to associated undertakings | 16 | 11 |
| Purchases from joint ventures | 33 | 32 |
| Purchases from associated undertakings | 77 | 65 |

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, BritBox International Limited and BritBox Australia Management Pty Limited. Sales to associated undertakings include airtime 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 31 December were:

| | 2022 £m | 2021 £m |
|---|------------|------------|
| Amounts owed by joint ventures | 12 | 11 |
| Amounts owed by associated undertakings | 19 | 10 |
| Amounts owed to joint ventures | 5 | 1 |
| Amounts owed to associated undertakings | 17 | 9 |

None of the balances are secured.

Amounts owed by joint ventures primarily relate to trading with BritBox LLC and BritBox Australia Management Pty Limited. Balances owed by associated undertakings largely relate to Bedrock Entertainment LLC and Southrock Productions LLC. Balances owed to associated undertakings primarily relate to trading with ITN Limited and amounts owed to Bedrock Entertainment LLC.

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 other members of the ITV Management Board. Key management personnel compensation is as follows:

| | 2022 £m | 2021 £m |
|------------------------------|------------|------------|
| Short-term employee benefits | 11 | 13 |
| Share-based compensation | 6 | 4 |
| | 17 | 17 |

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 liabilities

As reported in our interim financial statements, on 12 July 2022, the UK Competition and Markets Authority (CMA) opened an investigation into certain conduct of ITV and other named companies in the sector relating to the production and broadcasting of sports content in the United Kingdom. The investigation is at an early stage and it is not currently possible to reliably quantify any liability that might result from the investigation. ITV is committed to complying with competition law and is cooperating with the CMA's enquiries.

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 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 | SC375274 | ITV (Scotland) Limited |
| 04145307 | 12 Yard Productions Limited | 11516620 | ITV 112 Limited |
| 10058419 | Back Productions Limited | 12956892 | ITV AdVentures Limited |
| 13813181 | Big Talk (NEWCO1) Limited | 13087805 | ITV Alder Limited |
| 13087812 | Big Talk Alone Limited | 14047839 | ITV Archie Limited |
| 10496857 | Big Talk Cold Feet Limited | 11667230 | ITV Barking Limited |
| 12092620 | Big Talk Friday Limited | 02578005 | ITV Breakfast Limited |
| 11109596 | Big Talk Goes Wrong Limited | 13087759 | ITV Duneen Limited |
| 13087733 | Big Talk Horseface Limited | 10494684 | ITV Enterprises Limited |
| 13087735 | Big Talk I Hate You Limited | 14133299 | ITV Grace Limited |
| 07037447 | Big Talk Investments Limited | 04159210 | ITV Holdings Limited |
| 10528952 | Big Talk Living the Dream Limited | 04159213 | ITV International Channels Limited |
| 11723899 | Big Talk Offenders Limited | SC473179 | ITV LTVC (Scotland) Limited |
| 11109572 | Big Talk Peacock Limited | 13989147 | ITV Maternal Limited |
| 02897434 | Big Talk Pictures Limited | 00603893 | ITV Network Limited |
| 06567813 | Big Talk Productions Limited | 11723842 | ITV Nightingale Limited |
| 02936337 | Boom Cymru TV Ltd | 00603471 | ITV Pension Scheme Limited |
| 07922831 | Boom Pictures Limited | 14461569 | ITV POS Limited |
| 03866274 | Box Clever Technology Limited | 01565625 | ITV Properties (Developments) Limited |
| 01891539 | Broad Street Films Limited | | ITV Properties (Jersey) Limited |
| 11434722 | Button Hall Productions | 13087782 | ITV Ralph and Katie Limited |
| 02285229 | Campania Limited | 14460328 | ITV RE Limited |
| 04159249 | Carlton Content Holdings Limited | 08554937 | ITV Shetland Limited |
| 00301188 | Carlton Film Distributors Limited | 11723826 | ITV Spy Limited |
| 01692483 | Carlton Finance Limited | 09498877 | ITV TFG Holdings Limited |
| 03984490 | Carlton Food Network Limited | 11107934 | ITV The Bay Limited |
| 03053908 | Carlton Programmes Development Limited | 13087693 | ITV The Reckoning Limited |
| 03210452 | Carlton Screen Advertising (Holdings) Limited | 12368504 | ITV TLC Limited |
| 03210363 | Carltonco Ninety-Six | 09498177 | ITV Top Class Limited |
| 02280048 | Castlefield Properties Limited | 14048049 | ITV Venturer Limited |
| 06409013 | Cat's on the Roof Media Limited | 03089273 | ITV Ventures Limited |
| 04257248 | Channel Television Holdings Limited | 11107431 | ITV Vera Limited |
| 08195508 | Cirkus Limited | 14460676 | ITV WKOW Limited |
| 10240192 | Cloth Cat LBB Limited | 13087699 | ITV Y&M Limited |
| 02852812 | Cosgrove Hall Films Limited | 05518785 | Juice Music UK Limited |
| 09366309 | Crook Productions Limited | 12368661 | Mammoth Screen (BHR) Limited |
| 05421502 | Cynhyrchiadau Boomerang Cyfyngedig | 09355455 | Mammoth Screen (End) Limited |
| 08479545 | Double Double Limited | 08546227 | Mammoth Screen (End2) Limited |
| 07821062 | EQ Pictures Limited | 11109917 | Mammoth Screen (End6) Limited |
| 09366308 | Gameface Productions Limited | 11908267 | Mammoth Screen (End7) Limited |
| 05946785 | Gorilla TV Group Limited | 12368766 | Mammoth Screen (End8) Limited |
| 03776018 | Gorilla TV Limited | 10528827 | Mammoth Screen (End9) Limited |
| 00290076 | Granada Group Limited | 13087685 | Mammoth Screen (Evans) Limited |
| 03962410 | Granada Limited | 13989267 | Mammoth Screen (GK) Limited |
| 03106798 | Granada Media Limited | 11995990 | Mammoth Screen (MD) Limited |
| 05344772 | Granada Screen (2005) Limited | 12735978 | Mammoth Screen (MD2) Limited |
| 00733063 | Granada Television Overseas Limited | 13989179 | Mammoth Screen (MIE) Limited |
| 00250311 | Granada UK Rental and Retail Limited | 11062257 | Mammoth Screen (NC) Limited |
| 10094508 | Harlots Limited | 09660486 | Mammoth Screen (Pol2) Limited |
| 04842712 | Interactive Telephony Limited | 10031005 | Mammoth Screen (Pol3) Limited |
| 00608490 | ITC Entertainment Group Limited | 10528763 | Mammoth Screen (Pol4) Limited |

| Company number | Company name | Company number | Company name |
|----------------|----------------------------------|----------------|--------------------------------|
| 11108289 | Mammoth Screen (Pol5) Limited | 13714204 | QSP Nolly Limited |
| 08799982 | Mammoth Screen (Poldark) Limited | 14460933 | QSP PD Limited |
| 09646520 | Mammoth Screen (QV) Limited | 14048037 | QSP SO limited |
| 11108327 | Mammoth Screen (Serpent) Limited | 14460663 | QSP TRK Limited |
| 11204836 | Mammoth Screen (SG) Limited | 12350991 | Second Act (Grace) Limited |
| NI678277 | Mammoth Screen (TJ) Limited | 09366311 | Second Act Productions Limited |
| 13087656 | Mammoth Screen (Tower) Limited | 07714999 | Sightseers Film Limited |
| 10528702 | Mammoth Screen (VF) Limited | 03991026 | So Television Limited |
| 11108322 | Mammoth Screen (Vic3) Limited | 07155077 | The Garden Productions Limited |
| 11108320 | Mammoth Screen (WOF) Limited | 02351132 | TwoFour Broadcast Limited |
| NI687412 | Mammoth Screen (WOF2) Limited | 08602993 | TwoFour Group Holdings Limited |
| 10973979 | Mammoth Screen (WOTW) Limited | 05493388 | TwoFour Group Limited |
| 05976348 | Mammoth Screen Ltd | 11109744 | WP Anne Limited |
| 13412337 | Metavision Limited | 10796122 | WP Bodyguard Limited |
| 09477931 | Monumental Television Limited | 14360979 | WP Delia Limited |
| 04201477 | Morning TV Limited | 12368643 | WP Diplomat Limited |
| 12180134 | MT Ghosts 2 Limited | 11109437 | WP Vigil Limited |
| 12368748 | MT Ghosts Limited | 13988864 | WP Fifteen Limited |
| 13989060 | MT Maryland Limited | 12116627 | WP Karen Pirie Limited |
| 13813329 | MT Mrs Sidhu Limited | 11109287 | WP LOD5 Limited |
| 13087117 | MT Murder in Provence Limited | 12116457 | WP LOD6 Limited |
| 13506403 | Planet Woo Limited | 13087865 | WP Malpractice Limited |
| 14163547 | QSP ATF Limited | 12116461 | WP Pembrokeshire Limited |
| 14163654 | QSP FMO Limited | 13087860 | WP RM Limited |
| 14460916 | QSP Ghosted Limited | 11109929 | WP Save Me 2 Limited |
| 14496123 | QSP Men Up Limited | 12368475 | WP Showtrial Limited |
| 14458573 | QSP MU Limited | 12368477 | WP The Suspect Limited |
| 14462220 | QSP MY Limited | | |

ITV Properties (Jersey) Limited is exempt from audit under article 113 of the Companies Act (Jersey) Law 1991

ITV plc Company Financial Information

Statement of Financial Position

| As at 31 December | Note | 2022 £m | 2021 £m |
|--|------|------------|------------|
| Non-current assets | | | |
| Investments in subsidiary undertakings | iii | 3,224 | 3,080 |
| Derivative financial instruments | vi | 2 | 1 |
| Deferred tax asset | | 3 | 3 |
| | | 3,229 | 3,084 |
| Current assets | | | |
| Amounts owed by subsidiary undertakings due within one year | iv | 2,954 | 4,277 |
| Amounts owed by subsidiary undertakings due after more than one year | iv | 96 | 527 |
| Amounts owed by subsidiary undertakings | iv | 3,050 | 4,804 |
| Derivative financial instruments | vi | 7 | 7 |
| Other receivables | | 17 | 8 |
| Cash and cash equivalents | | 197 | 549 |
| | | 3,271 | 5,368 |
| Borrowings | | (279) | (281) |
| Amounts owed to subsidiary undertakings | iv | (2,681) | (5,026) |
| Accruals | | (8) | (10) |
| Derivative financial instruments | vi | (8) | (8) |
| Current liabilities | | (2,976) | (5,325) |
| Net current assets | | 295 | 43 |
| Borrowings | v | (531) | (722) |
| Derivative financial instruments | vi | (10) | (37) |
| Non-current liabilities | | (541) | (759) |
| Net assets | | 2,983 | 2,368 |
| Share capital | vii | 403 | 403 |
| Share premium | viii | 174 | 174 |
| Other reserves | viii | 29 | 31 |
| Retained earnings | viii | 2,377 | 1,760 |
| Total shareholders' equity | | 2,983 | 2,368 |

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company Income Statement. The Company's profit for the year was £800 million (2021: profit of £150 million).

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 2022 | | 403 | 174 | 31 | 1,760 | 2,368 |
| Total comprehensive income for the year | | | | | | |
| Profit for the year | | — | — | — | 800 | 800 |
| Net loss on cash flow hedges and cost of hedging | | — | — | (2) | — | (2) |
| Total comprehensive income for the year | | — | — | (2) | 800 | 798 |
| Transactions with owners recorded directly in equity | | | | | | |
| Contributions by and distributions to owners | | | | | | |
| Equity dividends | | — | — | — | (201) | (201) |
| Movements due to share-based compensation | | — | — | — | 19 | 19 |
| Tax on items taken directly to equity | | — | — | — | (1) | (1) |
| Total transactions with owners | | — | — | — | (183) | (183) |
| Balance at 31 December 2022 | vii/viii | 403 | 174 | 29 | 2,377 | 2,983 |

| | Note | Share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total £m |
|---|----------|---------------------|---------------------|----------------------|-------------------------|--------------|
| Balance at 1 January 2021 | | 403 | 174 | 10 | 1,596 | 2,183 |
| Total comprehensive income for the year | | | | | | |
| Profit for the year | | — | — | — | 150 | 150 |
| Net gain on cash flow hedges and cost of hedging | | — | — | 19 | — | 19 |
| Income tax charge on other comprehensive income* | | — | — | 2 | 1 | 3 |
| Total comprehensive income for the year | | — | — | 21 | 151 | 172 |
| Transactions with owners recorded directly in equity | | | | | | |
| Contributions by and distributions to owners | | | | | | |
| Equity dividends | | — | — | — | — | — |
| Movements due to share-based compensation | | — | — | — | 12 | 12 |
| Tax on items taken directly to equity | | — | — | — | 1 | 1 |
| Total transactions with owners | | — | — | — | 13 | 13 |
| Balance at 31 December 2021 | vii/viii | 403 | 174 | 31 | 1,760 | 2,368 |

* Income tax on other comprehensive income has been reallocated to the relevant reserves from Retained Earnings in the prior year.

Note i Accounting policies

In this section

This section sets out the notes to the ITV plc Company only financial information. Those statements form 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 information. These financial information were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). The Company is registered in England and Wales.

In preparing these 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 Instruments: Disclosure'
- Certain disclosures required under IFRS 13 'Fair Value Measurement'
- Disclosure of information in relation to new standards not yet applied

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

The financial information have been prepared on a going concern basis.

Changes in accounting policy

New accounting standards, interpretations and amendments that are effective from 1 January 2022 have not had significant impact on the Company's results or Statement of Financial Position.

Accounting standards effective in future periods

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

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.

Expected credit losses on amounts due from subsidiary undertakings is considered a key source of estimation uncertainty.

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 other reserves 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 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.

Two (2021: 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 50.6 pence (2021: 72.3 pence) (excluding nil priced share options). The options outstanding at the year end have an exercise price in the range of nil to 130.61 pence (2021: nil to 162.55 pence) and a weighted average contractual life of two years (2021: two years) for all the schemes in place for the Group.

The carrying value at 31 December 2022 was £3,224 million (2021: £3,080 million). The increase in investments in subsidiary undertakings by £144 million is due to the Company capitalising a loan due from another Group company. 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 including borrowings supports the carrying value of the investment in subsidiary undertakings and net amounts owed from subsidiary undertakings with headroom of over £3 billion (2021: £5 billion).

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 2022 (2021: no impairment).

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. Interest is payable on intra-group cash pool balances at 0.5% above base rate per annum and the balances are repayable on demand. Other loans to subsidiary undertakings are repayable according to contractual terms. 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 credit risk management practices of the Company include internal review and reporting of the historical credit losses and forward-looking data. The Company applies the IFRS 9 simplified approach in measuring expected credit losses, which use a lifetime expected credit loss allowance for amounts due from subsidiary undertakings, and other receivables.

To measure expected credit losses, amounts due from subsidiary undertakings, and other receivables have been grouped by shared credit risk characteristics. In addition to the expected credit losses, the Company may make additional provisions for the particular receivables if the deterioration of financial position is observed.

Note ii Employees and share- based payments

Note iii Investments in subsidiary undertakings

Note iv Amounts owed (to)/from subsidiary undertakings

During the year, the Company provided for £192 million (2021: £17 million) of doubtful debts for amounts owed by its subsidiary undertakings. £11 million was written back to the Income Statement for provisions of doubtful debts no longer required.

The recoverability of the amounts owed by subsidiary undertakings is assessed on an annual basis or more frequently when an indication of impairment exists. Determining whether there is an indication of impairment requires judgement as the assessment is based on either net assets of the undertaking or forecast future performance.

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 these Company financial information.

Cash and cash equivalents

At 31 December 2022, the Company has a cash position of £197 million (2021: £549 million).

Loans and facilities due within one year

In January 2022, the Group entered into a new syndicated £500 million Revolving Credit Facility ('RCF') to meet short-term funding requirements, of which £50 million was drawn at 31 December 2022. The original terms of the RCF ran until January 2027; however, ITV plc took the opportunity to give notice to extend for one year, pushing current expiry out to 2028. (There is a further extension opportunity in 2024, which means that facility could potentially provide funding out to 2029). The financial covenants in the new RCF are the same as those that applied to the previous RCF. In addition, there are ESG targets linked to the delivery of ITV's science-based carbon emissions targets.

The €335 million Eurobond was repaid in September 2022.

The €259 million Eurobond, at a fixed coupon of 2.0%, matures in December 2023 (the principal and final interest payment having been fully hedged with FX forward rate agreements).

Loans and loan notes due after one year

The Group has the following Eurobond in issue:

- €600 million at a fixed coupon of 1.375%, which matures in September 2026 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.

What is the value of our derivative financial instruments?

| | Assets 2022 £m | Liabilities 2022 £m |
|--|----------------------|---------------------------|
| Current | | |
| Foreign exchange forward contracts and swaps – fair value through profit or loss | 7 | (7) |
| Foreign exchange forward contracts and swaps – cash flow hedges | – | (1) |
| Non-current | | |
| Cross-currency interest swaps – cash flow hedges | – | (8) |
| Foreign exchange forward contracts and swaps – fair value through profit or loss | 2 | (2) |
| | 9 | (18) |

| | Assets 2021 £m | Liabilities 2021 £m |
|---|----------------------|---------------------------|
| Current | | |
| Foreign exchange forward contracts and swaps – fair value through profit or loss* | 7 | (8) |
| Non-current | | |
| Cross-currency interest swaps – cash flow hedges | – | (36) |
| Foreign exchange forward contracts and swaps – fair value through profit or loss | 1 | (1) |
| | 8 | (45) |

* 2021 has been updated from prior year to better reflect the foreign exchange forward contracts and swaps between the Company and its subsidiaries

The Company employs cross-currency interest rate swaps 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 and cross-currency interest rate swaps both to manage foreign currency cash flow timing differences and to hedge foreign currency denominated monetary items.

Note vi Managing market risks: derivative financial instruments

Cash flow hedges

In order to fix the sterling cash outflows associated with the commitments and interest payments – which are mainly denominated in 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 £3 million (2021: less than £1 million) ineffectiveness taken to the Income Statement and £37 million cumulative gain (2021: £32 million cumulative loss*) recycled to the Income Statement in the year.

Under IFRS 9, the Company 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 Statement of Financial Position and amortised through net financing costs in the 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 Statement of Comprehensive Income.

* 2021 has been updated from prior year to better reflect the amounts reclassified from the Consolidated Statement of Comprehensive Income to the Consolidated Income Statement

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.

| | 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 |
|---|----------------------|------------------------------------|------------------------|-----------------------------|-----------------------------|--------------------|
| At 31 December 2022* | | | | | | |
| Non-current and current | | | | | | |
| Foreign exchange forward contracts and swaps – cash flow hedges | | | | | | |
| Inflow | – | 233 | 233 | – | – | – |
| Outflow | (1) | (236) | (236) | – | – | – |
| Cross-currency swaps – cash flow hedges | | | | | | |
| Inflow | – | 560 | 7 | 7 | 546 | – |
| Outflow | (8) | (596) | (16) | (16) | (564) | – |
| Foreign exchange forward contracts and swaps – fair value through profit or loss | | | | | | |
| Inflow | 9 | 570 | 403 | 136 | 31 | – |
| Outflow | (9) | (570) | (403) | (136) | (31) | – |
| | (9) | (39) | (12) | (9) | (18) | – |
| At 31 December 2021* | | | | | | |
| Non-current and current | | | | | | |
| Cross-currency swaps – cash flow hedges | | | | | | |
| Inflow | – | 539 | 7 | 7 | 525 | – |
| Outflow | (36) | (612) | (16) | (16) | (580) | – |
| Foreign exchange forward contracts and swaps – fair value through profit or loss ** | | | | | | |
| Inflow | 8 | 667 | 569 | 98 | – | – |
| Outflow | (9) | (666) | (568) | (98) | – | – |
| | (37) | (72) | (8) | (9) | (55) | – |

* The Company is jointly and severally liable for VAT at 31 December 2022 of £35 million (31 December 2021: £53 million)

** 2021 has been updated from prior year to better reflect the foreign exchange forward contracts and swaps between the Company and its subsidiaries

Allotted, issued and fully paid
2022 & 2021
£m

| | |
|--|------------|
| Allotted, issued and fully paid ordinary shares of 10 pence each | 403 |
| Total | 403 |

The Company's ordinary shares give shareholders equal rights to vote, receive dividends and to the repayment of capital.

Note vii Share 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 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 profit after tax for the year of £800 million (2021: £150 million), which includes dividends of £980 million from subsidiaries in 2022 (2021: £200 million).

During the year, the Company provided for £192 million (2021: £17 million) of doubtful debts for amounts owed by its subsidiary undertakings. £11 million was written back to the Income Statement for provisions of doubtful debts no longer required.

The recoverability of the amounts owed by subsidiary undertakings is assessed on an annual basis or more frequently when an indication of impairment exist. Determining whether there is an indication of impairment requires judgement as the assessment is based on either net assets of the undertaking or forecast future performance.

The share premium of £174 million remains unchanged in the year. Other reserves of £29 million (2021: £31 million) comprises Merger reserves of £36 million (2021: £36 million) which relate to share buybacks in prior periods and Translation reserves with net losses of £7 million (net losses of £5 million) which relate to cash flow hedges and cost of hedging.

Dividends

Reflecting ITV's strong operational and financial performance in the year, and in line with previous guidance, the Board proposes a final dividend of 3.3p, giving a full year dividend of 5.0p per share. In 2022, £201 million of dividends were paid (2021: £nil), representing a final 2021 dividend of 3.3p per share and an interim 2022 dividend of 1.7p per share.

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.

As reported in our interim financial statements, on 12 July 2022, the UK Competition and Markets Authority (CMA) opened an investigation into certain conduct of ITV and other named companies in the sector relating to the production and broadcasting of sports content in the United Kingdom. The investigation is at an early stage and it is not currently possible to reliably quantify any liability that might result from the investigation. ITV is committed to complying with competition law and is cooperating with the CMA's enquiries.

Under a Group registration, the Company is jointly and severally liable for VAT at 31 December 2022 of £35 million (31 December 2021: £53 million). The Company has guaranteed certain performance and financial 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 is expected to have a material effect on the Company's results or financial position.

The Company enters into guarantee contract to guarantee the performance and/or financial obligations of other companies within the Group. In this respect, the Company treats these guarantee contracts as a contingent liability until it becomes probable that the Company will be required to make a payment under the relevant guarantee.

The Company has a £300 million bilateral loan facility which matures on 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. At 31 December 2021 £152 million of the facility was utilised as a letter of credit to support the Group's asset-backed pension scheme arrangement in respect of the defined benefit pension scheme. This pension scheme arrangement has been restructured in the period and the letter of credit has been released. At 31 December 2022, the facility was undrawn.

There are no capital commitments at 31 December 2022 (2021: 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:

| | 2022 £m | 2021* £m |
|---|------------|-------------|
| Amounts owed by subsidiary undertakings that are not wholly owned | 55 | 191 |
| Amounts owed to subsidiary undertakings that are not wholly owned | (4) | (8) |

Amounts owed by subsidiary undertakings that are not wholly owned relate mainly to funding provided to production companies in our Studios division.

Amounts owed to subsidiary undertakings that are not wholly owned, relate mainly to amounts owed to 3sixtymedia Limited and ITV Studios France S.A.S.

* 2021 has been updated as follows, Amounts owed by subsidiary undertakings that are not wholly owned was previously £164 million and amounts owed to subsidiary undertakings that are not wholly owned was previously £3 million.

Transactions with key management personnel

Key management consists of ITV plc Executive Directors.

Key management personnel compensation, on an accounting basis, is as follows:

| | 2022 £m | 2021 £m |
|------------------------------|------------|------------|
| Short-term employee benefits | 3 | 4 |
| Share-based compensation | 3 | 2 |
| | 6 | 6 |

Total emoluments and gains on share options received by key management personnel in the year were:

| | 2022 £m | 2021 £m |
|------------------------------------|------------|------------|
| Emoluments | 3 | 2 |
| Gains on exercise of share options | — | 2 |
| | 3 | 4 |