Rebalanced ITV delivers continued growth

Full year results for the year ended 31st December 2016

Revenue growth driven by double-digit increase in non-NAR

- Total external revenue up 3% to £3,064m (2015: £2,972m), including currency benefit
- Total non-NAR revenue up 11% to £1,855m (2015: £1,664m), now 53% of total revenues
- Total ITV Studios revenue up 13% to £1,395m (2015: £1,237m)
- Online, Pay & Interactive revenue up 23% to £231m (2015: £188m)
- Net Advertising revenue down 3% to £1,672m (2015: £1,719m), performing ahead of the TV ad market

Rebalanced business delivering adjusted profit growth

- Adjusted EBITA up 2% to £885m (2015: £865m), despite the decline in the ad market
- Studios adjusted EBITA up 18% to £243m (2015: £206m)
- Broadcast & Online adjusted EBITA down 3% to £642m (2015: £659m)
- Adjusted EPS up 3% to 17.0p (2015: £16.5p)
- Statutory EPS down 10% to 11.2p (2015: 12.4p) impacted by restructuring and earnout costs

Confident in the underlying strength of the business

- Broadcast business remains robust: Main channel SOV up 3%, online viewing up 42%
- ITV Studios has a healthy pipeline of new and returning programmes
- Building our digital business in Studios and Broadcast

Strong balance sheet, healthy liquidity

- Flexibility and capacity to continue to invest across the business and deliver sustainable returns to our shareholders
- Given our good performance the Board is proposing a final dividend of 4.8p, giving a full year dividend of 7.2p, up 20%, in line with our policy
- Reflecting ITV's strong cash generation and the Board's confidence in the business, the Board is proposing a special dividend of 5.0p per share, worth just over £200 million
- The Board is committed to a long term sustainable dividend policy. The ordinary dividend will grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term

Outlook for 2017 and beyond

- ITV Studios on track to deliver good organic revenue growth in 2017
- Online, Pay & Interactive will continue to perform strongly
- ITV Family NAR forecast to be down around 6% over the first 4 months, impacted by current economic uncertainty
- Over the full year ITV will outperform the TV ad market
- Will deliver £25m of incremental cost savings in 2017 as previously announced
- We have a strong balance sheet and continue to see clear opportunities to invest behind our strategy in the UK and internationally

Adam Crozier, ITV plc Chief Executive, said:

"ITV delivered a good performance in 2016 as we continue our strategy of rebalancing and strengthening the business creatively, commercially and financially. The continued growth in revenue and adjusted profit, despite a 3% decline in spot advertising revenues resulting from wider political and economic uncertainty, is clear evidence that our strategy is working and remains the right one for ITV.

External revenue was up 3% to more than £3bn, driven by strong growth in non-NAR as we further reduce our dependence on spot advertising and grow new revenue streams. In 2016, 53% of total ITV revenues came from sources outside traditional TV spot advertising.

Our production business, ITV Studios, is a global player of scale with 50% of total revenues coming from outside the UK and a stronger than ever pipeline of new and returning programmes in the key genres of scripted and formats. In 2016 ITV Studios supplied around 7,800 hours of content to 234 channels and platforms in the UK and internationally, including 155 hours of drama and 80 formats. There is growing demand for our content on OTT platforms with over 200 programme supply agreements in place.

Our Broadcast business is robust and onscreen we performed well with share of viewing up 3% on our main channel. ITV maintains its leading position in the UK television advertising market, delivering 99% of all UK commercial audiences over 5 million, and remains highly demanded by advertisers. Whilst our net advertising revenues have declined, we again outperformed the UK television ad market as a whole.

Our Online, Pay & Interactive revenues rose 23% driven by increased demand for advertising online. The ITV Hub continues to thrive with online viewing up 42% and around half of all the UK's 16 to 24 year olds registered. We are also making selective investments in digital content companies including New Form, Rocket Jump, AwesomenessTV and Ginx TV as we build our expertise in digital first content.

We've taken an important step forward in our strategy of building our pay and distribution business with the soon to launch BritBox US, an SVOD 50/50 joint venture with the BBC offering the best of British TV from both broadcasters including recent series and classics. It is our intention to roll the service out internationally under the BritBox brand.

Looking forward to 2017, ITV Studios will return to good organic revenue growth. As we previously stated, increased investment in US scripted content including Somewhere Between, The Good Witch, Sun Records and Snowpiercer, along with the reversal of the one-off benefit of The Voice of China in 2016, means that ITV Studios profits in 2017 are likely to be broadly in line with 2016.

We expect ITV NAR to be down around 6% over the first four months against the backdrop of current economic uncertainty, although over the full year we expect to again outperform our estimate of the television advertising market. Online Pay & Interactive will perform strongly and a particular focus for 2017 will be the launch of BritBox.

We see a good pipeline of investment opportunities across ITV, organically and through acquisitions, and our strong balance sheet and healthy cash flow allows us to take advantage of these while delivering sustainable returns to our shareholders. We remain focused on growing our international content business and on building digital assets throughout the company to drive further value from the programmes we create and own.

Given our good performance the Board is proposing a final dividend of 4.8p, bringing the full year dividend to 7.2p, up 20%. Looking ahead, the Board is committed to a long term sustainable dividend policy. The ordinary dividend will grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term. Reflecting ITV's strong cash generation and the Board's confidence in the business, the Board is proposing a special dividend of 5.0p per share, worth just over £200 million."

Full year results – adjusted and statutory

Twelve months to 31 December – on an adjusted basis	2016 £m	2015 £m	Change £m	Change %
Broadcast & Online revenue	2,132	2,146	(14)	(1)
ITV Studios revenue	1,395	1,237	158	13
Total revenue	3,527	3,383	144	4
Internal supply	(463)	(411)	52	13
Group external revenue	3,064	2,972	92	3
Broadcast & Online EBITA	642	659	(17)	(3)
ITV Studios EBITA	243	206	37	18
EBITA	885	865	20	2
Group EBITA margin	29%	29%	–	–
Profit before tax	847	843	4	–
EPS	17.0p	16.5p	0.5p	3
Ordinary dividend per share	7.2p	6.0p	1.2p	20
Special dividend per share	5.0p	10.0p		

Management look at adjusted results as they reflect the way the business is managed and measured on a day-to-day basis. Adjusted EBITA is before exceptional items and includes the benefit of production tax credits. Adjusted profit before tax and adjusted EPS also remove the effect of amortisation of intangible assets acquired through business combinations and acquisition related costs. A full reconciliation between the adjusted and statutory results is provided later in the press release in the EPS section.

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

Twelve months to 31 December	2016 £m	2015 £m	Change £m	Change %
Profit before tax	553	641	(88)	(14)
EPS	11.2p	12.4p	(1.2)	(10)
Diluted EPS	11.1p	12.3p	(1.2)	(10)

Statutory EPS declined by 10% to 11.2p (2015: 12.4p) primarily as a result of higher employment linked consideration (largely Talpa), which is included within reported earnings per share but as in 2015 is excluded from adjusted EPS as in our view these costs are part of capital consideration. In addition there were higher restructuring costs associated with our 2017 cost savings, the curtailment charge for closing the defined benefit pension scheme to future benefit accrual and higher amortisation of acquired intangibles assets from a full 12 months of Talpa Media.

Financial performance

The strategy we set out around seven years ago was to rebalance the business and reduce our reliance on spot advertising revenues. Reflecting the progress we have made we delivered a good performance in 2016, with revenue and adjusted EBITA growth in a year where spot advertising declined 3%. Total external revenues grew 3% to £3,064 million (2015: £2,972 million) driven by non-NAR revenues. Total ITV Studios revenues were up 13% to £1,395 million (2015: £1,237 million), driven by acquisitions, and Online, Pay & Interactive continued to grow strongly up 23% to £231 million (2015: £188 million). This revenue growth, together with our continued focus on cash and costs, has resulted in 2% growth in adjusted EBITA and 3% growth in adjusted EPS.

We have a strong balance sheet and the business remains highly cash generative. Profit-to-cash conversion was 97% and free cash flow was £636 million up 13%. We ended the year with net debt of £637 million after acquisitions of £97 million, dividend payments of £663 million and pension deficit contributions of £80 million. At 31 December our reported net debt to adjusted EBITDA was 0.7x.

Reflecting this good performance and in line with the policy the Board set three years ago, the Board is proposing a final dividend of 4.8p which equates to a full year dividend of 7.2p, up 20% on prior year. This is a dividend cover of 2.4x and delivers on the Board's commitment set out in 2014 to grow the ordinary dividend by at least 20% per annum and deliver cover of between 2.0 to 2.5x adjusted EPS. Reflecting ITV's strong cash generation and the Board's confidence in the business, the Board is proposing a special dividend of 5.0p per share, worth just over £200 million.

Broadcast & Online

Broadcast & Online revenue declined 1% in 2016 to £2,132 million (2015: £2,146 million) with adjusted EBITA down 3% at £642 million (2015: £659 million) which reflects a 3% decline in highly geared NAR, partly offset by 23% growth in high margin Online, Pay & Interactive.

Against a backdrop of wider economic uncertainty, ITV Family NAR decreased by 3% to £1,672 million including the benefit of UTV (2015: £1,719 million). We again performed better than our estimate of the UK TV advertising market, which excludes VOD, sponsorship and self promotion, and grew our share of broadcast (SOB) to 47.4%. Category performance has been mixed with entertainment and leisure, cars, cosmetics and household goods continuing to spend while retail, finance and food have seen declines with supermarkets and traditional banking particularly decreasing their spend.

On-screen we performed strongly with ITV Family SOV up 1% and for ITV main channel up 3%. We had many successes in the year including the Six Nations Rugby and the European Football Championships and strong performances from drama including Victoria, Cold Feet, The Durrells and Marcella, along with an improved daytime schedule. ITV again maintained its leading position as the only commercial broadcaster able to consistently deliver both mass audiences and the key demographics. Over the year ITV delivered 99% of all commercial audiences over 5 million and 95% of all commercial audiences over 3 million.

Online, Pay & Interactive continued to show strong growth, up 23% to £231 million, reflecting further growth in both our online advertising and pay businesses. Audience demand for VOD, particularly from younger demographics, continues to grow supported by the ITV Hub. This helped drive a 24% increase in long form video requests and 42% increase in consumption, reflecting the fact that people are viewing for longer.

Schedule costs were broadly flat year on year at £1,050 million (2015: £1,045 million) with higher spend on drama offset by lower spend on sports rights with the absence of the Champions League. Other costs were flat year on year as we continue to maintain a tight control on costs across the business.

ITV Studios

ITV Studios total revenue grew strongly up 13% to £1,395 million (2015: £1,237 million) driven by ITV Studios UK, Global Entertainment and our acquisitions, as we continue to build scale in creative content markets and strengthen our international portfolio of programmes that return and travel. Total organic revenue, which excludes our current and prior year acquisitions, was down 3%, and excluding foreign exchange movements as well, it was down 7%. This was primarily due to ITV America being impacted by two large shows not returning and the timing of one of our key shows. Good performance by the UK, Global Entertainment and Talpa helped offset some of this decline. It is in the nature of our business that not all programmes will return for another series and the timing of programme deliveries will vary. However, since 2010 ITV Studios has shown good organic growth (excluding all currency and acquisitions) at 4% compound annual growth rate.

Reflecting our growth and increasing scale in key production markets in Europe and the US, 50% of ITV Studios total revenue in 2016 was generated outside the UK. As our Studios business grows internationally, foreign currency movements have an increasing impact on our results. On a constant currency basis, which assumes exchange rates remained consistent with 2015, ITV Studios revenue for 2016 would have been £75 million lower and adjusted EBITA would have been £12 million lower as a result of a stronger US dollar and Euro during the year.

Total Studios UK revenue was up 14% to £626 million (2015: £547 million) reflecting 13% growth in internal revenue and 20% increase in external revenue driven by 6% organic growth and the acquisition of TwoFour Group and Mammoth Screen in 2015.

ITV America's total revenue declined 27% to £235 million (2015: £320 million) with organic revenue down 35%. This decline was predominantly driven by three shows – Texas Rising and Best Time Ever – not returning and the phasing of Hell's Kitchen, which was not delivered in 2016, but will return for two series in 2017. Our acquisitions continue to deliver new and returning programmes, including Alone, Killing Fields, Pawn Stars and Fixer Upper. Other successful non-scripted deliveries by ITV America included American Grit, Tiny House Nation and The Real Housewives of New Jersey. Our returning scripted dramas, The Good Witch and Aquarius also aired during 2016 with The Good Witch already recommissioned for a third series in 2017. Aquarius has not been recommissioned for 2017, but we are confident we can replace it with our upcoming slate of new programmes, including three dramas: Sun Records, Somewhere Between and a pilot for Snowpiercer as we continue to build our US scripted business.

Studios Rest of World (RoW) total revenue was up 67% to £355 million (2015: £213 million), with organic revenue down 1%. We benefited from 12 months of Talpa Media, which was acquired on 30 April 2015 and has significantly strengthened our position as a leading international producer and distributor. Talpa performed strongly in 2016 and also benefited from a four-year licensing agreement for The Voice of China.

Global Entertainment revenue increased 14% in the period to £179 million (2015: £157 million), with revenue excluding foreign exchange up 6% as we continued to grow our portfolio of programmes and formats to distribute internationally to broadcasters and platform owners.

Reflecting the strong revenue growth in ITV Studios, adjusted EBITA increased 18% to £243 million (2015: £206 million). The adjusted EBITA margin remains unchanged at 17%.

Acquisitions

On 29 February 2016 the Group acquired a 100% controlling interest in UTV Limited, which owns the television assets of the former UTV Media plc, for £100 million. This further strengthens ITV's free-to-air business and, as we have integrated it into ITV, it enables us to run a more efficient network. On 30 November 2016 ITV completed the €10 million sale of UTV Ireland, which is not part of the ITV Network, to Virgin Media Limited.

EPS

Adjusted profit before tax, after the adjustments to add back amortisation and impairment of intangible assets and financing costs, was broadly flat at £847 million (2015: £843 million).

Statutory EPS is adjusted to reflect the underlying performance of the business, providing a more meaningful comparison of how the business is managed and measured on a day-to-day basis. The table below reconciles our statutory to adjusted results. Adjustments include: all exceptional items, primarily acquisition-related costs such as employment linked consideration and professional fees for due diligence; impairment of intangible assets; amortisation of intangible assets acquired through business combinations including formats and customer contracts; net financing cost adjustments; and tax adjustments relating to these items. Amortisation of intangible assets that are required to run our business, including software licences, is not adjusted for. The total adjusted tax charge for 2016 was £160 million (2015: £177 million), corresponding to an effective tax rate on adjusted PBT of 19% (2015: 21%) which is broadly in line with the standard UK corporation tax rate of 20% (2015: 20.25%). We expect this effective tax rate to be sustainable in the medium term. Adjusted basic EPS was 17.0p (2015: 16.5p), up 3%.

Statutory EPS declined by 10% to 11.2p (2015: 12.4p), as a result of higher exceptional costs of £164 million (2015: £103 million). This was primarily a result of higher employment linked consideration (largely Talpa), which is included within reported earnings per share but, as in prior years, is excluded from adjusted EPS as in our view these costs are part of capital consideration. In addition there were higher restructuring costs associated with our 2017 cost savings, the curtailment charge for closing the defined benefit pension scheme to future benefit accrual and higher amortisation of acquired intangible assets from a full 12 months of Talpa Media.

Twelve months to 31 December – on an adjusted basis	Statutory £m	Adjustments £m	Adjusted £m
EBITA	**857**	**28**	**885**
Exceptional items (operating)	(164)	164	–
Amortisation and impairment of intangible assets	(89)	77	(12)
Operating profit	**604**	**269**	**873**
Net financing costs	(51)	25	(26)
Profit before tax	**553**	**294**	**847**
Tax	(100)	(60)	(160)
Profit after tax	**453**	**234**	**687**
Non-controlling interests	(4)	–	(4)
Loss from discontinued operations (net of tax)	(1)	1	–
Earnings	**448**	**235**	**683**
Shares (million), weighted average	4,010	–	4,010
EPS	**11.2p**		**17.0p**

Balance sheet and cash flow

ITV remains highly cash generative reflecting our continued tight management of working capital balances and our disciplined approach to cash and costs. In the year we generated £862 million (2015: £788 million) of adjusted operational cash from £885 million (2015: £865 million) of adjusted EBITA, which equates to a strong profit-to-cash ratio of 97% (2015: 91%).

After payments for interest, cash tax and pension funding, our free cash flow remained strong in the period, up 13% to £636 million (2015: £562 million). Overall, after dividends (ordinary and special), acquisition related costs, debt repayments and strategic investments, we ended the year with net debt of £637 million, compared to net debt of £796 million at 30 June 2016 and net debt of £319 million at 31 December 2015.

We are financed using debt instruments and facilities with a range of maturities. In December 2016 we issued a new €500 million Eurobond at a coupon of 2.00% which was swapped into sterling using a number of cross currency interest rate swaps. The net sterling interest rate payable on these swaps is c. 3.5%. The net sterling proceeds from the bond of £425 million were primarily used to refinance existing debt, including the £161 million bond that matured in January 2017, and will be used to pay the first tranche of the Talpa Media earnout due in 2017.

Our balance sheet strength, together with our strong free cash flow, enables us to continue to invest in opportunities to grow the business and make returns to our shareholders. To preserve our financial flexibility we have put a number of new facilities in place. We have increased our Revolving Credit Facility from £525 million to £630 million and extended it for a further five years to 2021 (with the option to extend to 2023). We have also increased our bilateral financing facility from £175 million to £300 million, which is free of financial covenants. This, along with our two bilateral loans which total £250 million and mature in 2017 (may be extended until 2018 at ITV's option), provides us with sufficient liquidity to meet the requirements of the business in the medium to long-term. Of the total £1,180 million facilities in place, £250 million was drawn down at 31 December 2016. Our policy is to maintain at least £250 million of available liquidity at any point.

We believe maintaining leverage below 1.5x reported net debt to adjusted EBITDA will optimise our cost of capital. At 31 December 2016, reported net debt to adjusted EBITDA was 0.7x.

Our objective is to run an efficient balance sheet. Our priority is to invest to drive organic growth and make acquisitions in line with our strategic priorities, and over time we will continue to look to increase our balance sheet leverage towards 1.5x as we find the right opportunities to do so. We will balance this investment with attractive returns to shareholders where we have surplus capital.

Dividend per share

In 2014, the Board made a commitment to grow the full year ordinary dividend by at least 20% per annum to 2016 to achieve a more normal dividend cover of between 2.0 and 2.5x adjusted earnings per share. In line with this policy, and reflecting ITV's good performance in 2016, the Board is proposing a final dividend of 4.8p which equates to a full year dividend up 20% to 7.2p, which gives a cover of 2.4x adjusted EPS. We have delivered average annual growth of 27% in the ordinary dividend over the last three years.

Reflecting ITV's strong cash generation and the Board's confidence in the business, the Board is proposing a special dividend of 5.0p per share, worth just over £200 million, bringing the total special dividends since 2012 to almost £1.2 billion.

Going forward the Board is committed to a long term sustainable dividend policy. The ordinary dividend will grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term.

Pension

The net pension deficit for the defined benefit schemes at 31 December 2016 was £328 million (31 December 2015: £176 million excluding UTV pension scheme). The increase reflects a rise in pension liabilities following a significant decrease in corporate bond yields along with an increase in market expectations of long-term inflation. The overall increase in liabilities has more than offset the deficit funding contribution and increase in asset values. In 2016 the net pension deficit includes £39 million of gilts which are held by the Group as security for future unfunded pension payments of four former Granada Executives.

The last actuarial valuation was undertaken in 2014. On the basis adopted by the Trustee, the combined deficits as at 1 January 2014 amounted to £540 million. The Trustee is in the process of undertaking a full actuarial valuation of all sections of the Scheme as at 1 January 2017. ITV currently makes annual deficit funding contributions of £80 million with the payments made evenly throughout the year.

In December 2016, following a member consultation, the Group decided to close the defined benefit sections of the ITV Scheme to future benefit accrual with effect from 28 February 2017, which resulted in a one off curtailment charge of £19 million.

Subsequent events

Eurobond repayment: On 5 January 2017 ITV repaid the £161million Eurobond as it matured.

Gurney Productions LLC: On 6 February 2017, the Group exercised the call option to acquire the remaining 38.5% membership interest of Gurney Productions LLC.

London Property Strategy: On 22 February 2017, ITV announced that following an extensive review of its London property requirements, it intends to seek planning permission to redevelop its South Bank site and build a new London home. The teams currently located in the South Bank site will be relocated to various sites during the redevelopment period. As a result of the review, ITV is also proposing to close The London Studios (TLS) business and use studio capacity in the external market to meet our future business needs.

Acquisitions: On 28 February 2017, we announced the acquisition of 65.05% of Tetra Media Studios SAS, the French production business.

2017 full year planning assumptions

- Total network programme budget is expected to be around £1,025 million in the absence of a major sporting event. It will be weighted to H1 and will be broadly flat year-on-year in the first half.
- We are on track to deliver £25 million of overhead cost savings across the business
- Total investments of around £20 million, £15 million of EBITA and £5 million of JVs
- Adjusted interest is expected to be around £40 million, reflecting the new €500 million Eurobond
- The adjusted effective tax rate is expected to be around 19%, sustainable over the medium term
- Around £50m of regular capex across the group and in addition there will be further capex relating to ITV's move out of the South Bank site, currently estimated to be around £30 million
- Profit to cash is expected to be 85-90%, reflecting our continued strong cash generation and investment in scripted content
- Total pension deficit funding is expected to be £80 million, unchanged
- The translation impact of foreign exchange, assuming rates remain at current levels, could benefit revenues by around £60 million and profit by around £10 million in the year
- Exceptional items are expected to be around £90 million in 2017, again as a result of the treatment of employment linked consideration for our acquisitions which is included within statutory EPS, but excluded from adjusted EPS as in our view it is part of capital consideration. The cash cost of exceptional items will be around £150 million, which is primarily around £130 million of acquisition related contingent consideration. In addition there will be some exceptional costs relating to ITV's move out of the South Bank building.

Outlook

While the economic outlook remains uncertain, ITV is now a much more balanced and resilient business and we expect to see good growth in non-NAR in 2017 with our Online, Pay & Interactive and ITV Studios businesses performing well. ITV Family NAR is expected to be down around 6% in the four months to the end of April, impacted by the ongoing economic uncertainty, although as ever the monthly phasing of NAR will be different in 2017. Over the full year we expect to outperform our estimate of the television advertising market. On-screen we are performing well and we remain focused on delivering both mass audiences and the key demographics.

We continue our tight control on costs to ensure we are operating as efficiently as possible and maximising investment in our high-quality programming. We are on track to deliver £25 million of overhead cost savings in 2017 and, due to the absence of any major sporting event, the network programme budget (NPB) will be £25 million lower in 2017 whilst maintaining the strength and depth of our schedule. The programme budget will be weighted to the first half of 2017, impacted by the timing of spend on drama and entertainment programmes and will be broadly flat year on year for the first half.

We remain committed to our strategy of rebalancing and strengthening ITV and building a global content business of scale, and we see clear opportunities to invest for further growth across the business both organically and through acquisitions. We will continue to invest behind our core Broadcast & Online business further developing the ITV Hub, and the launch of BritBox US will be a significant step forward in growing our digital distribution assets. We will increase our investment in ITV Studios, particularly our US scripted business, to further strengthen and grow our creative capabilities. ITV Studios is on track to deliver good organic revenue growth over the full year as we continue to invest in a healthy pipeline of new and returning shows particularly in the UK and in the US, although the first half of 2017 will be impacted by the timing of deliveries. Over the full year ITV Studios EBITA will be broadly flat on 2016, reflecting increased investment and the reversal of the one-off benefit of The Voice of China in 2016.

Our robust balance sheet and strong underlying cash flows allows us to continue to invest and deliver sustainable returns to our shareholders.

Notes to editors

1. Unless otherwise stated, all financial figures refer to the 12 month period ended 31 December 2016, with growth compared to the same period in 2015.
2. Group external revenue

Twelve months to 31 December	**2016 £m**	2015 £m	Change £m	Change %
ITV Family NAR	**1,672**	1,719	(47)	(3)
Non-NAR revenue	**1,855**	1,664	191	11
Internal Supply	**(463)**	(411)	52	13
Group external revenue	**3,064**	2,972	92	3

3. ITV Family NAR is expected to be down around 6% in first four months with January down 5%, February down 7%, March down 15% and April up around 5%. This revenue is pure NAR, excluding the benefit of sponsorship and online revenue. From March 2016, ITV Family NAR includes advertising revenue from the UTV Channel 3 licence. For the full year we again expect to outperform our estimate of the TV advertising market.

4. Broadcast & Online performance indicators

Twelve months to 31 December	**2016**	2015	Change %
ITV Family SOV	**21.4**	21.2	1
ITV SOV	**15.4**	15.0	3
ITV Family SOCI	**34.4**	34.9	(1)
ITV SOCI	**24.2**	24.0	1
ITV adult impacts	**213bn**	209bn	2
Total long form video requests (all platforms)	**1,025m**	828m	24

SOV data based on BARB/AdvantEdge data and Share of Commercial Impacts (SOCI) data based on BARB/DDS data. SOV data is for individuals and SOCI data is for adults. ITV Family includes: ITV, ITV2, ITV3, ITV4, ITV Encore, ITVBe, CITV, ITV Breakfast, CITV Breakfast and associated "HD" and "+1" channels. % change for performance indicators is calculated on unrounded figures and is based on viewing data for weeks 1-52 for 2016 compared to weeks 2-53 for 2015. Total long form video requests is measured across all platforms, based on data from comScore Digital Analytix, Virgin, BT, iTunes, Amazon Video and Sky and include simulcast. Long form video consumption is the total number of hours ITV VOD content is viewed on ad funded platforms, based on data from ComScore Digital Analytix.

5. The 2016 final and special dividend will be paid on 25 May 2017. The ex-dividend date is 27 April 2017 and the record date is 28 April 2017.
6. This announcement contains certain statements that are or may be forward looking with respect to the financial condition, results or operations and business of ITV. By their nature forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward looking statements. These factors include, but are not limited to (i) a major deterioration in the current outlook for UK advertising and consumer demand, (ii) significant change in regulation or legislation, (iii) failure to identify and obtain, or significant loss of, optimal programme rights, (iv) the loss or failure of transmission facilities or core systems and (v) a significant change in demand for global content.

   Undue reliance should not be placed on forward looking statements which speak only as of the date of this document. The Group accepts no obligation to revise publicly or update these forward looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required

For further enquiries please contact:

Investor Relations
Pippa Foulds +44 20 7157 6555 or +44 7778 031097
Faye Dipnarine +44 20 7157 6581

Media Relations
Mary Fagan +44 20 7157 3965 or +44 7736 786448
Mike Large +44 20 7157 3021 or +44 7768 261528

Chief Executive's Review

In more uncertain markets, ITV has delivered a good performance in 2016 as we continue to rebalance and strengthen the business creatively, commercially and financially.

ITV delivered a good performance in 2016 as we continue to rebalance and strengthen the business creatively, commercially and financially. External revenues grew 3% and adjusted earnings per share (EPS) increased 3% despite a 3% decline in net advertising revenues (NAR), which was clearly impacted by the wider political and economic uncertainty.

We measure performance through a range of metrics, most particularly through our alternative performance measures and KPI's, as well as our statutory results, all of which are set out in more detail later in the report.

Our good performance in 2016 is a result of ITV continuing to deliver on our strategy to diversify the business and grow new revenue streams, thereby reducing our reliance on UK spot advertising and making ITV a stronger and more resilient business. Total revenues from sources other than traditional spot advertising (non-NAR) were up 11% in the year and 53% of total revenues came from sources other than traditional spot advertising.

Our global production business, ITV Studios, continues to grow in the UK and internationally, delivering around 7,800 hours of content in 2016. ITV is now a global player of scale, with 50% of total revenues coming from outside the UK. We have a strong creative pipeline and continue to perform well across the key genres that return and travel.

Our Broadcast & Online business is robust. We performed strongly on-screen with share of viewing (SOV) up 3% on our main channel and again delivered unrivalled audience reach for advertisers. Online, Pay & Interactive revenues grew significantly up 23% as we continued to grow our audiences and demand from advertisers online.

We remain committed to our original vision of ITV as an owner and producer of world-class content that travels. Our strategy of maximising our value as an integrated producer broadcaster, making our content famous on multiple platforms, both free and pay and distributing it globally, is clearly the right one for ITV.

As we continue to execute our strategy we remain focused on delivering against our three strategic priorities:

maximising
maximise audience and revenue share from free-to-air broadcast and VOD business

growing
grow an international content business

building
build a global pay and distribution business

We will continue to strengthen the business and grow new revenue streams both organically and through acquisitions, and we see further investment opportunities across ITV. There will be an increasing emphasis on building our digital assets throughout the business as we seek opportunities to drive further value from the content we own by exploiting and managing it online.

Rebalanced ITV delivers continued revenue and profit growth

In 2016 we grew external revenues by 3% to £3,064 million (2015: £2,972 million) driven by £191 million growth in non-NAR to £1,855 million (2015: £1,664 million) including the benefit of acquisitions, while ITV Family NAR was down 3%. With our continued focus on cash and costs we delivered 2% growth in our adjusted EBITA to £885 million (2015: £865 million), which corresponded to a 29% margin, in line with 2015. Adjusted EPS grew 3% to 17.0p (2015: 16.5p). Reported profit before tax declined by 14% to £553 million (2015: £641 million) and reported EPS declined 10% to 11.2p (2015: 12.4p) primarily due to higher operational exceptional items and amortisation of acquired intangibles which is explained in more detail in the Financial and Performance Review.

We have a strong balance sheet and the business continues to be highly cash generative. Profit to cash conversion (as reconciled in the Finance and Performance Review) was 97% and we ended the year with net debt of £637 million after acquisitions of £97 million, dividend payments of £663 million and pension deficit contributions of £80 million.

In 2014, the Board made a commitment to grow the full year ordinary dividend by at least 20% per annum to 2016 to achieve a more normal dividend cover of between 2.0 and 2.5x adjusted earnings per share. In line with this policy and reflecting ITV's good performance in 2016, the Board is proposing a final dividend of 4.8p which equates to a full year dividend of 7.2p. This is a dividend cover of 2.4x and delivers on the commitment the Board made three years ago.

Reflecting ITV's strong cash generation and the Board's confidence in the business, the Board is proposing a special dividend of 5.0p per share, worth just over £200 million.

Looking ahead, the Board is committed to a long term sustainable dividend policy. The ordinary dividend will grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium-term.

Maximise audience and revenue share from free-to-air business

The media environment in which we operate is constantly changing but our Broadcast & Online business remains strong and is evolving to take advantage of the significant opportunities for growth.

While the current economic uncertainty is impacting the demand for advertising, the traditional broadcast market is robust with overall commercial viewing up in the year and with television advertising continuing to be in high demand. ITV has maintained its strong position within this market with its unique reach and scale. ITV's SOV was up 3% on the main channel, up 1% across the ITV family. We delivered 99% of all audiences over five million, which enabled ITV to again grow its share of broadcast (SOB) which is our share of television advertising spend to 47.4%.

We are also performing strongly online through the ITV Hub, the digital home for all our channels and services, which helps ITV reach younger audiences. Online consumption (viewing), which measures how long viewers are spending online, was up 42% and long-form video requests were up 24% driving a 33% increase in online revenue. We also delivered significant growth in our pay revenues as we increase the reach of our broadcast content digitally.

In 2016, Broadcast & Online revenues were down 1% at £2,132 million (2015: £2,146 million) with adjusted EBITA down 3% at £642 million (2015: £659 million) which reflects 3% decline in highly geared NAR and 23% growth in Online, Pay & Interactive.

Grow an international content business

Growing a scaled international content business in the key genres that travel is central to our strategy as an integrated producer broadcaster. As ITV creates, owns and manages more content, our channels and digital services provide a platform to showcase our programmes before distributing them across multiple platforms in the UK and internationally.

Global demand for high-quality content from both broadcasters and platform owners remains strong. Capitalising on this demand, we continue to strengthen our position as the UK's largest commercial production company, as well as creating an increasingly international business with production bases in America, the Netherlands, France, Germany, the Nordics and Australia. Half of our revenues are generated outside the UK and we have become a top independent producer in the US and Europe.

Overall, ITV Studios performed strongly, although ITV America was impacted by the phasing of deliveries. We continue to build a large portfolio of successful series and formats across the key genres that return and travel internationally, namely drama, entertainment and factual entertainment. ITV delivered around 7,800 hours of content in 2016 including many new and returning scripted programmes, such as Victoria, Poldark, Vera and The Good Witch selling to over 100 countries. ITV also had 80 formats sold internationally including The Voice, Hell's Kitchen and The Chase. We are also making a number of selective investments in digital content creation as we look to develop our expertise in 'digital first' content.

ITV Studios delivered 13% growth in total revenues to £1,395 million (2015: £1,237 million) and 18% growth in adjusted EBITA to £243 million (2015: £206 million) driven by acquisitions. Organic revenues (excluding prior year acquisitions and foreign exchange movements) were down 7% driven predominantly by ITV America which was impacted by the lumpy nature of programme deliveries. However, we have a strong creative pipeline of new and returning programmes with 228 new commissions and 188 recommissions, which will help drive a return to good organic revenue growth in 2017.

Building a global pay and distribution business

As a creator, owner and distributor of high-value sought after programmes, ITV is well positioned to exploit the opportunities that arise from the changes in digital media and consumer behaviour. With over 40,000 hours of content, ITV is continually exploring and experimenting with new ways to distribute our content to broadcasters and platform owners, both free and pay, while also seeking new opportunities to extend the reach of our content directly to the consumer.

We have recently announced the creation of a joint venture with the BBC to create BritBox US, an ad-free subscription service offering the very best content from both broadcasters. BritBox US will launch in the first half of 2017 and will feature recent series and classics. BritBox gives ITV access to the fast growing Subscription Video on Demand (SVOD) market in the US. In time we will look to roll it out further internationally.

We are also increasingly distributing near-to-broadcast or first broadcast rights to over-the-top (OTT) platforms across territories and currently have around 200 programme supply agreements with Netflix, Amazon and Hulu.

Global Entertainment, the distribution arm of ITV Studios, delivered 14% revenue growth to £179 million (2015: £157 million) as we continue to drive value from the investment we have made in creating and owning the rights to quality content with international appeal. We are building a strong and balanced portfolio of scripted and unscripted programmes and formats in the key genres that travel internationally and we are using our strong cash flows not only to create and fund new content but also to acquire third-party rights.

Outlook for 2017 and beyond

While the economic outlook remains uncertain, ITV is now a much more balanced and resilient business and we expect to see good growth in non-NAR in 2017 with our Online, Pay & Interactive and ITV Studios businesses performing well. ITV Family NAR is expected to be down 6% in the four months to the end of April, impacted by the ongoing economic uncertainty, however over the full year we expect to outperform our estimate of the television advertising market.

We continue our tight control on costs to ensure we are operating as efficiently as possible and maximising investment in our high-quality programming. We are on track to deliver £25 million of overhead cost savings in 2017, and due to the absence of any major sporting event, the network programme budget (NPB) will be £25 million lower in 2017 whilst maintaining the strength and depth of our schedule.

We remain committed to our strategy of rebalancing and strengthening ITV and building a global content business of scale and we see clear opportunities to invest for further growth across the business both organically and through acquisitions. We will continue to invest behind our core Broadcast & Online business, further developing the ITV Hub, and the launch of Britbox US will be a significant step forward in growing our digital distribution assets. We will increase our investment in ITV Studios, particularly our US scripted business, to strengthen further and grow our creative capabilities.

Our robust balance sheet and strong underlying cash flows allows us to do so while at the same time delivering sustainable returns to our shareholders.

Our responsibility

Building a responsible business that benefits all stakeholders

The success of our strategy depends not just on our operational efficiency, but also on the way we interact with our stakeholders, the environment and the wider community. ITV's social purpose is to grow our business in a responsible way, using the reach of our channels to create change for good. As well as complying with our legislative and regulatory requirements we recognise that our actions can have an impact and our reach can positively influence society. We therefore work to identify issues that are material to ITV and matter to our stakeholders.

Our responsibility priorities

Our responsibility strategy focuses on three priorities: people, planet and partnerships. Each of our priorities highlights the risks and opportunities that are most relevant to us, and we have made four commitments under each, that incorporate our main assets and business operations.

People

Leveraging our reach

Inclusive programming: To ensure our programmes portray the diversity of modern society by the people on-screen and the editorial content.

Leveraging our people

Inclusive workforce: To ensure our workforce reflects the diverse make-up of modern society.

Responsible business day-to-day

Inclusive culture: To build awareness and capacity and create a culture that attracts, develops and retains the best talent possible and enables everyone to be their best.

How we work with others

Inclusive access to programmes and services: To work with our supply chain to encourage inclusivity standards and to make sure our services are accessible.

Planet

Leveraging our reach

Greener programming: To ensure our programmes communicate responsible environmental messaging through the editorial content, directly or indirectly.

Leveraging our people

Greener workforce: To build the awareness and capacity of our workforce to have a positive impact on the environment.

Responsible business day-to-day

To minimise our direct environmental footprint of energy, water and waste in our operations.

How we work with others

Greener partners: To work with our value chain to encourage environmentally responsible standards and behaviours.

Partnerships

Leveraging our reach

Empowering charities and causes: To use our mass audience reach and influence to raise awareness or donations for national and international causes.

Leveraging our people

Empowering our workforce: To empower our workforce to give back, through time and skills, to support local communities and causes.

Responsible business day-to-day

Empowering our viewers: To use our programmes at the heart of popular culture to raise awareness of pressing social topics and inspire change.

How we work with others

Empowering communities: To inspire and engage our local communities to make a positive difference.

People

Reflecting the diversity of modern society is the right thing to do, it helps give our programmes mass appeal by attracting the largest possible audiences which is essential to our success as an integrated producer broadcaster. We strive to ensure diversity in our on-screen programming and in our workforce, ensuring that we're relevant and accessible to all.

Planet

We have a responsibility to understand and minimise our own impact on the environment and an opportunity to influence positively our industry and audiences. Through our reach and value chain, we have the chance to create long-term change by bringing environmental awareness and sustainable behaviour into the heart of popular culture.

Partnerships

We believe partnerships mean collaborating with others to make a positive contribution to society. Through a combination of our on-air appeals and campaigns, along with local community engagement, we're committed to inspiring, engaging and empowering our stakeholders to make a difference.

Further information

We aim for continuous improvement in our Responsibility strategy, actions and performance. More information on our responsibility initiatives can be found online.

itvresponsibility.com

Strategic Priority 1

Maximise audience and revenue share from free-to-air broadcast and VOD business

The media environment in which we operate is constantly changing and our Broadcast business remains strong, adaptable and ready to take advantage of the opportunities that arise. ITV, through its commercial channels, offers unique scale and breadth reaching around 80% of the television owning population every week. At the same time, the ITV Hub, the digital home for all our channels and services, is growing rapidly helped by the significant growth in audience appetite for Video on Demand (VOD).

As a result there continues to be significant demand for advertising on our family of broadcast channels and on the ITV Hub, which generates substantial profit and cash to reinvest across ITV. Additionally, as an integrated producer broadcaster, our channels provide an important platform to showcase ITV Studios content, providing it with a proven track record before exploiting it internationally.

Remaining responsive to a changing media environment

Traditional linear television viewing remains resilient despite significant changes in the market and in the availability and delivery of content. On average viewers watch 212 minutes of television a day, which is a similar level to 216 minutes in 2015. The majority of television viewing is live at an estimated 81% as television continues to have the power to bring audiences together. VOD is growing rapidly although it still only accounts for 7% of total viewing. Meanwhile, PVR viewing, at 12%, has remained relatively constant over the last few years.

Three key attributes lie at the heart of ITV's successful Broadcast proposition: its first class distribution and reach across broadcast and OTT platforms; owning the rights to high-quality, must have content, for all key audiences; and providing advertisers with creative access to the biggest and most effective marketing platform in the UK.

Strong viewing and online performance

ITV performed strongly on-screen in 2016 with main channel SOV up 3% and ITV family SOV up 1% with programmes supplied by both ITV Studios and independent producers. We aired seven out of the top ten new dramas; the most watched soap in Coronation Street; the most watched sporting event in England vs. Iceland, during the 2016 European Football Championships and the most watched current affairs programme with our coverage of the EU Referendum Debate. On-screen successes included a range of new dramas, such as Victoria, The Durrells, Marcella and the return of Cold Feet. Our sporting schedule has performed strongly, particularly the Six Nations Rugby Championships and the European Football Championships, as has our daytime schedule including Good Morning Britain, This Morning and Loose Women. We also continue to drive significant audiences with Coronation Street and Emmerdale, which are the two largest soaps, and with our returning brands such as Vera, Endeavour, Britain's Got Talent, I'm a Celebrity. Get Me Out Of Here!, Saturday Night Take Away, The Chase and Tipping Point.

We continue to target key demographics through our digital channels and the ITV Hub and have seen a very significant increase in our younger audiences, with 16-34 SOV up 25% on ITV2 helped by the successful launch of American Dad and Family Guy as well as the return of Love Island.

ITV3 and ITV4 have not performed as well as we had hoped. ITV3 was impacted by the launch of new free digital drama channels and the allocation of some of our programming exclusively to ITV Encore, and ITV4 was affected by the loss of the Europa League and the Champions League. Improving their performance is a focus for 2017.

Looking ahead we believe that around £1 billion is the appropriate programme budget for ITV's family of channels to ensure we continue to deliver standout content that drives the scale and breadth of the audiences that advertisers demand.

The programme budget will be £25 million lower in 2017 than 2016 at around £1,025 million due to the absence of a major sports tournament. We have a strong slate across key genres including new programmes The Halcyon, Good Karma Hospital, Prime Suspect 1973, Lethal Weapon, Little Big Shots, The Voice, The Voice Kids, Dance Dance Dance, 5 Gold Rings, The Nightly Show and horse racing, and returning programmes including Victoria, Cold Feet, Broadchurch, Unforgotten, Safe House, I'm A Celebrity. Get Me Out Of Here!, Britain's Got Talent, Saturday Night Takeaway, The Chase and the Six Nations Rugby Championships.

The ITV Hub one year on

ITV's online business has grown rapidly over the last few years and is contributing meaningful revenue to the Group, growing the overall ITV audience and advertising revenues. The ITV Hub, which was launched last year, was a major step forward in the quality, innovation and ease of use of ITV's online services. It is now available on 27 platforms, the app has been downloaded over 23 million times and it has 17 million registered users. It drives very significant volumes of viewers both for simulcast viewing and catch up and is growing faster than the BBC iPlayer. Long-form video requests continue to grow strongly up 24% with over 1 billion requests made in 2016. Online viewing consumption, which measures how long viewers are spending online, increased 42%.

The ITV Hub also helps ITV reach valuable younger audiences. Over 50% of the UK's 16-24 year old population are registered users of the ITV Hub as younger audiences increasingly use it for simulcast viewing as well as catch up. Programmes such as ITV2's very successful Love Island, delivered record VOD viewing via the ITV Hub.

The ITV Hub is more than a catch up TV service. In 2016, it featured previews and premieres, such as Marcella and The Secret, as well as original commissions around the European Football Championships. Looking to 2017, there will be more short and long-form original content, including The V Room, The Voice's switchover show as well as content from AwesomenessTV, the global youth brand we have formed a partnership with for exclusive UK television and VOD rights.

We will also be using the insight we gain from our 17 million registered users to develop more targeted advertising on the ITV Hub and to increasingly drive viewing through personalisation.

ITV's strong advertising proposition driven by our unique offering

While political and economic uncertainty has led to more cautious behaviour by advertisers, ITV's unique ability to deliver mass audiences, as well as more targeted demographics across the family of channels and the ITV Hub, has enabled us to again increase our SOB to 47.4%. In 2016 ITV delivered 99% of all commercial audiences over five million and 95% of all audiences over three million. SOV provides an overall measure of viewing performance, but because advertisers are buying scale and breadth of audience, SOV is not necessarily a direct indicator of advertising performance.

Television remains the most efficient and effective advertising medium for advertisers to achieve mass simultaneous reach and, as viewing and advertising becomes more fragmented, the scale of advertising that television, and particularly ITV, delivers becomes increasingly valuable. The cost of advertising is similar to 2004 levels and, compared to many other advertising media, it remains good value, especially given the reach and scale it delivers.

Maximising the value of our airtime and our brands

ITV is also focused on maximising the value of its airtime and driving new revenue streams through sponsorship, interactivity and branded content. ITV utilises the core assets of its strong brand and reputation, unique commercial relationships and quality production capability to deliver a wide variety of marketing solutions. We have developed many innovative sponsorship and licensing deals including: Aunt Bessies for I'm A Celebrity... Get Me Out Of Here!; Domino's Pizza for The Voice and William Hill for ITV Racing. We have also produced branded content solutions with our new service ITV AdVentures for a number of customers, including Suzuki in Saturday Night Takeaway, Matalan and I Am TeamGB.

Developing ITV's digital broadcast assets

Live television continues to demonstrate a growing relevance as viewers increasingly connect through social media. To drive viewing and enhance engagement with our content, we are further developing our social media assets across our international portfolio of programmes. We have 147 YouTube branded channels delivering over 14 billion views, 32 million Facebook followers, 22 million Twitter followers and 28 programme apps including Love Island, Dance, Dance, Dance, I'm A Celebrity. Get Me Out Of Here!, horse racing and The Voice. Our digital engagement has grown significantly and in 2016 we received around 100 million votes across our entertainment shows primarily via our programme apps.

2017 and beyond

We remain committed to our integrated producer broadcast model, and key to that is maintaining the strength and scale of our Broadcast & Online business. We have started the year well with main channel SOV up 4% and ITV family SOV up 3% for the first six weeks of 2017.

As the viewing and advertising landscape continues to fragment, the scale of our linear audiences become increasingly valuable and we will also continue to drive significant and growing value from our digital assets, most significantly the ITV Hub.

We expect ITV NAR to be down 6% over the first four months of 2017, impacted by the current economic uncertainty, although over the full year we expect to again outperform our estimate of the television advertising market.

Strategic Priority 2

Grow an international content business

Growing a scaled international content business is also central to our strategy as an integrated producer broadcaster. As ITV creates and owns more content, our channels provide a platform to showcase our programmes before distributing them across multiple platforms in the UK and internationally.

Growing global demand for content

The strong global demand for content from broadcasters and platform owners provides a significant opportunity for ITV Studios. We estimate that the global content market is growing at about 5% per annum, with some genres such as drama growing more rapidly than others. To capitalise on this, our strategy remains to develop, own and manage content rights in genres that return and travel internationally – namely drama, entertainment and factual entertainment.

As well as strong demand from broadcasters, we are seeing significant demand from a variety of OTT platforms who want library and close-to-broadcast content rights as well as 'digital first' content.

Fast growing, international producer of scale

Since 2010 we have almost doubled the number of hours of content we produce. In 2016 we produced around 7,800 hours of content, through our 60 labels, supplying over 234 channels in 10 countries. ITV is becoming an increasingly scaled and international business: we are the number one commercial producer in the UK and a leading producer in Europe and the US, with 50% of total Studios revenues coming from outside the UK.

In 2016 ITV Studios total revenues grew 13% to £1,395 million (2015: £1,237 million) and adjusted EBITA increased 18% to £243 million (2015: £206 million), driven by the acquisitions we have made.

ITV Studios has three production divisions – ITV Studios UK, ITV America and ITV Rest of World (RoW) and across these businesses, ITV agreed 228 new commissions and 188 recommissions in 2016.

The US and UK are the dominant creative markets, with the US the largest exporter of scripted content and the UK the world leader for exported formats. Over the last few years we have built scale in these key markets, organically and through acquisitions, and we now have a significant portfolio of successful series and formats that travel.

ITV Studios UK performed strongly with overall revenues up 14% at £626 million (2015: £547 million) and with good growth in sales to ITV and to other UK Broadcasters. Our off-ITV revenues have grown by 20% as we have continued to strengthen and grow the business. Our deliveries to other UK broadcasters included Poldark, NW and Witness for the Prosecution for the BBC, The Jump and Come Dine with Me for Channel 4, Hotel Inspector for Channel 5 and Agatha Raisin for Sky.

Overall, we have seen 13% growth in revenues to ITV with programmes such as Victoria, Cold Feet, Tutankhamun, Saturday Night Take Away, The Chase, The Next Great Magician and I'm A Celebrity...Get Me Out Of Here! all delivered in 2016. We have again grown ITV Studios UK's share of original content commissions on ITV main channel to 63%.

ITV America's revenue was down year-on-year by 27% to £235 million (2015: £320 million), predominantly as a result of three shows we had in 2015 which have not returned in 2016. They are Hell's Kitchen, which has been commissioned for two series in 2017 and Texas Rising and Best Time Ever, which are not returning. We delivered the second series of two US dramas, The Good Witch and Aquarius. We have also benefited from the delivery of a high volume of programmes from our stable portfolio of unscripted series, including Pawn Stars, American Restoration, Alone, Rich Kids of Beverly Hills and First 48 and new commissions, including American Grit, Killing Fields and Millionaire Matchmaker.

Across ITV RoW, we have seen very significant growth with revenues up 67% to £355 million (2015: £213 million) driven by Talpa Media. Our production bases in Australia, Germany, France, the Netherlands and the Nordics produce original content as well as local versions of ITV Studios formats. We now produce 14 different formats in three or more of our production territories, for example; Come Dine With Me, The Chase, The Voice from Talpa Media and Love Island.

Talpa Media is performing well and continues to develop many new formats including Dance, Dance, Dance, CannonBall and 5 Gold Rings which are all selling well. It has also had the benefit of a four-year licensing agreement for The Voice of China.

Across ITV RoW, we have delivered a number of new and returning commissions including The Voice in the UK and USA, The Chase in Australia, I'm A Celebrity... Get Me Out Of Here! in Australia and Germany, Come Dine With Me in Denmark, Sweden and Germany and The Price of Beauty in Denmark and Sweden. In Norway ITV has delivered its first drama, Aber Bergen, with the second series already commissioned. In Australia, ITV has had a particularly successful year with a new management team in place and now produces for all the major television channels.

Investing in content with international appeal

To continue growing internationally we must keep expanding our portfolio of successful series and formats that return and can be distributed globally. We have a strong mix of programmes across genres and also across their content life cycle, which balances our risk and financial exposure. Since 2010 our total hours produced has increased by 90%, our drama hours have increased by 370%, entertainment hours by 109% and factual hours by 189%.

Demand for drama is growing strongly, as standout, original content becomes brand defining for both broadcasters and OTT players. To capitalise on this, we are looking to expand our global scripted business and develop a strong portfolio of international and returning drama, particularly in the US. We are strengthening our development and creative capabilities internally and have invested in a number of producer development relationships – we now have around 20 projects in development in the US with broadcast networks, cable networks and OTT platforms.

Recent successes include a number of US drama commissions which will deliver in 2017 – a ten part drama Somewhere Between, for ABC, Sun Records for TNT and a pilot for ABC, Snowpiercer, through Tomorrow Studios.

With the acquisition of Talpa Media we have significantly strengthened our capability in entertainment and formats. Across our businesses we have grown a solid portfolio of high volume and high margin formats that travel internationally and which we produce in many of our production bases. These include The Voice, The Voice Kids, Pawn Stars, Come Dine with Me, I'm A Celebrity... Get Me Out Of Here!, Hell's Kitchen, Keeping the Nation Alive, The Chase, 5 Gold Rings, This Time Next Year, Big Star's Little Star and Love Island.

Investing in our digital content capabilities

Through building our digital assets and content we are increasingly able to engage with younger audiences.

While demand from traditional broadcasters continues to be strong we are also seeing an increasing demand from OTT platforms for original long-form content, secondary rights and short form digital content.

We are distributing more content to OTT players through Global Entertainment as well as co-producing and jointly commissioning a number of programmes with OTT platforms. We currently have over 200 programme supply agreements in place with the major OTT platforms, including co-producing Robozuna, an original kids cartoon for Netflix and Harlots, which we are co-producing for Hulu in the US and ITV Encore in the UK.

To further expand our digital assets we are increasing our exposure to new types of content, particularly youth focused programming, and new types of distribution. In 2016 we made an investment with Sky in Ginx TV, an eSports channel for the UK and international markets. We also agreed a partnership with global youth content company AwesomenessTV and made minority investments in two 'digital first' youth content studios in the US, New Form and RocketJump, all of which helps to improve ITV Studios content capability as well as provide new programming for the ITV Hub.This is as well as our existing investments in US digital content companies Believe Entertainment Group and Indigenous Media.

2017 and beyond

We have a strong international pipeline of new and returning programmes and brands. Our UK and US pipeline of scripted programmes has never been stronger and we have a very good slate of new entertainment shows coming through this year. This gives us confidence that in 2017 we will deliver good organic revenue growth and we have already secured over £150 million more revenue than at this point last year. However, with increased investment, particularly in US scripted and the reversal of the one-off benefit of the The Voice of China in 2016, ITV Studios profits in 2017 are likely to be broadly in line with 2016.

ITV is now a global business and going forward we aim to use our scale to grow our market share and expand the number of networks and OTT players we work with, particularly in the US. We will further strengthen our creative capability, both organically and through partnerships and acquisitions, as we continue to reduce our reliance on the UK market.

Strategic Priority 3

Build a global pay and distribution business

The environment in which we operate is constantly evolving and we are seeing significant changes in digital media and consumer behaviour. ITV, as a creator, owner and distributor of sought after content, is well positioned to take advantage of the opportunities that arise from these changes as we seek to further monetise our content.

ITV continues to explore and trial new ways, both free and pay, to distribute content to broadcasters and platform owners as well as directly to consumers.

Building our pay offering in the UK and internationally

As we look to build our pay offerings we are developing a range of SVOD services to target direct to consumer pay revenues. We have recently announced the creation of a joint venture with the BBC, through BBC Worldwide, to create BritBox US, an ad-free SVOD service offering unrivalled content from both broadcasters. ITV already has a strong advertising VOD proposition in the ITV Hub but the launch of BritBox gives us access to the fast growing SVOD market in the US.

BritBox US, which is a direct to consumer service, will launch in the first half of 2017, with the most comprehensive SVOD collection of British content available in the US. The service will feature drama premieres never seen before in the US, a selection of soaps and series that will be available 24 hours after their UK broadcast, and a collection of British classics. ITV and BBC each have a 40.5% voting share, while US cable network AMC has a 19% non-voting minority interest.

Over the last few years we have also established a number of smaller pay propositions. We now own a controlling stake in Cirkus, a best of British SVOD service in Sweden, Norway, Finland and Iceland which will shortly launch in Germany on Amazon. Cirkus has developed a second SVOD service, Curio, due to launch in Norway in 2017, which is focused on high-quality documentaries. We have also set up ITV Essentials, an online service for expats available in 13 countries and ITV Choice, a general entertainment channel for emerging markets available in 100 countries.

We are continuing to develop ITV Hub+, our ad-free subscription version of ITV Hub. In 2017 we will roll out ITV Hub+ onto more platforms and we have already added new functionality, such as download on iOS devices for off-line viewing.

Looking ahead it is our intention to roll out our best of British SVOD services internationally through BritBox and our other SVOD services, taking advantage of the significant global demand for UK content and changing viewing habits.

Further developing our pay revenues

ITV's pay revenues again grew strongly as we continue to earn revenue from pay television through licensing our channels and content across multiple platforms.

In the UK our pay business includes deals with Sky and Virgin for our HD digital channels and catch-up VOD, ITV Encore for Sky and a deal to make ITV's content available through Sky's connected platforms. We also agreed a new deal with Vodafone to carry ITV's free-to-air (FTA) channels and VOD for their customers, as well as with TV Player to carry ITV's FTA channels.

Expanding our global distribution network

Global Entertainment, the distribution arm within ITV Studios, delivered revenue growth of 14% to £179 million in 2016 (2015: £157 million) as we continue to drive value from the investment we have made in creating and owning rights to quality content with international appeal. Excluding the benefit of foreign exchange, Global Entertainment grew 6% to £166 million.

ITV's distribution business has over 40,000 hours of television and film content that we distribute globally to over 3,500 broadcasters and platforms. In 2016 we continued to enhance our distribution network, benefiting from ITV Studios' continued growth, increased rights ownership both within ITV Studios and with third parties and strong network relationships, selling to around 190 countries around the world.

Through our ongoing investment in ITV Studios, we are building an extensive and balanced portfolio of scripted and unscripted programmes in the key genres of drama, entertainment and factual entertainment. We are using our strong cash flows not only to fund and create new content from ITV Studios, but also to invest in third-party producers and their content from all over the world, such as Harlots and Schitt's Creek.

Our scripted programmes such as Victoria, Poldark, Endeavour, Vera and The Good Witch, are all selling to over 150 countries. Our entertainment and factual entertainment programmes also continue to sell well, including titles such as Come Dine With Me, The Voice, The Voice Kids, The Chase, Hell's Kitchen, Autopsy and River Monsters.

In 2016 we sold 80 different formats around the world, 24 of which were produced by ourselves or other producers in three or more countries.

We are increasingly doing multi-year and multi territory deals with OTT platforms including Netflix, Amazon, Hulu and a range of smaller platforms. As well as library deals, we are distributing close-to-broadcast or first broadcast rights to these OTT platforms across territories. We currently have over 200 content supply agreements in place, including Thunderbirds Are Go! series one and two for Amazon in the UK, US, Germany and India, as well as The Good Witch, Mr Selfridge and Poldark for Netflix.

We are also co-producing and jointly commissioning a number of programmes with OTT platforms, including Robozuna for Netflix and Harlots for Hulu.

Retransmission fees

We are continuing to drive the debate around the implementation of retransmission fees in the UK to ensure that we are fairly compensated for our investment in content for the main channel when it is carried on pay TV platforms. We see the publication of the Digital Economy Bill proposing the repeal of Section 73 as an important step forward in achieving retransmission fees.

2017 and beyond

As we continue to rebalance ITV and diversify our revenue streams, we are further developing our pay and distribution business to drive more value from our investment in content and reflecting the changes in the way people are consuming content. We are exploring new ways to package and sell our content to take advantage of demand for quality content in the UK and internationally from consumers, broadcasters and platform owners.

A particular focus for 2017 will be the launch of BritBox US and in time we will look to further roll out our SVOD services internationally as we continue to explore even more ways to drive value from our content.

Alternative Performance Measures

The Strategic Report includes both statutory and adjusted measures, the latter of which, in management's view, 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.

Our APMs and KPIs are aligned to our strategy 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, these items could distort the understanding of our performance for the year and the comparability between periods.

Key adjustments for Adjusted EBITA, profit before tax and EPS

Adjusted EBITA is calculated by adding back exceptional items and high end production tax credits to EBITA. Further adjustments, which include amortisation of intangible assets acquired through business combinations and net financing costs, are made to remove their effect from adjusted profit before tax and EPS. The tax effect of all these adjustments is reflected to calculate an adjusted tax charge. These adjustments are detailed below.

Production tax credits
The ability to access tax credits, which are rebates based on production spend, is fundamental to our Studios business when assessing the viability of investment in green-lighting decisions, especially with regards to high-end drama. ITV reports tax credits generated in the US and other countries (e.g. Ireland, Hungary, Canada and South Africa) 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.

Exceptional items
This includes acquisition related costs (further detail below), reorganisation and restructuring costs, non-recurring legal costs, gains or losses on disposal of non-core assets and impairment of intangible assets. These items are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis. They are typically gains or losses arising from events that are not considered part of the core operations of the business or are considered to be one-off in nature. We also adjust for the tax effect of these items. Note 2.2 includes further detail on exceptional items.

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 lock in 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 on a statutory basis is part of our reported results. However, we exclude all consideration of this type from adjusted profit after tax and adjusted EPS as, in our view, these items are part of the capital transaction. The Financial and Performance Review explains this further.

Restructuring and reorganisation costs

These arise from Group-wide initiatives to reduce the ongoing cost base and improve efficiency in the business. They are non-recurring costs and because of their size and nature, are excluded from our adjusted measures.

Amortisation and impairment of intangible assets
Amortisation and impairment of intangible assets acquired through business combinations is 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 and they do not reflect the underlying trading performance of the Group. Amortisation of software licences and development is included within our adjusted results as management consider these assets to be core to supporting the operations of the business.

Net financing costs

Net financing costs are adjusted to reflect the underlying cash cost of interest for the business providing a more meaningful comparison of how the business is managed and funded on a day-to-day basis. The adjustments made remove the impact of mark-to-market on swaps and foreign exchange, imputed pension interest and other financial gains and losses, which do not reflect the relevant interest cash cost to the business.

A full reconciliation between our adjusted and statutory results is provided below.

Reconciliation between statutory and adjusted results

Twelve months to 31 December – on a continuing basis	2016 Statutory £m	2016 Adjustments £m	2016 Adjusted £m	2015 Statutory £m	2015 Adjustments £m	2015 Adjusted £m
EBITA[1]	857	28	885	842	23	865
Exceptional items (operating)[2]	(164)	164	–	(109)	109	–
Amortisation and impairment of intangible assets[3]	(89)	77	(12)	(67)	58	(9)
Operating profit	**604**	**269**	**873**	666	190	856
Net financing costs[4]	(51)	25	(26)	(31)	18	(13)
Gain on sale of non-current assets and subsidiaries (non-operating exceptional items)	–	–	–	6	(6)	–
Profit before tax	**553**	**294**	**847**	641	202	843
Tax[5]	(100)	(60)	(160)	(139)	(38)	(177)
Profit after tax	**453**	**234**	**687**	502	164	666
Non-controlling interests	(4)	–	(4)	(7)	–	(7)
Loss from discontinuing operations (net of tax)	(1)	1	–	–	–	–
Earnings	**448**	**235**	**683**	495	164	659
Shares (million), weighted average	4,010	–	4,010	4,006	–	4,006
EPS (p)	11.2p		17.0p	12.4p		16.5p

1. £28 million adjustment relates to production tax credits which we consider to be a contribution to production costs and working capital in nature rather than a corporate tax item.
2. Exceptional items largely relate to acquisition costs, primarily employment linked consideration, as well as restructuring costs and pension curtailment cost.
3. £77 million adjustment relates to amortisation on acquisition related intangible assets. We include only amortisation on purchased intangibles such as software within adjusted PBT.
4. £25 million adjustment is primarily for non-cash interest cost. This provides a more meaningful comparison of how the business is managed and funded on a day-to-day basis.
5. Tax adjustments are the tax effects of the adjustments made to reconcile PBT and adjusted PBT.

Other alternative Performance Measures

Total revenue

As an integrated producer broadcaster, we look at the total revenue generated in the business which includes internal revenue, which is the sale of ITV Studios programmes to Broadcast & Online. Our broadcast channels are a significant customer for ITV Studios and selling programmes to Broadcast & Online is an important part of our strategy as it ensures we own all the rights.

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

Twelve months to 31 December	2016 £m	2015 £m
External revenue (Reported)	**3,064**	2,972
Internal supply	**463**	411
Total revenue (Adjusted)	**3,527**	3,383

Alternative Performance Measures
continued

Adjusted net debt
Net debt (as defined in Note 4.1) is adjusted for all our financial commitments. This better reflects how credit rating agencies look at our balance sheet. A reconciliation between net debt and adjusted net debt is provided below.

Twelve months to 31 December	2016 £m	2015 £m
Net debt	(637)	(319)
Expected contingent payments on acquisitions	(328)	(303)
Net pension deficit	(328)	(176)
Operating leases	(344)	(346)
Adjusted net debt	(1,637)	(1,144)
Adjusted net debt to adjusted EBITDA	1.8x	1.3x
Reported net debt to adjusted EBITDA	0.7x	0.4x

Net pension deficit
This is our defined benefit pension deficit under IAS 19 adjusted for other pension assets, mainly gilts, over which the pension scheme holds a charge, held by the Group as security for future unfunded pension payments of four former Granada executives. A full reconciliation is included within Note 3.7.

Profit to cash conversion
This is our measure of cash generation used for working capital management. It is calculated as adjusted cash flow as a proportion of adjusted EBITA. Profit to cash conversion is based on adjusted measures to reflect the cash generation of our underlying business after operating capex, excluding the effect of exceptional items, non-cash expenses such as depreciation and share based payments.

Key Performance Indicators

We have defined our KPIs to align our performance and accountability to our strategy.

These KPIs are the key measures of success and cover all three strategic priorities. Our KPIs have not changed over the year.

Financial

Adjusted EBITA

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Grow an international content business
- Build a global pay and distribution business

Definition

This is the key profitability measure used across the whole business. Earnings before interest, tax and amortisation (EBITA) is before exceptional items and has been adjusted to include the benefit of production tax credits. It reflects our performance in a consistent manner and in line with how the business is managed and measured on a day-to-day basis.

Performance

In 2016 adjusted EBITA increased by £20 million or 2% as a result of a 3% increase in total external revenue and our continued focus on costs. Revenue growth was primarily a result of a 23% increase in high margin Online, Pay & Interactive revenues and a 13% increase in ITV Studios revenue driven by acquisitions, the UK business and Global Entertainment. This was partially offset by a decline in NAR of 3%.

Group EBITA margin remained flat at 29%.

Adjusted EPS

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Grow an international content business
- Build a global pay and distribution business

Definition

Adjusted EPS represents the adjusted profit for the year attributable to equity shareholders. Adjusted profit is defined as profit for the year attributable to equity shareholders before exceptional items, impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments and tax adjustments 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 increased by 3% from 16.5p to 17.0p. This is higher than the corresponding increase in adjusted EBITA of 2% as a result of a lower adjusted effective tax rate in the year of 19% (2015: 21%).

Profit to cash conversion

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Grow an international content business
- Build a global pay and distribution business

Definition

Profit to cash conversion represents the proportion of adjusted EBITA converted into a measure of adjusted cash flow (defined as cash generated from operations before exceptional items less cash related to the acquisition of operating property, plant and equipment and intangible assets).

This primarily reflects the effectiveness of our working capital management and capital expenditure control. Our aim is to keep profit to cash conversion as high as possible.

Performance

Profit to cash has increased in the year to 97% and reflects our continued tight management of working capital balances and our disciplined approach to cash and costs.

Key Performance Indicators
continued

Non-NAR revenue

Our strategic priorities
- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Grow an international content business
- Build a global pay and distribution business

Definition

Non-NAR reflects all ITV revenue, both internal and external, except NAR (spot advertising revenues). Online, Pay, Interactive, Sponsorship, SDN and ITV Studios revenues are all included within Non-NAR, with the key drivers of growth being Online, Pay and ITV Studios.
Growing non-NAR is key to the strategy as we aim to rebalance the business away from our reliance on television advertising revenue.

Performance

Non-NAR revenue increased by 11% in 2016 as we continue to rebalance the business away from a reliance on NAR. We delivered strong growth in ITV Studios revenues and in Online and Pay revenues. Non-NAR revenues were 53% of total revenue which has increased significantly since 2009 when it was 40%.

Non-Financial

Employee engagement

Our strategic priorities
- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Grow an international content business
- Build a global pay and distribution business

Definition

Continuing to develop a creative, commercial and global organisation requires high-quality employees who are engaged in the work that they do, and are committed to the strategy.

Employee engagement measures pride in the work we do, pride in working for ITV and also what we say about our programmes and services.

Performance

Employee engagement was once again high at 90% which is above the benchmark score for companies of a similar size and nature to ours of 83%. The participation rate was 80%.

Strategy

ITV Family Share of viewing

Our strategic priorities
- Maximise audience and revenue share from free-to-air broadcast and VOD business

Definition

To help deliver Strategic Priority 1 through maintaining a strong and healthy Broadcast & Online business, ITV family SOV is a key indicator of this. ITV Family SOV is the total viewing audience over the year achieved by ITV's Family of channels as a proportion of total television viewing, including the BBC Family. ITV aims at least to maintain the ITV Family SOV.

Performance

ITV Family SOV grew 1% in 2016 to 21.4%. Within this, the ITV main channel saw an increase of 3% benefiting from the Six Nations Rugby Championships and the European Football Championships along with strong performances in Drama, Entertainment and Daytime. The digital channels were down 4% in the year mainly across ITV3 and ITV4. ITV2 viewing amongst 16-34s continues to grow, up 25% in the year and it remains the most popular digital channel in the UK based on SOV.

ITV also continues to deliver mass audiences and in 2016 delivered 99% of all commercial audiences over five million and 95% over three million.

ITV Family Share of commercial impacts

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business

Definition

Part of delivering Strategic Priority 1 and maintaining our position as a leading commercial broadcaster is to have a strong ITV Family share of commercial impacts (SOCI). SOCI is the trading currency in the television advertising market, and since it only covers commercial television it does not include the BBC. This is the share of total UK television commercial impacts which is delivered by ITV's family of channels. An impact is one viewer watching one 30 second commercial. We aim to maximise our SOCI. SOCI provides an overall measure of viewing performance, however because advertisers are buying scale and breadth of audience, SOCI is not necessarily a direct indicator of advertising performance.

Performance

ITV Family SOCI declined by 1%, with the main channel up 3%. The digital channels SOCI was down 6% and was impacted by the launch of a number of new free-to-air digital channels at the end of 2015 and first half of 2016. In addition, ITV2 is now more targeted towards younger viewers with SOCI amongst 16-34s up 24% in the year.

ITV Family Share of broadcast

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business

Definition

ITV's share of UK television spot advertising revenue is known as its share of broadcast. To maximise revenue from our free-to-air business, which is a key component of Strategic Priority 1, we aim to continue to maximise our share of broadcast and to outperform the UK television advertising market.

It is increasingly difficult to measure the total television advertising market as all broadcasters have different definitions and include other sources of revenue, such as sponsorship and VOD in their estimates of television advertising. Our SOB has always been based on our estimate of the pure spot advertising market, excluding sponsorship, VOD and for 2016 going forward, we also exclude all broadcaster's self promotion revenues on their own channels because this year has seen a significant increase which further distorts the external spot market.

Performance

In 2016 we gained market share again, increasing our share of broadcast to 47.4% which includes UTV and excludes self promotion by all broadcasters. 2015 share of broadcast excluding self promotion, would have been 46.8% rather than 46.1%.

We have again gained share as a result of our unique ability to deliver mass audiences across the key demographics to our advertisers and more targeted demographics on our digital channels, as well as the benefit of UTV.

Total long-form video requests

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Build a global pay and distribution business

Definition

A key part of our strategy is to maximise audience share from our free-to-air broadcast and increasingly from our VOD business.

Long-form video requests is a measure of the total number of our videos viewed across all platforms on which the ITV Hub is available and therefore provides a key measure of how much of our content is being viewed online. A long-form video is a programme that has been broadcast on television and is available to watch online and on demand in its entirety.

Performance

Long-form video requests were up 24% in 2016 to 1,025 million views supported by our continued investment and focus on the ITV Hub, mobile apps and simulcast offering. Online consumption, which is the measure of how long viewers are spending online, is an important indicator of online performance and this increased by 42% in 2016.

Key Performance Indicators
continued

Number of new commissions for ITV Studios

Our strategic priorities

- Grow an international content business
- Build a global pay and distribution business

Definition

To deliver Strategic Priority 2 tracking the performance of the creative renewal pipeline and the number of new commissions won is a key indicator. This figure includes programmes shown both on ITV and on other broadcasters, and both in the UK and internationally.

Performance

There was strong growth in the number of new commissions for ITV Studios in 2016, up 37% to 228. 102 of these new commissions have come from the UK business, with the remaining 126 coming from our international businesses.

We continue to invest in our creative pipeline building on our existing portfolio of programmes and formats. We are particularly focused on the genres that can return and travel, namely drama, entertainment and factual entertainment.

Percentage of ITV output from ITV Studios (ITV main channel only)

Our strategic priorities

- Grow an international content business

Definition

As an integrated producer broadcaster, part of our strategy is to use our broadcast channels as a platform for ITV Studios content where we aim to make them famous and then sell them around the world.

The proportion of the total spend on original commissions on ITV transmitted in the year, delivered by ITV Studios demonstrates this and our aim is to increase ITV Studios' supply of programmes to ITV to allow us to deliver against all three of our Strategic Priorities.

Performance

The percentage of ITV output from ITV Studios increased to 63% in 2016 driven by new dramas in the year. Many of these ITV Studios programmes broadcast in 2016 have now been distributed around the world including Victoria, Cold Feet, Thunderbirds Are Go!, The Chase and I'm A Celebrity... Get Me Out Of Here!

Financial and Performance Review

The benefit of rebalancing the business is evident in these results with growth in non-NAR revenue delivering a good performance and making ITV a more reslient business.

The strategy we set out a number of years ago was to rebalance the business and reduce our reliance on spot advertising. This strategy is the right strategy for ITV and the progress we have made is clearly evident in our performance for 2016, delivering 3% external revenue growth and 3% increase in adjusted EPS, in a year where spot advertising revenue declined 3%. We continue to be highly cash generative which, together with our ongoing focus on costs, places us in a strong position to continue to invest in opportunities to grow the business and deliver returns to shareholders.

Twelve months to 31 December – on a continuing basis	**2016 £m**	2015 £m	Change £m	Change %
NAR	**1,672**	1,719	(47)	(3)
Total non-NAR	**1,855**	1,664	191	11
Total revenue	**3,527**	3,383	144	4
Internal supply	**(463)**	(411)	52	13
Group external revenue	**3,064**	2,972	92	3
Adjusted EBITA	**885**	865	20	2
Group adjusted EBITA margin	**29%**	29%		
Adjusted EPS	**17.0p**	16.5p	0.5p	3
Adjusted diluted EPS	**17.0p**	16.3p	0.7p	4
Dividend per share	**7.2p**	6.0p	1.2p	20
Special dividend	**5p**	10p	-	-
Net debt as at 31 December	**(637)**	(319)	(318)	–

The statutory profit before tax and EPS from the Consolidated Income Statement is below. A full reconciliation between our statutory and reported results is included in the Alternative Performance Measures section.

Twelve months to 31 December	**2016 £m**	2015 £m	Change £m	Change %
Profit before tax	**553**	641	(88)	(14)
EPS	**11.2p**	12.4p	(1.2)p	(10)
Diluted EPS	**11.1p**	12.3p	(1.2)p	(10)

Total ITV revenue increased 4% to £3,527 million (2015: £3,383 million), with external revenue up 3% at £3,064 million (2015: £2,972 million). NAR declined by 3% to £1,672 million (2015: £1,719 million) offset by a 11% growth in non-NAR revenue to £1,855 million (2015: £1,664 million). Non-NAR now accounts for 53% (2015: 49%) of total revenue.

Growth in high margin Online, Pay & Interactive revenue combined with the growth in ITV Studios and our continued focus on costs, delivered a 2% increase in adjusted EBITA to £885 million (2015: £865 million) with the adjusted EBITA margin maintained at 29%. Adjusted EPS grew 3% to 17.0p (2015: 16.5p) while statutory EPS declined by 10% to 11.2p (2015: 12.4p). Statutory EPS declined due to higher exceptional costs, principally employment linked consideration for our acquisitions (primarily Talpa Media) which is included within reported earnings. In addition there were higher restructuring costs associated with our 2017 cost savings and higher amortisation of acquired intangible assets as a result of owning Talpa Media for a full 12 months. These adjustments are explained over the following pages.

We remain focused on balance sheet efficiency and working capital management. Our profit to cash ratio remained strong at 97% and we ended the period with net debt of £637 million (31 December 2015: net debt of £319 million) after the acquisition of UTV, the ordinary and special dividend payments and pension deficit contributions. Increasing net debt is in line with our objective of gradually increasing our balance sheet leverage over time whilst maintaining the financial flexibility to continue to invest in the business.

Financial and Performance Review
continued

Cost management remains a key priority and we are on track to deliver the previously announced £25 million reduction in overheads in 2017 across the business. This together with our strong balance sheet, our clear strategy and a more balanced business gives us the flexibility to meet the opportunities and challenges ahead.

Broadcast & Online

Twelve months to 31 December – on a continuing basis	**2016 £m**	2015 £m	Change £m	Change %
NAR	**1,672**	1,719	(47)	(3)
Online, Pay & Interactive revenue	**231**	188	43	23
SDN external revenue	**67**	64	3	5
Other commercial income	**162**	175	(13)	(7)
Broadcast & Online non-NAR revenue	**460**	427	33	8
Total Broadcast & Online revenue	**2,132**	2,146	(14)	(1)
Total schedule costs	**(1,050)**	(1,045)	(5)	-
Other costs	**(440)**	(442)	2	-
Total Broadcast & Online adjusted EBITA	**642**	659	(17)	(3)
Adjusted EBITA margin	**30%**	31%		

Broadcast & Online revenue declined by 1% to £2,132 million (2015: £2,146 million) with the decrease in NAR largely offset by strong growth in Online, Pay & Interactive.

Against a backdrop of uncertainty created by the EU referendum, ITV Family NAR decreased by 3% to £1,672 million (including UTV) (2015: 1,719 million). This decline was less than the decline in our estimate of the television advertising market which excludes broadcaster's self-promotion, sponsorship and VOD revenue, and therefore we again took market share to increase our SOB to 47.4%. Despite the overall fall in NAR we have seen a number of categories hold or increase spend year-on-year, such as Entertainment & Leisure, with increased bookmakers spend around the European Football Championship, Cars, Cosmetics and Toiletries, and Publishing and Broadcasting. Digital brands continue to spend on television to build brand awareness. Retail, Finance and Food have seen declines with supermarkets and traditional banking decreasing spend across the year. Excluding supermarkets, Retail was up 4% year-on-year.

As expected, the phasing of NAR was different in 2016 reflecting the timing of major sporting events and a backdrop of uncertainty driven by the EU referendum. The first and second quarter were both flat with strong comparatives in Q1 2015, with a weaker April and May being offset by a strong June as a result of the Euro Football Championships. The third quarter was down 4% impacted by the Rugby World Cup comparatives in 2015 with the fourth quarter down 6% as increased political and economic uncertainty caused advertisers to behave more cautiously.

Looking to 2017 we expect the first four months to the end of April to be down around 6% and as ever the phasing of NAR will be different across the year. Over the full year we again expect to outperform the television advertising market.

On-screen we performed strongly with ITV Family SOV up 1% and a 3% increase in ITV main channel SOV. Going forward we remain focused on our viewing performance and continuing to deliver both mass audiences and key demographics which are highly demanded by advertisers.

Online, Pay & Interactive revenue continued to show strong growth, up 23% to £231 million (2015: £188 million) reflecting further growth in both our online advertising and pay businesses. Audience demand for VOD remains strong as does the demand for online advertising, which supported by our strong on-screen proposition, helped drive a 24% increase in long-form video requests and a 42% increase in consumption on our OTT service the ITV Hub. Interactive revenue was broadly flat, with daytime competitions and entertainment programmes performing well.

As we continue to build our digital business we will be launching our SVOD service BritBox in the US in the first half of 2017. The service is a joint venture with the BBC to provide the Best of British content to subscribers. BritBox US is expected to break even within a couple of years. ITV's share of total joint venture losses/profits will be recognised within results from JVs and Associates.

SDN external revenue, which is generated from licence sales for DTT Multiplex A, increased 5% to £67 million (2015: £64 million). This was driven by the full year impact of the 15th stream which was launched in August 2015 and the 16th stream launched in May 2016.

Other commercial income includes revenue from programme sponsorship, media sales, which relates to commission earned by ITV on sales of airtime for the non-consolidated licensees (UTV until acquisition and STV), as well as revenue from these licensees for ITV content. Other commercial income was down year-on-year at £162 million (2015: £175 million) as a result of a reduction in airtime sales commission and revenue from UTV following ITV's acquisition of the business in February 2016.

Schedule costs were broadly flat year-on-year at £1,050 million (2015: £1,045 million) with higher spend on drama offset by lower spend on sports rights with the absence of the Champions League. Looking into 2017 we expect our total annual programming budget to be around £1,025 million which includes the previously announced £25m reduction as there is no major sporting event. We expect the programme budget to be weighted to the first half of 2017 driven by the timing of spend on entertainment and drama programmes and will be broadly flat year-on-year for the first half.

Other costs in Broadcast were flat year-on-year as we continue to maintain a tight control on costs across the business.

Overall Broadcast & Online adjusted EBITA was down 3% at £642 million (2015: £659 million) with the strong growth in Online, Pay & Interactive more than offset by the decline in the advertising market. This has led to a 1% reduction in the adjusted EBITA margin to 30% (2015: 31%).

ITV Studios

Twelve months to 31 December	2016 £m	2015 £m	Change £m	Change %
Studios UK	626	547	79	14
ITV America	235	320	(85)	(27)
Studios RoW	355	213	142	67
Global Entertainment	179	157	22	14
Total Studios revenue	**1,395**	1,237	158	13
Total Studios costs	(1,152)	(1,031)	(121)	(12)
Total Studios adjusted EBITA*	**243**	206	37	18
Studios adjusted EBITA margin	17%	17%		

* Includes the benefit of production tax credits.

Twelve months to 31 December	2016 £m	2015 £m	Change £m	Change %
Sales from ITV Studios to Broadcast & Online	463	411	52	13
External revenue	932	826	106	13
Total Studios revenue	**1,395**	1,237	158	13

ITV Studios total revenue grew strongly up 13% to £1,395 million (2015: £1,237 million) driven by Studios UK, Global Entertainment and our acquisitions, as we continue to build scale in creative content markets and strengthen our international portfolio of programmes that return and travel. Total organic revenue, which excludes our current and prior year acquisitions, was down 3%, and excluding foreign exchange movements as well, it was down 7%. This was primarily due to ITV America being impacted by two large shows not returning and the timing of one of our key shows. Good performances by the UK and Global Entertainment helped offset some of this organic decline. Our results include a full 12 months of our prior year acquisitions, Twofour Group, Mammoth Screen and Talpa Media all of which have delivered key programmes during the year.

It is in the nature of our business that not all programmes will return for another series and the timing of programme deliveries will vary. However, since 2010 ITV Studios has shown good organic growth (excluding all currency and all acquisitions) at 4% compound annual growth rate.

Reflecting our growth and increasing scale in key production markets in Europe and the US, 50% of ITV Studios total revenue in 2016 was generated outside the UK. As our Studios business grows internationally, foreign currency movements have an increasing impact on our results. On a constant currency basis, which assumes exchange rates remained consistent with 2015, ITV Studios revenue for 2016 would have been £75 million lower and adjusted EBITA would have been £12 million lower as a result of a stronger US dollar and euro during the year.

Total Studios UK revenue was up 14% to £626 million (2015: £547 million) with 13% growth in internal revenue and 20% increase in external revenue driven by organic growth of 6% and the acquisition of Twofour Group and Mammoth Screen in 2015.

Financial and Performance Review
continued

Programming sales to ITV Broadcast benefited from new drama deliveries including Victoria, Cold Feet and Tutankhamun along with returning entertainment programmes Saturday Night Takeaway, Love Island and I'm A Celebrity... Get Me Out Here! Off-ITV revenue grew strongly with successful deliveries including The Jump, The Job Interview and Raised by Wolves all for Channel 4, Poldark, Moorside and Witness for the Prosecution for BBC and Agatha Raisin for Sky.

ITV America's total revenue declined 27% to £235 million (2015: £320 million) with organic revenue, excluding acquisitions and foreign exchange, down 35%. This decline was predominantly driven by three shows – Texas Rising and Best Time Ever not returning and the phasing of Hell's Kitchen which did not deliver in 2016 but will return for two series in 2017. Our acquisitions continue to deliver new and returning programmes, including Alone, Killing Fields, Pawn Stars and Fixer Upper. Other successful non-scripted deliveries within ITV America during the year included American Grit, Tiny House Nation and The Real Housewives of New Jersey. Our returning scripted dramas, The Good Witch and Aquarius also aired during 2016 with The Good Witch already recommissioned for a third series in 2017. Aquarius has not been recommissioned for 2017, but we are confident we can replace it with our upcoming slate of new programmes, including three dramas; Sun Records, Somewhere Between and a pilot of Snowpiercer, as we build our US scripted business.

Studios RoW total revenue was up 67% to £355 million (2015: £213 million), with organic revenue down 1%. We benefited from 12 months of Talpa Media, which was acquired on 30 April 2015 and has significantly strengthened our position as a leading international producer and distributor. Talpa Media performed strongly in 2016 and also benefited from a four-year licensing agreement for The Voice of China. We also saw good growth in Australia and Denmark from producing UK formats. 2016 deliveries included I'm A Celebrity... Get Me Out Of Here! and The Chase in Australia and Germany and The Voice Kids and Come Dine With Me in Denmark. We have a strong pipeline of new and returning formats, many of which have been produced by our acquisitions Talpa Media and Twofour Group, which we will be producing in a number of our key production territories including; The Voice, This Time Next Year, Love Island, 5 Gold Rings and Big Star's Little Star.

Global Entertainment revenue increased 14% in the period to £179 million (2015: £157 million), with revenue excluding foreign exchange up 6% as we continued to grow our portfolio of programmes and formats to distribute internationally. Revenue growth was supported by our strong programme slate including Victoria, Poldark, Mr Selfridge, Coronation Street, Thunderbirds Are Go!, Aquarius, Hell's Kitchen and The Chase. We have 10 programmes sold to over 100 countries and 80 different formats we sell internationally. We have also increased distribution of our content to OTT providers including Amazon, Netflix and Hulu both in the UK and internationally.

Reflecting the strong revenue growth in ITV Studios, adjusted EBITA increased 18% to £243 million (2015: £206 million). The adjusted EBITA margin remains unchanged at 17%. In 2016 we invested £160 million in scripted content, which is a similar level to 2015. We finance our larger-scale scripted projects through our strong underlying cashflows. The production cost is partly funded by the initial sale of the series to a broadcaster, while the deficit (the difference between the cost and what the broadcaster pays), is recovered through distribution revenue from selling the finished product globally to other broadcasters and platforms. We balance our financial exposure through building a portfolio of programmes, with successful international dramas offsetting the risk that we will not recover the full deficit on every show.

Overall, ITV Studios continued to deliver many creative successes in the year. The ongoing investment we are making in our creative pipeline will build upon our existing strong portfolio of programmes and formats and help manage the fluctuations we experience because of the phasing of deliveries. 2017 will see the delivery of many new and returning entertainment and drama programmes and as a result we expect to return to good organic revenue growth over the full year, although the first half will be impacted the timing of deliveries. ITV Studios currently has over £150 million more revenue secured for 2017 than it did this time last year. Adjusted EBITA will be broadly flat year-on-year due to our ongoing investment in scripted content and the reversal of the one-off benefit of The Voice of China in 2016.

Acquisitions

On 29 February 2016 the Group acquired a 100% controlling interest in UTV Limited, which owns the television assets of the former UTV Media PLC, for £100 million. This further strengthens ITV's free-to-air business and, as we have integrated it into ITV it enables us to run a more efficient network. On 30 November 2016, ITV completed the €10 million sale of UTV Ireland to Virgin Media Limited.

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

We have strict criteria for evaluating potential acquisitions. Financially, we assess ownership of intellectual property, earnings growth and valuation based on return on capital employed and discounted cash flow. Strategically, we ensure an acquisition target has a strong creative track record and pipeline in content genres that return and travel, namely drama, entertainment and factual entertainment, as well as 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, the most significant of which is for Talpa Media whereby the total maximum consideration, including the initial payment, is up to €1.1 billion which is contingent on Talpa Media continuing to deliver significant profit growth to 2022 as well as John de Mol's continued commitment to the business during this time. Under the deal structure, because all future payments and €150 million of the initial consideration are directly related to John de Mol remaining with the business, these payments are treated as employment costs and therefore on a statutory basis are part of our reported results. However, we exclude them 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 capital consideration reflecting how we structure our transactions. This is consistent with our treatment of all costs of this type.

Acquisitions – 2012 to 2016 (undiscounted)

Company	Geography	Genre	Initial consideration (£m)	Additional consideration paid in 2016 (£m)	Expected future payments* (£m)	Total expected consideration** (£m)	Expected payment period	Total maximum consideration** (£m)
2016								
UTV	UK & Ireland	Broadcast TV	100	–	–	100		100
Total for 2016			**100**	**–**	**–**	**100**		**100**
Total for 2012-2015		Content	760	3	328	1,091	2016-2021	1,805
Total			**860**	**3**	**328**	**1,191**		**1,905**

* Undiscounted and adjusted for foreign exchange. All future payments are performance related. Of £328 million expected future payments, £158 million has been recorded on the balance sheet to date.

** Undiscounted and adjusted for foreign exchange, including the initial cash consideration and excluding working capital adjustments.

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

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.

Total expected consideration for all our acquisitions has increased by £128 million since 31 December 2015, primarily as a result of our acquisition of UTV Limited and future payments denominated in foreign currency. As at 31 December 2016 the amount recorded on the balance sheet was £158 million of our total expected future payments.

In 2017, around £120 million will be payable on our acquisitions, primarily relating to Talpa Media of which €100 million is due, subject to audit, in March 2017.

Foreign Exchange Sensitivity

As our Studios business grows internationally, the performance of the business becomes increasingly sensitive to movements in foreign exchange rates, primarily with respect to the US dollar and euro.

The following table highlights ITV's sensitivity 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	±50-60	±8-10
Euro	±25-30	±3-4

Financial and Performance Review
continued

Net financing costs

Twelve months to 31 December	2016 £m	2015 £m
Financing costs directly attributable to loans and bonds	(22)	(10)
Cash-related net financing costs	(3)	(3)
Amortisation of bonds	(1)	–
Adjusted financing costs	(26)	(13)
Mark-to-market on swaps and foreign exchange	(3)	(4)
Imputed pension interest	(5)	(10)
Unrealised foreign exchange and other net financial losses	(17)	(4)
Net financing costs	(51)	(31)

Adjusted financing costs increased to £26 million (2015: £13 million) primarily due to 12 months of the seven year €600 million Eurobond issued in September 2015 and new facility fees.

Net financing costs were £20 million higher in 2016 at £51 million (2015: £31 million) primarily due to £17 million increase in the expected future payments on our acquisition portfolio. These relate to those deals structured with a put and call option for the remainder of the equity which are not dependent on the seller remaining within the business. The imputed pension charge decreased as a result of lower interest rates.

Profit before tax

Adjusted profit before tax, after amortisation and impairment of intangibles and financing costs, was broadly flat at £847 million (2015: £843 million). Statutory profit before tax decreased by 14% at £553 million (2015: £641 million), primarily a result of the exceptional items described below, an increase in net financial losses within net financing costs and a full 12 months amortisation of the intangible assets acquired in the purchase of Talpa Media, particularly The Voice.

Profit before tax (PBT)

Twelve months to 31 December – on a continuing basis	2016 £m	2015 £m
Profit before tax	553	641
Production tax credits	28	23
Exceptional items (net)	164	103
Amortisation and impairment of intangible assets*	77	58
Adjustments to net financing costs	25	18
Adjusted profit before tax	847	843

* In respect of intangible assets arising from business combinations.

Exceptional items

Twelve months to 31 December	2016 £m	2015 £m
Operating exceptional items:		
Acquisition related expenses	(131)	(88)
Reorganisation and restructuring costs	(14)	(13)
Pension curtailment	(19)	-
Other	-	(8)
	(164)	(109)
Non-operating exceptional items	-	6
Total exceptional items (net)	(164)	(103)

Total exceptional items in the year were £164 million (2015: £103 million). Operating exceptional items principally relate to acquisition related expenses which are mainly performance based employment linked consideration, primarily £99 million for Talpa Media which has delivered in line with its first earnout hurdle and will receive €100 million, subject to audit, in March 2017. Reorganisation and restructuring costs includes £14 million of restructuring and redundancy costs across the business in relation to our £25 million overhead cost savings for 2017. The pension curtailment is as a result of the closure of the defined benefit pension sections of the ITV Pension Scheme to future benefit accrual.

Tax

Adjusted tax charge

The total adjusted tax charge for 2016 was £160 million (2015: £177 million), corresponding to an effective tax rate on adjusted PBT of 19% (2015: 21%) which is broadly in line with the standard UK corporation tax rate of 20% (2015: 20.25%). We expect this effective tax rate to be sustainable in the medium term. 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 discussed earlier.

Twelve months to 31 December	2016 £m	2015 £m
Tax charge	(100)	(139)
Production tax credits	(28)	(23)
Charge for exceptional items	(15)	(8)
Charge in respect of amortisation of intangible assets*	(11)	(4)
Charge in respect of adjustments to net financing costs	(6)	(3)
Adjusted tax charge	**(160)**	(177)
Effective tax rate on adjusted profits	**19%**	21%

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

Cash tax

Cash tax paid in the year was £90 million (2015: £117 million), the majority of which was paid in the UK. The cash tax figure is net of production tax credits received in the year. The cash tax payable is lower year-on-year because of the timing of the receipts of tax credits. 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	2016 £m	2015 £m
Tax charge	(100)	(139)
Temporary differences recognised through deferred tax	(13)	29
Prior year adjustments to current tax	(10)	(9)
Current tax, current year	**(123)**	(119)
Phasing of tax payments – UK	5	(1)
Phasing of tax payments – overseas	5	(1)
Production tax credits – timing of receipt	7	(14)
Cash tax impact of allowable UK pension payments	16	18
Cash tax paid	**(90)**	(117)

Tax strategy

ITV is a responsible business, and we take a responsible attitude to tax, recognising that it affects all of our stakeholders. In order 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

We have four key strategic tax objectives:

1. Engage with tax authorities in an open and transparent way in order to minimise uncertainty
2. Pro-actively 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. 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, including through the operation of the Tax & Treasury Committee. The ITV Global Tax Strategy as published on the ITV plc website is compliant with the UK tax strategy publication requirement set out in Part 2 Schedule 19 Finance Act 2016.

EPS – adjusted and statutory

Overall, adjusted profit after tax was up 3% at £687 million (2015: £666 million). After non-controlling interests of £4 million (2015: £7 million), adjusted basic earnings per share was 17.0p (2015: 16.5p), up 3% which is higher than the growth in adjusted EBITA of 2% due to a decrease in our adjusted effective tax rate in the year to 19% (2015: 21%). The weighted average number of shares was broadly in line at 4,010 million (2015: 4,006 million). Diluted adjusted EPS in 2016 was 17.0p (2015: 16.3p) reflecting a weighted average diluted number of shares of 4,029 (2015: 4,035).

Statutory EPS declined by 10% to 11.2p (2015: 12.4p) primarily as a result of higher employment linked consideration (largely Talpa Media), which is included within reported EPS but as in prior years, is excluded from adjusted EPS as in our view these costs are part of capital consideration. In addition there were higher restructuring costs associated with our 2017 cost savings and higher amortisation of acquired intangibles assets from a full 12 months of Talpa Media.

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

Dividend per share

In 2014, the Board made a commitment to grow the full year ordinary dividend by at least 20% per annum to 2016 to achieve a more normal dividend cover of between 2.0 and 2.5x adjusted earnings per share. In line with this policy and reflecting ITV's good performance in 2016, the Board is proposing a final dividend of 4.8p which equates to a full year dividend of 7.2p, which gives a cover of 2.4x. We have delivered average annual growth of 27% in the ordinary dividend over the last three years.

Reflecting ITV's strong cash generation and the Board's confidence in the business, the Board is proposing a special dividend of 5p per share worth just over £200 million, bringing the total special dividends since 2012 to almost £1.2 billion.

Looking ahead the Board is committed to a long-term sustainable dividend policy. Ordinary dividends will grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term. ITV has £1.7 billion of distributable reserves at 31st December 2016 available immediately to support the dividend policy.

Cash generation

Profit to cash conversion

Twelve months to 31 December	**2016 £m**	2015 £m
Adjusted EBITA	**885**	865
Working capital movement	**(20)**	(72)
Depreciation	**31**	27
Share-based compensation and pension service costs	**10**	17
Acquisition of property, plant and equipment and intangible assets	**(44)**	(49)
Adjusted cash flow	**862**	788
Profit to cash ratio	**97%**	91%

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

ITV continues to be highly cash generative reflecting our ongoing tight management of working capital balances and our disciplined approach to cash and costs. This is particularly important when there is wider political and economic uncertainty and places us in a good position to continue to invest across the business and deliver sustainable returns to our shareholders.

In the year we generated £862 million (2015: £788 million) of operational cash from £885 million (2015: £865 million) of adjusted EBITA, which equates to a strong profit to cash ratio of 97% (2015: 91%).

To facilitate our working capital management, we have agreed a £100 million non-recourse receivables purchase agreement (free of f inancial covenants) which gives us the flexibility to access additional liquidity when required. At the 31st December, £35 million of receivables were sold under the purchase agreement.

Free cash flow

Twelve months to 31 December	**2016 £m**	2015 £m
Adjusted cash flow	**862**	788
Net interest paid	**(20)**	(9)
Adjusted cash tax	**(126)**	(127)
Pension funding	**(80)**	(90)
Free cash flow	**636**	562

Note: Adjusted cash tax of £126 million is total cash tax paid of £90 milion excluding receipt of production tax credits, which are included within adjusted cashflow from operations, as these production tax credits relate directly to the production of programmes.

After payments for interest, cash tax and pension funding, our free cash flow remained strong in the period, up 13% to £636 million (2015: £562 million).

Overall, after dividends (ordinary and special), acquisition related costs, debt repayments and strategic investments, particularly into 'digital first' businesses, we ended the year with net debt of £637 million, compared to net debt of £796 million at 30 June 2016 and net debt of £319 million at 31 December 2015. Our cash generation was weighted towards the second half of 2016 due to the payment of the special dividend and the acquisition of UTV, both of which were paid in the first half of 2016.

Funding and liquidity

Debt structure and liquidity

Our balance sheet strength, together with our strong free cash flow, enables us to continue to invest in opportunities to grow the business and make returns to our shareholders. To preserve our financial flexibility we have put a number of new facilities in place. We have increased our Revolving Credit Facility (RCF) from £525 million to £630 million and extended it for a further five years to 2021 (with the option to extend to 2023). We have also increased our bilateral financing facility from £175 million to £300 million, which is free of financial covenants. This, along with our two bilateral loans which total £250 million and mature in 2017 (but may be extended until 2018 at ITV's option), provides us with sufficient liquidity to meet the requirements of the business in the medium to long-term. The RCF and bilaterals have the usual financial covenants for these type of financing which are detailed in note 4. Of the total £1,180 million facilities in place, £250 million was drawn down at 31 December 2016.

Our policy is to maintain at least £250 million of available liquidity at any point.

Leverage

Our objective is to run an efficient balance sheet. We believe maintaining leverage below 1.5x reported net debt to adjusted EBITDA will optimise our cost of capital. At 31 December 2016, reported net debt to adjusted EBITDA was 0.7x (2015: 0.4x). Our priority is to invest to drive organic growth and make acquisitions in line with our strategic priorities as we find the right opportunities to do so. We will balance this investment with attractive returns to shareholders where we have surplus capital.

We also look at an adjusted measure of net debt, taking into consideration all of our other debt-like commitments including the expected, undiscounted contingent payments on acquisitions, the pension deficit under IAS 19 net of gilts held as security against a proportion of those liabilities and the undiscounted operating lease commitments which mainly relate to broadcast transmission contracts and property. This adjusted leverage measure better reflects how the credit rating agencies look at our balance sheet. At 31 December 2016 adjusted net debt was £1,637 million (31 December 2015: £1,144 million) and adjusted net debt to adjusted EBITDA was 1.8x (31 December 2015: 1.3x).

Financing

We are financed using debt instruments and facilities with a range of maturities. In December 2016 we issued a new €500 million Eurobond at a coupon of 2.00% which was swapped into sterling using a number of cross currency interest rate swaps. The net sterling interest rate payable on these swaps is c. 3.5%. The net sterling proceeds from the bond of £425 million were primarily used to refinance existing debt, including the £161 million bond that matured in January 2017, and will be used to pay the first tranche of the Talpa Media earnout due in 2017.

Financial and Performance Review
continued

Net debt

At 31 December	2016 £m	2015 £m
Gross cash	561	294
Gross debt	(1,198)	(613)
Net debt	**(637)**	(319)

Borrowings at 31 December 2016 were repayable as follows:

Amount repayable	£m	Maturity
£161 million Eurobond	161	Jan 2017
£100 million Bilateral Loan	100	Jun 2017/2018
€600 million Eurobond	508	Sep 2022
€500 million Eurobond*	425	Dec 2023
Finance leases	4	Various
Total debt repayable on maturity**	**1,198**	

* Net of £2 million cross currency swaps.
** In addition to above we have a £150 million bilateral loan which was drawn down at 31 December but was offset by deposit on account.

At 31st December, the £630 million RCF was undrawn.

Ratings
We are rated investment grade by two ratings agencies: BBB- (positive 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, exposure to the economic cycle, as well as business and geographical diversity. Continuing to execute our strategy will strengthen our position against all these metrics.

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

ITV is also exposed to foreign exchange risk on transactions we undertake in a foreign currency. Our policy is to hedge a portion of any transaction that is either a firm commitment for up to five years forward or a highly probable forecast for up to 18 months, depending on the level of certainty we have on the final size of the transaction.

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

The foreign exchange and interest rate hedging strategy is discussed and approved by the ITV plc Board and implemented by our internal Tax and Treasury Committee who oversee governance and approval of Tax and Treasury related policies and procedures within the business.

Pensions
The net pension deficit for the defined benefit schemes at 31 December 2016 was £328 million (31 December 2015: £176 million excluding UTV pension scheme). The increase reflects a rise in pension liabilities following a significant decrease in corporate bond yields along with an increase in market expectations of long-term inflation. The overall increase in liabilities has more than offset the deficit funding contribution and increase in asset values. The net pension deficit includes £39 million of gilts which are held by the Group as security for future unfunded pension payments of four former Granada executives. A full reconciliation is included within Note 3.7.

Following the acquisition of UTV Limited in February 2016, the assets and liabilities of the UTV defined benefit pension scheme (which is in a surplus of £1 million) are included within the Group net pension deficit at 31 December 2016.

Actuarial valuation
The last actuarial valuation was undertaken in 2014. On the basis adopted by the Trustee, the combined deficits as at 1 January 2014 amounted to £540 million.

The Trustee is in the process of undertaking a full actuarial valuation of all sections of the Scheme as at 1 January 2017 which we expect to agree in late 2017 or early 2018.

Closure to future accrual
In December 2016, following a member consultation, the Group decided to close the defined benefit sections of the ITV Scheme to future benefit accrual with effect from 28 February 2017. The benefits of these members will become subject to statutory increases from the date of closure until retirement, rather than the capped pensionable salary that previously applied. This change has resulted in a one-off £19 million non-cash curtailment charge which is included within exceptionals.

Deficit funding contributions
The Group continues to make deficit funding contributions in line with the most recent valuation in order to eliminate the deficits in each section.

The total deficit funding contribution for 2016 was £80 million, a £10 million reduction on 2015. This contribution is expected to remain at £80 million in 2017. Further details are included within Note 3.7.

Subsequent events
Eurobond repayment: On 5 January 2017 ITV repaid the £161 million Eurobond as it matured.

Gurney Productions LLC: On 6 February 2017, the Group exercised
the call option to acquire the remaining 38.5% interest of Gurney Productions LLC.

London Property Strategy: On 21 February 2017, ITV announced that following an extensive review of its London property requirements, it intends to seek planning permission to redevelop its South Bank site and build a new London home. The teams currently located in the South Bank site will be relocated to various sites during the redevelopment period. As a result of the review, ITV is also proposing to close The London Studios (TLS) business and use studio capacity in the external market to meet our future business needs.

Acquisitions: On 28 February 2017, we announced the acquisition of 65.05% of Tetra Media Studios SAS, the French production business.

Ian Griffiths
Group Finance Director

Risks and Uncertainties

As a producer and broadcaster ITV's business carries a number of risks which we manage through our risk management framework.

This risk management framework sets out our processes for identifying, reviewing and managing our risks and is regularly assessed and adapted as the Company, industry and macro environment evolves. Our continuing success is dependent on how well we understand and manage our risks.

Our approach, which is consistent with previous years, covers risks at all levels of the organisation:

- **Principal risks:**
  – High Impact, Low Likelihood (HILL) risks – of low inherent likelihood but where there would be major consequences were the risk to materialise

  – Strategic risks – would impact the successful execution of the strategy

- **Operational or process level risks**
  – embedded into everyday activity within the organisation

Risks are primarily controlled through the risk management process. The Board has carried out a robust assessment of the Principal risks facing the Company and details of these are set on out on the following pages. Mitigating actions have been identified for all of the Principal risks. Each Strategic risk has been mapped to at least one of the three key Strategic Priorities and, where possible, assigned key risk indicators. Where appropriate, the key risk indicators are aligned to our key performance indicators (KPIs). All Principal risks are owned by at least one member of the Management Board.

In line with our Risk Management Framework, the Management and Divisional Boards have reviewed ITV's Principal risks and uncertainties. While these potential risks are predominately unchanged, the Board feels the potential risk of a sustained cyber/viral attack should be viewed as a HILL risk rather than a Strategic risk. The Board believes that this better reflects the nature of this risk because media companies in particular have faced increased frequency and sophistication of cyber-attacks.

Risk appetite
The Board is responsible for setting the level of risk the Company is willing to take in line with our strategy. There are clear approvals frameworks in place and we continue to develop our approach to ensure that the business understands the Board's risk appetite and ensure they understand tolerance levels and track the key risk indicators to help manage each risk.

Three lines of defence
We continue to enhance our three lines of defence model and develop our approach to managing risks. The business divisions own their risks and the shared service functions support them in managing the risks. Internal Audit provide assurance as to the effectiveness of the internal control and risk management systems. In areas which face day to day operational risk, we are continuing to develop our three lines of defence model and to move our approach to risk away from a rules and process driven system to a cultural people driven solution which we believe encourages a focus on prevention rather than reaction to failure. A new Leading Risk training programme is now in place for ITV Studios production management which will continue to be developed and introduced to other areas of the business.

Risk culture
Throughout the year we have continued to focus on and strengthen our risk culture. The Operational Risk Steering Group considers ethical behaviours, governance and compliance with our Code of Conduct. We aim to have an open communication culture where information is shared and issues are escalated as appropriate.

Assurance
Internal Audit provide objective assurance as to the effectiveness of the Group's systems of internal control and risk management, reporting to the Management Board, Divisional boards and the Audit and Risk Committee.

The internal audit plan is driven from ITV's risk management framework. Internal Audit review the auditable elements of the HILL, Strategic and operational risks and this review informs the areas and topics that Internal Audit focus on.

Risk management framework

Our ongoing process for risk identification, review and management is set out below.

Board

- Sets strategic objectives
- Identifies and evaluates Principal risks and uncertainties
- Sets our strategy on risk and establishes tolerance levels and risk appetite
- Ensures a robust and appropriate risk management framework is in place
- Continually monitors the risk management and internal control systems

Management and Divisional Boards

With support from the Divisional Boards the Management Board has responsibility for:

- the development and operation of the risk management framework and for the operation of our systems of internal control. This includes:
  - risk identification and assessment and establishing controls and procedures to monitor and mitigate risks.
  - assessment and review of financial controls, policies and procedures to ensure risks are identified and the processes and procedures are in accordance with and aligned to the strategy.
  - reviewing and monitoring the effectiveness of internal controls and putting in place remedial plans where controls are weak or there are opportunities for improvement. Serious control weakness (if any) is reported to the Board and action taken as appropriate.
- routinely reviewing and challenging risks and mitigations.

Operational Risk Steering Group

The Operational Risk Steering Group has responsibility for:

- considering and setting actions for pan ITV risks and for ongoing monitoring of those actions.
- reviewing incident reports and other statistics.
- reviewing policies and processes to ensure they remain fit for purpose.
- identifying and reporting emerging risks.
- identifying and resolving issues.

Risk areas in scope of the group and sub committees that deal with specific risk areas are set out in the governance framework.

The Chairman of the Audit and Risk Committee attends meetings of the Operational Risk Steering Group periodically.

Audit and Risk Committee

The Audit and Risk Committee has responsibility for:

- overseeing and advising the Board on strategic risk exposures and future mitigation strategy.
- reviewing internal controls and their effectiveness.
- reviewing the effectiveness of the risk management framework.
- conducting in depth reviews of high risk business areas or processes.
- reviewing internal audit actions and management responsiveness to the findings.

Details of risk reviews undertaken during the year are set out in the Audit and Risk Committee report.

Operation and Assurance – three lines of defence

1 Business divisions

The business divisions own the management of their risks and are responsible for:

- identifying and reporting local risks.
- maintaining risk registers and business continuity plans where appropriate.
- reviewing and implementing mitigating actions

2 Shared service functions

Support the business divisions in managing risks.

3 Business divisions

Provide assurance as to the effectiveness of the internal control and risk management systems.

Risks and Uncertainties
continued

High Impact, Low Likelihood Risks (HILL)

Financial

Potential Risk

ITV loses its credit status or lines of funding with existing lenders or there is an event that impacts financial arrangements/availability of credit.

Key Drivers

- There is a repeat of the 2008/09 financial crisis as a result of a major bank collapse, or there is a similar financial outcome as a result of an unexpected world event.

Mitigating Factors and Risk Direction

- The business is cash generative and working capital management remains a key focus.
- ITV has a balance sheet policy to maintain adjusted net debt below 1.5x adjusted EBITDA and have available liquidity headroom of at least £250 million.
- ITV has a £630 million Revolving Credit Facility with a number of core relationship banks and £250 million of financial covenant free facilities.
- The relatively low levels of ITV debt and our two investment grade ratings mean ITV continues to have good access to both bank and bond financing.

Risk stayed the same

Potential Risk

There is a major collapse in investment values or a material change in liabilities leading to an impact on the pension scheme deficit.

Key Drivers

- As a result of macroeconomic changes there can be material movements in the Group's defined benefit pension scheme.
- For example if the Bank of England announces further Quantitative Easing this may change gilt yields and corporate bonds rates, increasing the scheme's liabilities.
- Or if there is an unexpected world event that impacts property values and/or impacts share prices.

Mitigating Factors and Risk Direction

- There is regular communication between ITV and the pension trustees.
- The pension scheme's assets are invested in a diversified portfolio, with a significant amount of the fund held in bonds.
- ITV has worked with the pension trustees to limit the potential deficit by a series of asset backed arrangements. Further, it has taken some mortality risk out of the scheme with a longevity swap and hedged a portion of inflation and interest rate variability.

Risk stayed the same

Operational

Potential Risk

A significant event removes a number of the key management team from the business on a long-term or permanent basis.

Key Drivers

- In the ordinary course of business activities there will be times when the Management Board are in one location or travel together as a group.

Mitigating Factors and Risk Direction

- There is a business resilience plan in place which includes succession plans or nominated replacements for all key positions within the Company.

Risk stayed the same

Potential Risk

There is a sustained cyber/viral attack causing prolonged system denial or major reputational damage, for example the ability to broadcast our channels or the availability of ITV Hub or ITV loses a significant volume of personal or sensitive data.

Key Drivers

- With increasingly sophisticated technology, the risk of a cyber/viral attack has increased across the world.
- We are higher risk as a result of operating in a public environment.

Mitigating Factors and Risk Direction

- We continue to improve our ability to monitor, detect and respond to cyber threats internally and through partnerships with specialist security organisations.
- Mandatory online training modules, awareness campaigns and simplified information security policies have been implemented for employees.
- There are disaster recovery and incident management plans in place for high-risk areas of the business to help deliver a rapid and flexible response. These are kept under review by the Audit and Risk Committee.

Increased risk

Reputation

Potential Risk

An event with public interest that causes significant reputational and brand damage.

Key Drivers

- Through the Broadcasting and Studios businesses, the Company operates in a public environment.

Mitigating Factors and Risk Direction

- ITV has a crisis management policy and process in place and is increasing emphasis on its development and application.

Risk stayed the same

Potential Risk

There is a major health and safety incident that results in a significant loss of human life.

Key Drivers

- As the Company expands this may result in an increase in production hours, and the Company could produce certain types of programming which have higher inherent risks.

Mitigating Factors and Risk Direction

- ITV has a central health and safety team and health and safety policies and procedures are in place, with appropriate training for employees where required. As we continue to expand internationally these will be kept under review.
- Regular inspections are undertaken at all sites alongside a programme of appropriate health and safety audits.

Risk stayed the same

Potential Risk

A major incident results in ITV being unable to continue with scheduled broadcasting for a sustained period.

Key Drivers

- ITV's broadcast technology chain is complex and risk can materialise within ITV or with third parties responsible for servicing the broadcast supply chain.

Mitigating Factors and Risk Direction

- A risk register of broadcast operations, including key outsourced functions, is in place and reviewed on a regular basis.
- Major incident scenario testing takes place bi-annually.
- An incident management process has been agreed and full disaster recovery plans are in place.

Risk stayed the same

Potential Risk

There is a significant or unexpected change in regulation or legislation.

Key Drivers

- ITV could be affected if there is a change in UK media or intellectual property regulation or legislation; for example if there is a change in advertising restrictions in key categories.
- Highlighted below are key risks as a result of European Union membership referendum.

Mitigating Factors and Risk Direction

- ITV regularly communicates with appropriate groups and its legal panel and Ofcom to monitor potential policy, legal and regulatory developments.

Increased risk

Risks and Uncertainties
continued

Impact of exiting the European Union

As a result of UK European Union membership referendum, any macro uncertainty may have a knock on impact to the overall health of the UK television advertising market.

Further there could be wider changes in regulation or legislation within the markets in which we operate. While the potential changes and the impact of any such changes will remain unknown for a while, ITV could, for example, be affected by changes to:

- EU broadcasting legislation and/or rules around EU market access, for example potential barriers against UK companies selling programming to, or investing in, EU companies;
- indirect taxation, direct taxation or transfer pricing regulation;
- restrictions to free movement of our staff.

In addition, given the reciprocal nature of worldwide trade deals, there could also be knock on changes to UK legislation affecting broadcasting and intellectual property laws. For example, there may be pressure to weaken obligations to purchase original content made in the UK or to broaden exceptions from intellectual property protection.

The likelihood or extent of any impact is currently unknown but going forward we will closely monitor and evaluate any potential areas of risk.

Strategic risks

The Market

Potential Risk

There is a major decline in advertising revenues and ITV does not build sufficient non-NAR revenue streams to mitigate the financial impact of this decline.

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Grow an international content business
- Build a global pay and distribution business

Key Drivers

- The current economic environment is uncertain which may impact demand for advertising. However ITV has made significant progress in rebalancing the business and 53% of our total revenue comes from sources other than TV spot advertising.

Mitigating Factors and Risk Direction

- Growing non-NAR in areas such as ITV Studios and Online, Pay & Interactive, remains a key part of the strategy.
- ITV continues to focus on cash and costs, ensuring the Company has adequate financial liquidity and balance sheet flexibility to continue to invest.

Risk stayed the same

Potential Risk

The television market moves significantly towards pay television as a preferred model, negatively impacting ITV's free-to-air revenue.

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Build a global pay and distribution business

Key Drivers

- The current platform mix between free-to-air and linear pay television is around 50% each and has remained at this level over recent years.

Mitigating Factors and Risk Direction

- ITV continues to support free platforms, including YouView, to keep free-to-air strong.
- ITV looks at and evaluates the opportunities for expanding its existing pay services and other pay offerings.
- ITV explores other platforms to understand viewing habits and what people are prepared to pay for.

Risk stayed the same

Potential Risk

A faster than expected shift to VOD or other new technologies, such as internet enabled TVs or online only services, causes a sustained loss of advertising revenue.

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Grow an international content business
- Build a global pay and distribution business

Key Drivers

- The way people are consuming television is changing and viewers are spending more time watching online. However it remains a small percentage of total viewing at around 7% (2015 internal estimates).

Mitigating Factors and Risk Direction

- The business continues to develop the ITV Hub VOD services, maximise the distribution of the ITV Hub and grow its VOD advertising business.
- ITV monitors the market for new technology and where appropriate explores how ITV can participate.
- ITV continues to invest around £1 billion in its programme budget.

Risk stayed the same

Organisation, Structure and Processes

Potential Risk

ITV fails to evolve its organisational structure and culture to ensure that it is capable of delivering continued growth from new businesses or revenue streams and fails to attract, develop and retain key creative, commercial and management talent with the skills required for the ongoing business.

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Grow an international content business
- Build a global pay and distribution business

Key Drivers

- Employing the best creative, commercial and management talent is key to our success.
- Failing to create the right culture to attract and retain this talent increases this risk.
- Employee engagement is critical and we continue to monitor it through our employee survey. This once again showed very high engagement at 90%, up on the previous year (2015: 89%).

Mitigating Factors and Risk Direction

- ITV constantly reassesses the business to create a fit-for-purpose organisation.
- Strategic focus on working across the business to embed and strengthen the culture of 'One ITV' way of working.
- ITV invests in training and development for all key colleagues in the business.
- Succession plans are in place for all key positions within the Company.

Risk stayed the same

Potential Risk

There is significant loss of programme rights or ITV fails to identify and obtain the optimal rights packages.

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Grow an international content business
- Build a global pay and distribution business

Key Drivers

- There is increased competition for high-quality programme rights as broadcasters and platform owners demand brand defining content.
- As an integrated producer broadcaster, ITV produces a significant proportion of the broadcast schedule itself. In 2016 this increased to 63% of the main channel's original commissions.
- ITV maintains good relationships with independent producers to ensure it has opportunities to acquire quality content.

Mitigating Factors and Risk Direction

- ITV is focused on both protecting and exploiting existing rights and ensuring that future rights generated accrue to ITV.
- ITV has a detailed model to evaluate the value of third-party rights to ensure it only buys rights that make economic sense.
- ITV invests in creating and owning quality content through ITV Studios.

Risk stayed the same

Risks and Uncertainties
continued

Potential Risk

ITV fails to create and own a sufficient number of hit programmes/formats across its international portfolio of content companies.

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Grow an international content business
- Build a global pay and distribution business

Key Drivers

- Our ability to create and own hit programmes depends on the quality of our content business.
- ITV is the largest commercial producer in the UK and a leading independent non-scripted producer in the US and Europe.

Mitigating Factors and Risk Direction

- ITV maximises opportunities for ITV Studios to create successful shows by investing in the creative pipeline and focusing on programmes and genres that can return and travel internationally, i.e. drama, entertainment and factual entertainment, as evidenced by our increased investment in scripted content.
- ITV is focused on hiring and retaining the right key creative talent.

Risk stayed the same

Potential Risk

ITV fails to properly resource, financially, creatively and operationally, the new growth businesses, in particular online and international content.

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Grow an international content business
- Build a global pay and distribution business

Key Drivers

- Our strategy is clear and we remain focused on delivering against our three strategic priorities in the areas where we can deliver most growth as we continue to rebalance the business.

Mitigating Factors and Risk Direction

- Talent management plans have been developed and reviewed to ensure adequate succession planning across ITV.
- ITV continues to embed and strengthen the culture of 'One ITV' way of working.
- Lessons from recent investments are captured through post-acquisition reviews.

Risk stayed the same

Potential Risk

ITV remains heavily reliant on legacy systems, which could potentially restrict the ability to grow the business. These systems and processes may not be appropriate for non-advertising revenue or international growth.

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Grow an international content business
- Build a global pay and distribution business

Key Drivers

- Our system requirements change as we continue to rebalance the business, grow new revenue streams and become increasingly international.

Mitigating Factors and Risk Direction

- System requirements are kept under review with business growth and system modernisation projects implemented as appropriate.
- A modernisation plan is in place for the legacy systems which remains under constant review and development to ensure technology systems meet the needs of the business.
- Cyber risk mitigations in relation to all of our systems.
- This is kept under review by the Audit and Risk Committee.

Risk stayed the same

Technology

Potential Risk

A significant high-profile incident or series of events e.g. a system failure, a technology issue, or a major regulatory breach that causes significant reputational and/or commercial damage.

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Grow an international content business
- Build a global pay and distribution business

Key Drivers

- As a broadcaster ITV has significant prominence and therefore is exposed to the risk of a high-profile incident.

Mitigating Factors and Risk Direction

- ITV has ongoing modernisation projects to ensure transmission and distribution technologies are fit-for-purpose.
- There are disaster recovery and incident management plans in place in high risk areas of the business to help deliver a rapid and flexible response.
- ITV proactively manages its broadcast chain partners and suppliers to ensure the risk of incidents and regulatory breach is minimised.

Risk stayed the same

Potential Risk

ITV fails to ensure appropriate business continuity planning and resilience within its core systems, processes, platforms and technology infrastructure.

Our strategic priorities

- Maximise audience and revenue share from free-to-air broadcast and VOD business
- Grow an international content business
- Build a global pay and distribution business

Key Drivers

- The key to business continuity is having an appropriate risk management framework and the right plans and procedures in place. This is taken very seriously at ITV and the adequacy and robustness of our plans are reviewed and tested.

Mitigating Factors and Risk Direction

- Disaster recovery plans are in place with tests conducted periodically on business critical systems.

Risk stayed the same

Viability Statement

Annually the Board assesses ITV's prospects and risks at its June strategy day. Amongst other topics, the Board reviews the five year financial plan which is based on our Strategic Priorities.

However, in its assessment of viability the Board reviewed the planning horizon and is of the view that a three-year period to 31 December 2019 continues to be most appropriate. The factors the Board considered in adopting this timeframe are as follows:

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

Risks and Uncertainties
continued

When considering the longer term viability of ITV, the Board has reviewed each of ITV's Principal risks and uncertainties and, taking into account current operational and financial performance, has in particular analysed the impact of:

- Broadcast & Online experiencing a significant and sharp downturn, similar to the 2008/09 financial crisis, with regards to advertising revenues, but in this case with no immediate recovery. This scenario is cautious as recessions in the advertising market have historically not exceeded a two-year period and have recovered following the downturn;
- A number of key programme brands within ITV Studios are not recommissioned. While the scheduling decisions of commissioners are made in advance, a number of key shows could come to an end at the same time; and
- A significant change in ITV's pension funding obligations, following the triennial valuation in 2017 resulting in doubling the deficit funding payments.

The review involved flexing the underlying strategic forecast for the above impacts, both individually and concurrently and no specific mitigations were assumed. The underlying strategic forecast assumed: business as usual capital spending, the ongoing availability of the financing facilities (as ITV remains within the covenants, current bank facilities have more than three years maturity remaining and all bond repayments due in this period have been refinanced); and that the Group maintains the stated dividend policy.

Based on the results of this review, the Board has a reasonable expectation that ITV will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2019. The assessment has been made with reference to ITV's strategy and the current position and prospects.

Directors' responsibilities

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 60 and 61 of the 2016 ITV plc Annual Report, confirm that, to the best of their knowledge:

- the Group accounts, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the Principal risks and uncertainties that it faces.

In accordance with Section 418 of the Companies Act 2006, the Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Board has conducted a review of the effectiveness of the Group's systems of internal controls for the year ended 31 December 2016. In the opinion of the Board, the Company has complied with the internal control requirements of the UK Corporate Governance Code throughout the year, maintaining an ongoing process for identifying, evaluating, and minimising risk.

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required:

- to select suitable accounting policies and then apply them consistently;
- to make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, to state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Annual Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Andrew Garard
Company Secretary,
1 March 2017
ITV plc
Registered number 4967001

Independent Auditor's Report to the Members of ITV plc Only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of ITV plc for the year ended 31 December 2016 set out on pages 110 to 188 of the Annual Report. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement, in decreasing order of audit significance, that had the greatest effect on our audit, were as follows:

The risk	Our response
Net Advertising Revenue ('NAR') £1,672 million (2015: £1,719 million) Risk vs 2015: ◄ ►, Refer to Annual Report page 71 (Audit Committee report), page 62 (accounting policy) and pages 63 and 64 (financial disclosures)	
The majority of ITV's advertising revenue ('NAR') is subject to regulation under Ofcom's Contract Rights Renewal system ('CRR'). CRR works by ensuring that the annual share of TV advertising that will be placed with ITV by each advertising agency can change in relation to the viewing figures for commercial television that it delivers. The CRR system, the pricing of the annual contractual arrangements with advertising agencies and the details of each advertising campaign, together with the related processes and controls, are complex and involve estimation. In particular, the pricing mechanism means it is possible for a difference to arise between the price received by ITV for an advertising campaign and the value it delivered, mainly as a result of the actual viewing figures being different from the agreed level. Where the Group has over-delivered viewers this is referred to as a 'deal credit', or a 'deal debt' where delivery has fallen short. Rather than the price paid for that campaign being adjusted, these differences are noted for each agency and then taken account of when agreeing either future campaigns or the annual contract. A net deal debt position with an agency is recorded in ITV's accounts, as a liability. Net deal credit positions are not recognised. NAR is therefore considered a significant risk due to: • The number and complexity of contractual agreements with advertising agencies; • The complexity of the systems and processes of control used to record revenue; and, • The level of estimation involved in determining the deal debt liability at the period end.	Our procedures included: • Testing of controls, assisted by our own IT specialists, including those over: segregation of duties, input of annual deal terms with agencies, input of individual campaigns' terms and pricing, comparison of those terms and pricing data against the related contracts with advertising agencies; linkage to transmission/viewer data; and the system generated calculation of deal debt for each campaign; • Analysing revenue based on our industry knowledge and external market data, following up variances; and • Challenging the year-end deal debt position based on comparison with customers' correspondence and agreed terms of business. We also assessed the adequacy of the group's disclosures in respect of the accounting policies on revenue recognition.

<table>
<tr><th>The risk</th><th>Our response</th></tr>
<tr><td colspan="2">Other revenue streams ('Non-NAR revenue') £1,392 million (2015: £1,253 million) Risk vs 2015: ▼
Refer to Annual Report page 71 (Audit Committee report), page 62 (accounting policy) and pages 63 and 64 (financial disclosures)</td></tr>
<tr><td>Non-NAR revenue includes revenue from: programme production, the sale of programme rights, transmission supply arrangements and the Online, Pay & Interactive division within the Broadcast segment.

Recognition of revenue is driven by the specific terms of the related contracts and is considered to be a significant risk as the terms of the contracts are varied and can be complex, with the result that accounting for the revenue generated in any given period can require individual consideration and judgement. Due to the contractual nature of these revenue streams, the focus of our work is on the risks associated with significant one-off contracts.</td><td>Our procedures included:

• We considered the Group's revenue recognition policies against the relevant accounting standards; and

• For higher value revenue contracts entered into during the year, we considered whether revenue had been recognised in accordance with the contractual terms in the correct accounting period, given the requirements of the relevant accounting standard.

We also assessed the adequacy of the group's disclosures in respect of the accounting policy on revenue recognition.</td></tr>
<tr><td colspan="2">Defined benefit pension scheme obligations £367 million (2015: £176 million) Risk vs 2015: ▲
Refer to Annual Report page 70 (Audit Committee report), page 90 (accounting policy) and pages 90 to 98 (financial disclosures)</td></tr>
<tr><td>Significant estimates are made in determining the key assumptions used in valuing the group's post-retirement defined benefit obligations. When making these assumptions the Group takes independent actuarial advice relating to their appropriateness.

Following an analysis of the membership data carried out for the related longevity swap, the Group updated its mortality assumptions in the year which had an impact on the obligations at the year-end.

The Group also closed the ITV Pensions Scheme for future benefit accrual with effect from 28 February 2017.

The valuation of the defined benefit obligations is considered a significant risk given the quantum of the pension deficits, the developments related to the schemes in the year, and given that a small change in assumptions can have a material financial impact on the Group.</td><td>Our procedures included:

• Challenging the key assumptions applied in determining the Group's pension obligations, being the discount rate, inflation rate and mortality/life expectancy, with the support of our own actuarial specialists;

• This included a comparison of these key assumptions against externally derived data; and

• Testing the methodology applied in determining the revised mortality expectation by comparing the conclusions of the Group's analysis with our own analysis formed using externally derived data.

We also considered the adequacy of the group's disclosures in respect of the sensitivity of the deficits to these assumptions.</td></tr>
</table>

We continue to perform procedures over acquisition accounting and royalty accruals. We have not assessed these as risks that had the greatest effect on our audit for the reasons explained below and, therefore, they are not separately identified in our report this year:

Acquisition accounting is not separately identified in our report this year as the Group did not enter into any complex transactions in the year.

Royalty accruals are no longer considered a significant risk reflecting further improvement in controls in the year and the overall size of the balance by comparison with the Group's Net Asset position.

3. Our application of materiality and an overview of the scope of our audit

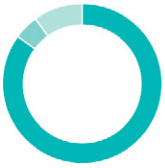
Materiality for the group financial statements as a whole was set at £35 million (2015: £29 million), determined with reference to a benchmark of group profit before tax normalised to exclude the one-off pre-paid employment linked remuneration charge and pension curtailment cost disclosed in note 2.2, £623 million, of which materiality represents 5.5% (2015: 4.6% of group profit before tax).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding million £1.7 million (2015: £1.5 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Scoping and coverage

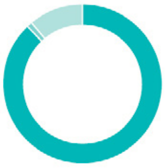
Revenue

- Group audited **85%**
- Specified risk-based audit procedures **5%**
- Out of scope **10%**



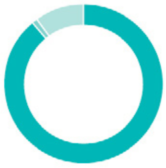
Profit before tax

- Group audited **88%**
- Specified risk-based audit procedures **1%**
- Out of scope **11%**



Total assets

- Group audited **89%**
- Specified risk-based audit procedures **1%**
- Out of scope **10%**



The Group's principal operations are in the United Kingdom. The Group audit team performed the audit of the core UK operations (comprising Broadcast and Online, the UK Studios, Global Entertainment and the central functions) as if they were a single aggregated set of financial information using materiality of £25 million (2015: £25 million). The group team performed procedures on the items excluded from normalised group profit before tax. This year Talpa Media B.V, in the Netherlands, was also scoped in for Group audit purposes as a full scope audit. The work on Talpa Media B.V. was performed by a component auditor as instructed by the Group, including the assessment of relevant risks and determination of the information to be reported back. The Group audit team set the materiality of £5 million for this component.

The Group team visited the component in Netherlands, including to assess the audit risk and strategy, and held several telephone conference meetings with the component audit team. At this visit and in these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Although not in-scope for Group reporting purposes, in agreement with the Audit Committee, specified risk-based audit procedures were also performed on two entities in the US by component auditors simultaneously with the audit of the in-scope operations. The Group audit team set the materiality for specified audit procedures at £5m for these US components. Together the above audit and these specified audit procedures covered 90% (2015: 92%) of group revenue, 89% (2015: 94%) of group profit before taxation; and 90% (2015: 88%) of total group assets.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' viability statement on page 57 of the Annual Report, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the group's continuing in operation over the 3 years to 31 December 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statements, set out on pages 104 and 57 of the Annual Report, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 64 to 67 of the Annual Report relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 104 of the Annual Report, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate**. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at **www.kpmg.com/uk/auditscopeukco2014a**, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Paul Sawdon (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
1 March 2017

Consolidated Income Statement

For the year ended 31 December	Note	2016 £m	2015 £m
Revenue	2.1	3,064	2,972
Operating costs		(2,460)	(2,306)
Operating profit		604	666
Presented as:			
Earnings before interest, tax, amortisation (EBITA) before exceptional items	2.1	857	842
Operating exceptional items	2.2	(164)	(109)
Amortisation of intangible assets	3.3	(89)	(67)
Operating profit		604	666
Financing income	4.4	2	6
Financing costs	4.4	(53)	(37)
Net financing costs	4.4	(51)	(31)
Gain on sale of non-current assets (exceptional items)	2.2	–	5
Gain on sale of subsidiaries and investments (exceptional items)	2.2	–	1
Profit before tax		553	641
Taxation	2.3	(100)	(139)
Profit from continuing operations		453	502
Loss after tax for the period from discontinued operation	2.5	(1)	–
Profit for the year		452	502
Profit attributable to:			
Owners of the Company		448	495
Non-controlling interests	4.6.6	4	7
Profit for the year		452	502
Earnings per share			
Basic earnings per share	2.4	11.2p	12.4p
Diluted earnings per share	2.4	11.1p	12.3p
Earnings per share from continuing operations			
Basic earnings per share	2.4	11.2p	12.4p
Diluted earnings per share	2.4	11.1p	12.3p

Consolidated Statement of Comprehensive Income

For the year ended 31 December	Note	2016 £m	2015 £m
Profit for the year		**452**	502
Other comprehensive income:			
Items that are or may be reclassified to profit or loss			
Revaluation of available for sale financial assets	4.6.4	**1**	(1)
Net loss on cash flow hedges	4.6.3	**(2)**	–
Exchange gain on translation of foreign operations (net of hedging)	4.6.3	**46**	10
Items that will never be reclassified to profit or loss			
Remeasurement (losses)/gains on defined benefit pension schemes	3.7	**(248)**	91
Income tax charge on items that will never be reclassified	2.3	**40**	(19)
Other comprehensive (cost)/income for the year, net of income tax		**(163)**	81
Total comprehensive income for the year		**289**	583
Total comprehensive income attributable to:			
Owners of the Company		**285**	576
Non-controlling interests	4.6.6	**4**	7
Total comprehensive income for the year		**289**	583

Consolidated Statement of Financial Position

As at 31 December	Note	2016 £m	2015 £m
Non-current assets			
Property, plant and equipment	3.2	244	239
Intangible assets	3.3	1,624	1,500
Investments in joint ventures, associates and equity investments	3.5	76	30
Derivative financial instruments	4.3	1	8
Distribution rights	3.1.2	31	29
Other pension asset	3.7	39	–
Deferred tax asset	2.3	17	–
		2,032	1,806
Current assets			
Programme rights and other inventory	3.1.1	406	373
Trade and other receivables due within one year	3.1.3	526	531
Trade and other receivables due after more than one year	3.1.3	39	33
Trade and other receivables		565	564
Current tax receivable		11	13
Derivative financial instruments	4.3	8	1
Cash and cash equivalents	4.1	561	294
		1,551	1,245
Current liabilities			
Borrowings	4.2	(165)	(11)
Derivative financial instruments	4.3	(3)	(5)
Trade and other payables due within one year	3.1.4	(960)	(786)
Trade payables due after more than one year	3.1.5	(57)	(48)
Trade and other payables		(1,017)	(834)
Current tax liabilities		(76)	(69)
Provisions	3.6	(19)	(28)
		(1,280)	(947)
Net current assets		271	298
Non-current liabilities			
Borrowings	4.2	(1,035)	(602)
Derivative financial instruments	4.3	(9)	(6)
Defined benefit pension deficit	3.7	(367)	(176)
Deferred tax liabilities	2.3	(70)	(79)
Other payables	3.1.5	(63)	(89)
Provisions	3.6	(4)	(5)
		(1,548)	(957)
Net assets		755	1,147
Attributable to equity shareholders of the parent company			
Share capital	4.6.1	403	403
Share premium	4.6.1	174	174
Merger and other reserves	4.6.2	221	221
Translation reserve	4.6.3	79	35
Available for sale reserve	4.6.4	7	6
Retained earnings	4.6.5	(162)	275
Total equity attributable to equity shareholders of the parent company		722	1,114
Non-controlling interests		33	33
Total equity		755	1,147

The accounts were approved by the Board of Directors on 1 March 2017 and were signed on its behalf by:

Ian Griffiths
Group Finance Director

Consolidated Statement of Changes in Equity

	Note	Attributable to equity shareholders of the parent company								
		Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available for sale reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2016		403	174	221	35	6	275	1,114	33	1,147
Total comprehensive income for the year										
Profit		–	–	–	–	–	448	448	4	452
Other comprehensive income/(cost)										
Revaluation of available for sale financial assets		–	–	–	–	1	–	1	–	1
Net loss on cash flow hedges		–	–	–	(2)	–	–	(2)	–	(2)
Exchange differences on translation of foreign operations (net of hedging)		–	–	–	46	–	–	46	–	46
Remeasurement loss on defined benefit pension schemes	3.7	–	–	–	–	–	(248)	(248)	–	(248)
Income tax charge on other comprehensive income	2.3	–	–	–	–	–	40	40	–	40
Total other comprehensive income		–	–	–	44	1	(208)	(163)	–	(163)
Total comprehensive income for the year		–	–	–	44	1	240	285	4	289
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	(663)	(663)	(4)	(667)
Movements due to share-based compensation	4.7	–	–	–	–	–	10	10	–	10
Tax on items taken directly to equity	2.3	–	–	–	–	–	(4)	(4)	–	(4)
Purchase of own shares via employees' benefit trust	4.7	–	–	–	–	–	(20)	(20)	–	(20)
Total contributions by and distributions to owners		–	–	–	–	–	(677)	(677)	(4)	(681)
Total transactions with owners		–	–	–	–	–	(677)	(677)	(4)	(681)
Balance at 31 December 2016	4.6	403	174	221	79	7	(162)	722	33	755

		Attributable to equity shareholders of the parent company								
	Note	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available for sale reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2015		403	174	228	25	7	177	1,014	50	1,064
Total comprehensive income for the year										
Profit		–	–	–	–	–	495	495	7	502
Other comprehensive income/(cost)										
Revaluation of available for sale financial assets		–	–	–	–	(1)	–	(1)	–	(1)
Exchange differences on translation of foreign operations (net of hedging)		–	–	–	10	–	–	10	–	10
Remeasurement gains on defined benefit pension schemes	3.7	–	–	–	–	–	91	91	–	91
Reclassification of revaluation reserve on disposal of property, plant and equipment		–	–	(4)	–	–	4	–	–	–
Income tax charge on other comprehensive income	2.3	–	–	–	–	–	(19)	(19)	–	(19)
Total other comprehensive income		–	–	(4)	10	(1)	76	81	–	81
Total comprehensive income for the year		–	–	(4)	10	(1)	571	576	7	583
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	(459)	(459)	(5)	(464)
Movements due to share-based compensation	4.7	–	–	–	–	–	14	14	–	14
Tax on items taken directly to equity	2.3	–	–	–	–	–	5	5	–	5
Purchase of own shares via employees' benefit trust	4.7	–	–	–	–	–	(33)	(33)	–	(33)
Total contributions by and distributions to owners		–	–	–	–	–	(473)	(473)	(5)	(478)
Total transactions with owners		–	–	–	–	–	(473)	(473)	(5)	(478)
Changes in non-controlling interests[(a)]	3.4	–	–	(3)	–	–	–	(3)	(19)	(22)
Balance at 31 December 2015	4.6	403	174	221	35	6	275	1,114	33	1,147

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

Consolidated Statement of Cash Flows

For the year ended 31 December	Note	£m	2016 £m	£m	2015 £m
Cash flows from operating activities					
Cash generated from operations before exceptional items:	2.1		870		827
Cash flow relating to operating exceptional items:					
Operating exceptional items	2.2	(164)		(109)	
Prepaid employment linked consideration	3.4	–		(109)	
Increase in exceptional payables		71		60	
Decrease in exceptional prepayments and other receivables		66		36	
Cash outflow from exceptional items			(27)		(122)
Operating cash flow from discontinued operation	2.5		(6)		–
Cash generated from operations			837		705
Defined benefit pension deficit funding		(80)		(90)	
Interest received		38		25	
Interest paid on bank and other loans		(58)		(34)	
Net taxation paid		(90)		(117)	
			(190)		(216)
Net cash inflow from operating activities			647		489
Cash flows from investing activities					
Acquisition of subsidiary undertaking, net of cash acquired	3.4	(97)		(406)	
Prepaid employment linked consideration	3.4	–		109	
Net consideration paid		(97)		(297)	
Proceeds from sale of property, plant and equipment		–		28	
Acquisition of property, plant and equipment		(29)		(33)	
Acquisition of intangible assets		(15)		(16)	
Acquisition of investments		(41)		(14)	
Loans granted to associates and joint ventures		(2)		(2)	
Net proceeds from sale of assets held for sale	2.5	10			
Proceeds from sale of subsidiaries, joint ventures and available for sale investments		–		1	
Net cash inflow/(outflow) from investing activities			(174)		(333)
Cash flows from financing activities					
Bank and other loans – amounts repaid		(655)		(447)	
Bank and other loans – amounts raised		1,177		797	
Capital element of finance lease payments		(6)		(7)	
Equity dividends paid		(663)		(459)	
Dividend paid to minority interest		(4)		(5)	
Purchase of own shares via employees' benefit trust		(20)		(33)	
Net cash outflow from financing activities			(171)		(154)
Net increase/(decrease) in cash and cash equivalents			302		2
Cash and cash equivalents at 1 January	4.1		294		297
Reclassification of gilts to other pension assets	3.7		(39)		–
Effects of exchange rate changes and fair value movements			4		(5)
Cash and cash equivalents at 31 December	4.1		561		294

Notes to the Financial Statements
Section 1: Basis of Preparation

In this section

This section sets out the Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. This section also shows new EU endorsed accounting standards, amendments and interpretations, and whether they are effective in 2016 or later years. We explain how these changes are expected to impact the financial position and performance of the Group.

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

As required by European Union law (IAS Regulation EC 1606/2002) the Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'), and approved by the Directors.

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

The parent company financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101).

The financial information in this preliminary announcement represents non-statutory accounts within the meaning of Section 435 of the Companies Act 2006. The auditors have reported on the statutory accounts for the year ended 31 December 2016. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. These accounts will be sent to the Registrar of Companies following the Company's Annual General Meeting. A separate dissemination announcement in accordance with the Disclosure and Transparency Rules (DTR) 6.3 will be made when the annual report and audited financial statements are available on the Group's website.

Going concern

At 31 December 2016 the Group was in a net debt position. The Group's strong balance sheet and continued generation of significant free cash flows has enabled further investment as well as the payment of a special dividend. The Group has also sought to gain further efficiencies in the balance sheet and maintain the flexibility to invest in the business by issuing a new Eurobond (see section 4 for details on capital structure and financing).

The Group continues to review forecasts of the television advertising market to determine the impact on ITV's liquidity position. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current available funding.

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

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for at least twelve months from the date of this report. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

Subsidiaries, joint ventures, associates and available for sale investments

Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity in order to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

A joint venture is a joint arrangement in which the Group holds an interest under a contractual arrangement where the Group and one or more other parties undertake an economic activity that is subject to joint control. The Group accounts for its interests in joint ventures using the equity method. Under the equity method the investment in the entity is stated as one line item at cost plus the investor's share of retained post-acquisition profits and other changes in net assets.

An associate is an entity, other than a subsidiary or joint venture, over which the Group has significant influence. Significant influence is the power to participate in, but not control or jointly control, the financial and operating decisions of an entity. These investments are also accounted for using the equity method.

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

Current/non-current distinction

Current assets include assets held primarily for trading purposes, cash and cash equivalents, and assets expected to be realised in, or intended for sale or use in, the course of the Group's operating cycle. All other assets are classified as non-current assets.

Current liabilities include liabilities held primarily for trading purposes, liabilities expected to be settled in the course of the Group's operating cycle and those liabilities due within one year from the reporting date. All other liabilities are classified as non-current liabilities.

Classification of financial instruments

The financial assets and liabilities of the Group are classified into the following financial statement captions in the statement of financial position in accordance with IAS 39 Financial Instruments:

- Loans and receivables – separately disclosed as cash and cash equivalents and trade and other receivables;
- Available for sale financial assets – measured at fair value through other comprehensive income;
- Financial assets/liabilities at fair value through profit or loss – separately disclosed as derivative financial instruments in assets/liabilities and included in non-current other payables (contingent consideration); and
- Financial liabilities measured at amortised cost – separately disclosed as borrowings and trade and other payables.

Judgement is required when determining the appropriate classification of the Group's financial instruments. Details on the accounting policies for measurement of the above instruments are set out in the relevant note. Where unconditional rights to set off financial instruments exist, the Group presents the relevant instruments net in the statement of financial position.

Recognition and derecognition of financial assets and liabilities

The Group recognises a financial asset or liability when it becomes a party to the contract. Financial instruments are no longer recognised in the statement of financial position when the contractual cash flows expire or when the Group no longer retains control of substantially all the risks and rewards under the instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits with a maturity of less than or equal to three months from the date of acquisition and cash held to meet certain finance lease commitments. The carrying value of cash and cash equivalents is considered to approximate fair value. Cash and cash equivalents that has a charge executed over it is excluded from cash and cash equivalents.

Foreign currencies

The primary economic environment in which the Group operates is the UK and therefore the consolidated financial statements 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.

Hedge accounting is implemented on certain foreign currency firm commitments, which allows for the effective portion of any foreign exchange gains or losses to be recognised in other comprehensive income (note 4.3).

Where a forward currency contract is used to manage foreign exchange risk and hedge accounting is not applied, any movement in currency is taken to 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.

Notes to the Financial Statements
Section 1: Basis of Preparation continued

The assets and liabilities of Group companies outside of the UK are translated into pounds sterling at the year end exchange rate. The revenue and expenses of these companies are translated into pounds sterling at the average monthly exchange rate during the year. Where differences arise between these rates, they are recognised in the translation reserve within other comprehensive income.

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

On disposal of a foreign subsidiary, an interest in a joint venture or an associate, the related translation reserve is released to the income statement as part of the gain or loss on disposal.

Accounting judgements and estimates

The preparation of financial statements requires management to exercise judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity are set out below and in more detail in the related notes:

- Revenue recognition (note 2.1)
- Business combinations (note 3.3 and note 3.4)

In addition to the above, the areas involving the most sensitive estimates and assumptions that are significant to the financial statements are set out below and in more detail in the related notes:

- Defined benefit pension (note 3.7)
- Taxation (note 2.3)
- Testing of goodwill impairment (note 3.3)

New or amended EU endorsed accounting standards

The table below represents new or amended EU endorsed accounting standards relevant to the Group's results that are effective in 2016:

Accounting Standard	Requirement
IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment	The amendments clarify acceptable methods of depreciation and amortisation introducing a rebuttable presumption that the use of revenue-based amortisation or depreciation methods is inappropriate. This presumption can be overcome when revenue and the consumption of the economic benefits of the asset are highly correlated.
IAS 27 Separate Financial Statements	The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures, but also for subsidiaries.
IAS 11 Joint Arrangements	The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.
IAS 1 Presentation of financial statements	Amendments to clarify various standards including IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement, IAS 16 Property, Plant and Equipment, IAS 24 Related Party Disclosures and IAS 38 Intangible Assets.
Annual Improvements to IFRS 2012 – 2014 cycle	Amendments to clarify various standards including IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting.

Based on the Directors' analysis the amendments outlined above do not have a material impact on the Group's financial position or performance for the year ended 31 December 2016.

The Directors also considered the impact on the Group of other new and revised accounting standards, interpretations or amendments that are currently endorsed but not yet effective. There are none that are effective for periods beginning on or after 1 January 2016 that are expected to have a significant impact on the Group's results.

IFRS 15 Revenue from Contracts with Customers is effective 1 January 2018. IFRS 15 will require the Group to identify distinct promises in contracts with customers that qualify as 'performance obligations'. The price receivable from customers must then be allocated between the performance obligations identified.

An initial assessment of impact on the Group's performance has been performed on material revenue streams. The impact is not expected to be material for Broadcasting revenues. Studios revenues are mainly comprised of production and distribution revenue streams. No material impact is expected on the production revenues. Further detailed analysis on licensing and merchandising revenues is ongoing to assess whether contracts include dynamic (e.g. continued obligation to update content over the license period) or static performance obligations, which will aid in determining whether revenue should be recognised over the license period or at a point in time. The impact on those revenue streams is expected to be limited.

The Directors anticipate adopting IFRS 15 on 1 January 2018. When it is adopted, IFRS 15 can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or with the cumulative retrospective impact of the standard applied as an adjustment to equity on the date of adoption. When the latter is applied disclosure of the impact of IFRS 15 on each line item in the financial statements is required. The Directors currently intend to apply the cumulative effect method.

IFRS 9 Financial Instruments is also effective 1 January 2018. Based on the initial assessment of the impact, the Directors are currently not expecting the application to significantly impact the Group's current accounting or hedging activities.

IFRS 16 Leases is effective 1 January 2019 and has not been endorsed by the EU. IFRS 16 will change lease accounting for lessees under operating leases. Such agreements will require recognition of an asset representing the right to use the leased item and a liability for future lease payments. Lease costs (such as property rent) will be recognised in the form of depreciation and interest, rather than operating cost. The detailed assessment of impact on the Group's performance is ongoing, the adoption is likely to have a material impact on the presentation of the Group's assets and liabilities.

Notes to the Financial Statements
Section 2: Results for the Year

In this section

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

2.1 Profit before tax

Keeping it simple

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

Adjusted earnings before interest, tax, amortisation (EBITA) is the Group's key profit indicator. This reflects the way the business is managed and how the Directors assess the performance of the Group. This section therefore also shows each division's contribution to total revenue and EBITA.

Accounting policies

Revenue recognition

Revenue is stated exclusive of VAT and equivalent sales taxes, and comprises the sale of products and services to third parties. Judgement is required when determining the appropriate timing and amount of revenue that can be recognised, specifically around whether there is a firm contract and that the service has been provided, and if so, whether there is a fixed or reasonably determinable price that is reasonably certain will be collected. Complexity in advertising revenue recognition is driven by intricate automated and manual processes involved in measuring the value delivered to the customer.

Revenue is recognised when the Group has transferred both the significant risks and rewards of ownership and control, and the amount of revenue can be measured reliably. Revenue recognition criteria for the Group's key classes of revenue are recognised on the following bases:

Applicable segment	Class of revenue	Recognition criteria
Broadcast & Online	Advertising (NAR)	on transmission
	Video on Demand (VOD)	as audience targets are met
	Sponsorship	across period of transmission of the sponsored programme or series
	Pay	over the term of the contract or for the expected revenue per subscriber or download
	Participation (Interactive & Brand Extensions)	as the service is provided or event occurs
Studios	Programme production	on delivery of episode and acceptance by the customer
	Programme distribution rights	when the contract is signed and content is available for exploitation
	Format and licences	at the point in time when the license is transferred and the customer is able to use and benefit from the licence; over the license period if continued involvement of the Group is required
	Digital: Archive	on delivery of content (one-off) or over the contract period in a manner that reflects the flow of content delivered (top-up)

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

	2016 £m	2016 % of total	2015 £m	2015 % of total
NAR				
Broadcast & Online	1,672	47%	1,719	51%
Non-NAR				
Broadcast & Online	460		427	
ITV Studios: Productions	1,089		1,045	
ITV Studios: Distribution	306		192	
Total Non-NAR	1,855	53%	1,664	49%
Total revenue from continuing operations	3,527	100%	3,383	100%

Segmental information

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

The Board considers the business primarily from an operating activity perspective. The reportable segments for the years ended 31 December 2016 and 31 December 2015 are therefore Broadcast & Online and ITV Studios, the results of which are outlined in the following tables:

	Broadcast & Online 2016 £m	ITV Studios* 2016 £m	Consolidated 2016 £m
Total segment revenue	2,143	1,395	3,538
Intersegment revenue	–	(463)	(463)
Revenue from external customers including discontinued operations	2,143	932	3,075
Less : Discontinued operations (note 2.5)	(11)	–	(11)
Revenue from external customers	2,132	932	3,064
Adjusted EBITA including discontinued operations**	636	243	879
Less: Operating loss from discontinued operations (note 2.5)	(6)	–	(6)
Adjusted EBITA**	642	243	885

	Broadcast & Online 2015 £m	ITV Studios* 2015 £m	Consolidated 2015 £m
Total segment revenue	2,146	1,237	3,383
Intersegment revenue	–	(411)	(411)
Revenue from external customers including discontinued operations	2,146	826	2,972
Less: Discontinued operations	–	–	–
Revenue from external customers	2,146	826	2,972
Adjusted EBITA including discontinued operations**	659	206	865
Adjusted EBITA from discontinued operations**	–	–	–
Adjusted EBITA**	659	206	865

* Revenue of £320 million (2015: £389 million) was generated in the US during the year; the US represented £346 million (2015: £314 million) of non-current assets at year end.

** Adjusted EBITA is before exceptional items and includes the benefit of production tax credits, it is shown after the elimination of intersegment revenue and costs. This measure represents the continuing operations.

Intersegment revenue, which is earned on arm's length terms, is generated from the supply of ITV Studios programmes to Broadcast & Online for transmission primarily on the ITV Network. This revenue stream is a measure which forms part of 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.

Notes to the Financial Statements
Section 2: Results for the Year continued

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

The Group's principal operations are in the United Kingdom. Revenue from external customers in the United Kingdom is £2,370 million (2015: £2,275 million), and revenue from external customers in other countries is £694 million (2015: £697 million). The Financial and Performance Review provides further detail on ITV's international revenues.

There is one media buying agency (2015: two) acting on behalf of a number of advertisers that represent the Group's major customers. This agency is the only customer which individually represents over 10% of the Group's revenue. Revenue of approximately £552 million (2015: £576 million) was derived from this customer. This revenue is attributable to the Broadcast & Online segment.

Broadcast & Online

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

Other sources of revenue are from: online advertising; HD digital channels on pay platforms (e.g. Sky and Virgin); SDN revenue (which generates licence sales for DTT Multiplex A); and participation revenue (which includes interactive sales from competitions) and the ITV Choice subscription service in other countries.

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 63% of ITV main channel spend on commissioned programming. Programming is also sold to other UK broadcasters such as the BBC, Channel 4 and Sky.

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

ITV Studios also operates in five other international locations being Australia, Germany, France, the Netherlands (primarily Talpa) and the Nordics, where content is produced for local broadcasters. This content is either locally created IP or formats that have been created elsewhere by ITV, primarily in the UK and the Netherlands.

Global Entertainment and Talpa Global, ITV's distribution businesses, license ITV's finished programmes and formats and third-party content internationally. Within this business we also finance productions both on and off ITV to acquire global distribution rights.

Adjusted EBITA

The Directors assess the performance of the reportable segments based on a measure of adjusted EBITA. The Directors use this 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 Financial and Performance Review on pages 20 to 22 for the detailed explanation of the Group's use of adjusted performance measures.

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

	2016 £m	2015 £m
Adjusted EBITA	**885**	865
Production tax credits	(28)	(23)
EBITA before exceptional items from continuing operations	**857**	842
Operating exceptional items	(164)	(109)
Amortisation of intangible assets	(89)	(67)
Net financing costs	(51)	(31)
Gain on sale of non-current assets (exceptional items)	–	5
Gain on sale of subsidiaries and investments (exceptional items)	–	1
Profit before tax from continuing operations	**553**	641

Cash generated from operations

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

	2016 £m	2015 £m
Cash flows from operating activities		
Profit before tax	553	641
Gain on sale of subsidiaries and investments (exceptional items)	–	(1)
Gain on sale of non-current assets (exceptional items)	–	(5)
Net financing costs	51	31
Operating exceptional items	164	109
Depreciation of property, plant and equipment	31	27
Amortisation of intangible assets	89	67
Share-based compensation and pension service costs	10	17
(Increase)/decrease in programme rights and other inventory, and distribution rights	(35)	4
(Increase) in receivables	(56)	(21)
Increase/(decrease) in payables	63	(42)
Movement in working capital	(28)	(59)
Cash generated from operations before exceptional items	870	827

Operating costs

Staff costs

Staff costs before exceptional items can be analysed as follows:

	2016 £m	2015 £m
Wages and salaries	336	318
Social security and other costs	46	43
Share-based compensation (see note 4.7)	10	14
Pension costs	27	25
Total staff costs	419	400
Less: staff costs allocated to productions	(147)	(137)
FTEE staff costs (non-production)	272	263

Exceptional staff costs are disclosed separately in Note 2.2

The number of full-time equivalent employees (FTEE) (excluding short-term contractors and freelancers who are predominantly allocated to the cost of productions), calculated on a weighted average basis, during the year was:

	2016	2015
Broadcast & Online	2,087	2,109
ITV Studios	4,034	3,449
	6,121	5,558

The increase in full-time equivalent employees in ITV Studios is primarily driven by the full year effect of acquisitions completed in 2015.

Details of Directors' emoluments, share options, pension entitlements and long-term incentive scheme interests are set out in the Remuneration Report. Listed Directors' gains on share options for 2016 are set out in the ITV plc entity financial statements.

Depreciation

Depreciation in the year was £31 million (2015: £27 million), of which £13 million (2015: £14 million) relates to Broadcast & Online and £18 million (2015: £13 million) to ITV Studios.

Notes to the Financial Statements
Section 2: Results for the Year continued

Operating leases

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

2016	**Transponders**	**Property**	**Total**
Within one year	**28**	**19**	**47**
Later than one year and not later than five years	**129**	**59**	**188**
Later than five years	**92**	**17**	**109**
	249	**95**	**344**

2015	Transponders	Property	Total
Within one year	34	17	51
Later than one year and not later than five years	111	48	159
Later than five years	115	21	136
	260	86	346

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

Property leases run for terms ranging from five to twenty years, depending on the expected operational use of the site. Leases may include break clauses or options to renew (options to renew are not included in the commitments table). Lease payments are generally subject to market review every five years to reflect market rentals, but because of the uncertainty over the amount of any future changes, such changes have not been reflected in the table above. None of the lease agreements include contingent rentals.

The total future minimum sublease payments expected to be received under non-cancellable subleases at the year end are £1 million (2015: £1 million).

The total operating lease expenditure recognised during the year was £47 million (2015: £51 million) and total sublease payments received were £1 million (2015: £2 million).

Audit fees

The Group engages KPMG LLP (KPMG) on assignments additional to their statutory audit duties where their expertise and experience with the Group are important and are in line with Group's policy on auditor independence.

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

	2016 £m	2015 £m
For the audit of the Group's annual accounts	**0.6**	0.6
For the audit of subsidiaries of the Group	**0.6**	0.4
Audit-related assurance services	**0.2**	0.2
Total audit and audit-related assurance services	**1.4**	1.2
Taxation advisory services	**0.2**	0.1
Other assurance services	**0.1**	0.3
Total non-audit Services	**0.3**	0.4
Total fees paid to KPMG	**1.7**	1.6

There were no fees payable in 2016 or 2015 to KPMG and associates for the auditing of accounts of any associate or pension scheme of the Group, internal audit services, services relating to corporate finance transactions entered into or proposed to be entered into, by or on behalf of the Group or any of its associates.

Fees paid to KPMG for audit and other services to the Company are not disclosed in its individual accounts as the Group accounts are required to disclose such fees on a consolidated basis.

2.2 Exceptional items

Keeping it simple

Exceptional items are 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 (e.g. costs relating to capital transactions, such as professional fees on acquisitions). These items are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis.

Accounting policies

Exceptional items as described above are disclosed on the face of the income statement.

Subsequent revisions of estimates for items initially recognised as exceptional are recorded as exceptional items in the year that the revision is made. Gains or losses on disposal of non-core assets are also considered exceptional due to their nature and impact on the Group's underlying quality of earnings.

Exceptional items

Operating and non-operating exceptional items are analysed as follows:

(Charge)/credit	Ref.	2016 £m	2015 £m
Operating exceptional items:			
Acquisition-related expenses	A	(131)	(88)
Reorganisation and restructuring costs	B	(14)	(13)
Pension curtailment cost	C	(19)	–
Legal related costs		–	(8)
Total net operating exceptional items		**(164)**	**(109)**
Non-operating exceptional items:			
Gain on sale of non-current assets	D	–	5
Gain on sale and impairment of subsidiaries and investments	E	–	1
Total non-operating exceptional items		**–**	**6**
Total exceptional items before tax		**(164)**	**(103)**
Tax on exceptional items		15	8
Total exceptional items net of tax		**(149)**	**(95)**

A – Acquisition-related expenses
Acquisition-related expenses of £131 million includes £110 million (2015: £78 million) relating to performance-based, employment linked costs to former owners mainly in relation to Talpa Media. The remaining £21 million (2015: £10 million) is primarily comprised of integration costs and professional fees (mainly financial and legal due diligence). See note 3.4 for further details on acquisitions.

B – Reorganisation and restructuring costs
In 2016 £14 million (2015: £13 million) of costs were incurred as a result of a Group-wide commitment to reduce the overhead cost base by £25 million. This cost was primarily comprised of redundancy.

C – Curtailment cost
In 2016, following a member consultation, the Group decided to close the ITV Pension Scheme to future benefit accrual, resulting in a one off non-cash curtailment cost of £19 million (see note 3.7 for further detail).

D – Gain on sale of non-current assets
In 2015 a £5 million gain on sale of non-current assets arose primarily as a result of the sale of a freehold property and related assets in Manchester.

E – Gain on sale and impairment of subsidiaries and investments
The gain of £1 million in 2015 relates to a historical disposal.

2.3 Taxation

Keeping it simple

This section sets out the Group's tax accounting policies, the current and deferred tax charges or credits in the year (which together make up the total tax charge or credit in the income statement), a reconciliation of profit before tax to the tax charge for the period and the movements in deferred tax assets and liabilities.

Accounting policies

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

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment in respect of previous years.

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

Deferred tax

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for taxation purposes.

The following temporary differences are not provided for:

- the initial recognition of goodwill;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future

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

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

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

Taxation – Income statement

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

	2016 £m	2015 £m
Current tax:		
Current tax charge on profit before exceptional items	(134)	(125)
Current tax (charge)/credit on exceptional items	11	6
	(123)	(119)
Adjustments to prior periods	10	9
	(113)	(110)
Deferred tax:		
Origination and reversal of temporary differences	18	(20)
Deferred tax (charge)/credit on exceptional items	4	2
Impact of change in the statutory tax rate	1	(2)
	23	(20)
Adjustments to prior periods	(10)	(9)
	13	(29)
Total taxation charge in the income statement	(100)	(139)

In order to understand how, in the income statement, a tax charge of £100 million (2015: £139 million) arises on a profit before tax of £553 million (2015: £641 million), the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2016 £m	2015 £m
Profit before tax	553	641
Notional taxation charge at UK corporation tax rate of 20% (2015: 20.25%) on profit before tax	(111)	(130)
Non-taxable income/non-deductible expenses	(25)	(23)
Other taxes	(1)	–
Current year losses not recognised	(2)	–
Impact of overseas tax rates	10	(7)
Impact of changes in tax rates	1	(2)
Production tax credits	28	23
Total taxation charge in the income statement	(100)	(139)

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. This year there is no net impact of prior year adjustments in the total tax charge. The current tax charge includes a £10 million credit relating to prior years, and the deferred tax credit includes an equal and opposite £10m charge.

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 to the UK corporation tax rate. This year losses arising in higher taxed jurisdictions, which we recognise through deferred tax, give rise to a reconciling benefit.

The UK corporation tax rate has been enacted to fall to 19% from 1 April 2017 and 17% from 1 April 2020 (this supersedes the originally enacted reduction to 18%). The carrying value of UK temporary differences at the balance sheet date has been adjusted accordingly. This has given rise to a charge of £5 million (2015: £1 million) of which £1 million is recognised as a credit in the income statement and £6 million as a charge in other comprehensive income.

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. The ability to access these tax credits is fundamental when assessing the viability of investment decisions in the production of high-end drama and children's programmes. Under IFRS these production tax credits are reported within the total taxation charge in the income statement, however ITV considers them to be a contribution to production costs, and therefore working capital in nature, and excludes them from its adjusted tax charge, including them instead within Adjusted EBITA.

The effective tax rate is 18.1% (2015: 21.7%), and is the tax charge on the face of the income statement expressed as a percentage of the profit before tax. In the years ended 31 December 2016 and 31 December 2015, the effective tax rate is comparable to the standard rate of UK corporation tax (20% in 2016 and 20.25% in 2015). As explained in the Financial and Performance 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.

This year the current year movement on origination and reversal of temporary differences (excluding exceptional items) is a credit of £18 million, compared with a charge of £20 million in 2015. The main reasons for this change are the recognition of tax losses in our overseas businesses, and the unwinding of deferred tax liabilities as intangible assets are amortised.

Taxation – Other comprehensive income and equity

As analysed in the table below, a deferred tax credit of £40 million on actuarial movements on pensions has been recognised in other comprehensive income. A deferred tax charge of £6 million has been recognised in equity in respect of share based payments.

A current tax credit of £2 million has also been recognised in equity in relation to share based payments.

Taxation – Statement of financial position

The table below outlines the deferred tax assets/(liabilities) that are recognised in the statement of financial position, together with their movements in the year:

	At 1 January 2016 £m	Reclassification £m	Recognised in the income statement £m	Recognised in OCI and equity £m	Business acquisitions £m	Foreign Exchange £m	**At 31 December 2016 £m**
Intangible assets	(101)	14	15	–	(10)	(12)	**(94)**
Programme rights	1	–	–	–	–	–	**1**
Pension scheme deficits	1	1	(8)	40	–	–	**34**
Tax losses	4	–	23	–	–	3	**30**
Share-based compensation	11	(5)	(4)	(6)	–	–	**(4)**
Other temporary differences	5	(10)	(13)	–	–	(2)	**(20)**
	(79)	–	13	34	(10)	(11)	**(53)**

	At 1 January 2015 £m	Recognised in the income statement £m	Recognised in OCI and equity £m	Business acquisitions £m	At 31 December 2015 £m
Property, plant and equipment	(1)	1	–	–	–
Intangible assets	(15)	(10)	–	(76)	(101)
Programme rights	1	–	–	–	1
Pension scheme deficits	36	(16)	(19)	–	1
Tax losses	7	(3)	–	–	4
Share-based compensation	14	(1)	(2)	–	11
Other temporary differences	1	–	–	4	5
	43	(29)	(21)	(72)	(79)

At 31 December 2016, total deferred tax assets are £65 million (2015: £22 million) and total deferred tax liabilities are £118 million (2015: £101 million). After netting off balances within countries, there is a deferred tax liability of £70 million and a deferred tax asset of £17 million (2015: net deferred tax liability of £79 million) recognised in the Consolidated Statement of Financial Position.

The deferred tax balances relate to:

- property, plant and equipment temporary differences arising on assets qualifying for tax depreciation
- temporary differences on intangible assets, including those arising on business combinations
- programme rights – temporary differences on intercompany profits on stock
- pension scheme deficit temporary differences on the IAS 19 pension deficit
- temporary differences arising from the timing of the use of tax losses
- share-based compensation temporary differences on share schemes and
- other temporary differences on provisions and other items

The deferred tax balance associated with the pension deficit has been adjusted to reflect the current tax benefit obtained in the current year following the employer contributions of £93 million to the Group's defined benefit pension scheme. The adjustment in other comprehensive income to the deferred tax balance primarily relates to the actuarial loss recognised in the period.

A deferred tax asset of £377 million (2015: £399 million) in respect of capital losses of £2,215 million (2015: £2,215 million) has not been recognised due to uncertainties as to whether a capital gain will arise in the appropriate form and relevant territory against which such losses could be utilised. For the same reasons, deferred tax assets of £19 million (2015: £15 million) in respect of overseas losses that time expire between 2017 and 2027 have not been recognised.

2.4 Earnings per share

Keeping it simple

Earnings per share ('EPS') is the amount of post-tax profit attributable to each share. In 2016 we present EPS for the continuing business and the discontinued operation, UTV Ireland Limited (see note 2.5 for further details).

Basic EPS is calculated on the Group profit for the year attributable to equity shareholders of £448 million (2015: £495 million) divided by 4,010 million (2015: 4,006 million) being the weighted average number of shares in issue during the year.

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 include 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 are 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:

Earnings per share

	2016 £m	2015 £m
Profit for the year attributable to equity shareholders of ITV plc	448	495
Less: Loss for the year from discontinued operations	(1)	–
Profit for the year attributable to equity shareholders of ITV plc from continuing operations	449	495
Weighted average number of ordinary shares in issue – million	4,010	4,006
Earnings per ordinary share and from continuing operations	11.2p	12.4p
Loss per ordinary share from discontinued operations	–	–

Notes to the Financial Statements
Section 2: Results for the Year continued

Diluted earnings per share

	2016 £m	2015 £m
Profit for the year attributable to equity shareholders of ITV plc from continuing operations	449	495
Weighted average number of ordinary shares in issue – million	4,010	4,006
Dilution due to share options	19	29
Total weighted average number of ordinary shares in issue – million	4,029	4,035
Diluted earnings per ordinary share and from continuing operations	11.1p	12.3p
Diluted loss per ordinary share from discontinued operations	–	–

Adjusted earnings per share

	Ref.	2016 £m	2015 £m
Profit for the year attributable to equity shareholders of ITV plc		448	495
Exceptional items (net of tax)	A	149	95
Less: Loss after tax for the period from discontinued operations		(1)	–
Profit for the year before exceptional items from continuing operations		598	590
Amortisation and impairment of acquired intangible assets	B	66	54
Adjustments to net financing costs	C	19	15
Adjusted profit from continuing operations		683	659
Total weighted average number of ordinary shares in issue – million		4,010	4,006
Adjusted earnings per ordinary share and from continuing operations		17.0p	16.5p
Adjusted loss per ordinary share from discontinued operations		–	–

Diluted adjusted earnings per share

	2016 £m	2015 £m
Adjusted profit from continuing operations	683	659
Weighted average number of ordinary shares in issue – million	4,010	4,006
Dilution due to share options	19	29
Total weighted average number of ordinary shares in issue – million	4,029	4,035
Diluted adjusted earnings per ordinary share and from continuing operations	17.0p	16.3p
Diluted adjusted loss per ordinary share from discontinued operations	–	–

Details of the adjustments to earnings are as follows:

A. Exceptional items (net of tax) £149 million (2015: £95 million)
Calculated as total exceptional items of £164 million (2015: £103 million) net of related tax credit of £15 million (2015: £8 million). See note 2.2 for the detailed composition of exceptional items of £164 million.

B. Amortisation and impairment of acquired intangible assets of £66 million (2015: £54 million)
Calculated as total amortisation and impairment of £89 million (2015: £67 million), less amortisation of software licences and development of £12 million (2015: £9 million), net of related tax credit of £20 million (2015: £13 million). This is then adjusted to recognise a £9 million cash tax benefit arising from goodwill on US acquisitions, which for tax purposes is amortised over a 15-year period (2015: £9 million).

C. Adjustments to net financing costs £19 million (2015: £15 million)
Net financing costs are adjusted for mark-to-market movements on derivative instruments, foreign exchange and imputed pension interest charges of £25 million (2015: £18 million) net of related tax credit of £6 million (2015: £3 million).

2.5 Discontinued operations

Keeping it simple

A discontinued operation is a distinct component of the business that has been or is in the process of being disposed. Accounting standards dictate that the loss from discontinued operations is recognised outside of the Group's operating results.

Management agreed to sell UTV Ireland Limited to Virgin Media on 11 July 2016 for €10 million. The sale completed on 30 November and the assets and liabilities classified as a disposal group held-for-sale have been disposed of. See section 3.4 for further details.

Results of discontinued operations

	2016 £m	2015 £m
Revenue	11	–
Expenses	(17)	–
Operating loss	(6)	–
Taxation	–	–
Loss after tax	(6)	–
Gain on sale of discontinued operations	5	–
Tax on gain on sale of discontinued operations	–	–
Loss for the period	(1)	–
Earnings per share		
Basic loss per share	–	–
Diluted loss per share	–	–

Cash flows from (used in) discontinued operations

	2016 £m	2015 £m
Net cash used in operating activities	(6)	–
Net cash from investing activities	10	–
Net cash flow for the period	4	–

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities

In this section

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. On the following pages there are notes covering working capital, non-current assets and liabilities, acquisitions and disposals, provisions and pensions.

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

3.1 Working capital

Keeping it simple

Working capital represents the assets and liabilities the Group generates through its trading activity. The Group therefore defines working capital as distribution rights, programme rights and production costs, trade and other receivables and trade and other payables.

Careful management of working capital ensures that the Group can meet its trading and financing obligations within its ordinary operating cycle.

Working capital is a driver of the profit to cash conversion ratio, a key performance indicator for the Group. The Group's target profit to cash ratio on a rolling three-year basis is at least 90%. 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 owned by ITV are reflected in this metric.

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

3.1.1 Programme rights, other inventory and commitments

Accounting policies

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

Programme rights and production costs not yet utilised are included in the statement of financial position at the lower of cost and net realisable value. In assessing net realisable value for programmes in production, judgement is required when considering the contracted sales price and estimated costs to complete.

Broadcast programme rights

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

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

In assessing net realisable value for acquired and commissioned rights, the net realisable value assessment is based on estimated airtime value, with consideration given to whether the number of transmissions purchased can be efficiently played out over the licence period.

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

	2016 £m	2015 £m
Acquired programme rights	157	111
Commissions	69	61
Sports rights	27	30
	253	202

Broadcast programme commitments
These are operating commitments in respect of programming entered into in the ordinary course of business with programme suppliers, sports organisations and film distributors in respect of rights to broadcast on the ITV network. Commitments in respect of these purchases, which are not reflected in the statement of financial position, are due for payment as follows:

	2016 £m	2015 £m
Within one year	454	451
Later than one year and not more than five years	789	633
More than five years	112	141
	1,355	1,225

Studios production costs
Production inventory comprises the costs incurred by ITV Studios in producing a programme, where the programme is part way through the production process and not yet available for delivery to a broadcaster. They are recognised within current assets at the production cost incurred, and are expensed in operating costs on delivery of episodes.

Also included here are dramas that that are typically more expensive to produce. The production cost of a drama is partly funded by the commissioning network licence fee and tax credits, if available. The remaining deficit is funded by the Group and is recovered by future distribution sales. Once the production is complete the deficit is classified as a Distribution Right.

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

	2016 £m	2015 £m
Production costs	153	171

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 broadcasters. These are classified as non-current assets as these rights are used to derive long-term economic benefit for the Group.

Distribution rights are recognised initially at cost and charged through operating costs in the income statement over a period not exceeding five years, reflecting the value and pattern in which the right is consumed. Advances paid for the acquisition of distribution rights are disclosed as distribution rights as soon as they are contracted. These advances are not expensed until the programme is available for distribution. Up to that point they are assessed annually for impairment through the reassessment of the future sales expected to be earned from that title.

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

	2016 £m	2015 £m
Distribution rights	31	29

The movement during the year comprises new rights acquired of £40 million (2015: £43 million) and amounts charged to the income statement of £38 million (2015: £27 million).

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities continued

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 statements at their net present value to reflect the economic cost of delayed payment. The Group provides goods and services to substantially all its customers on credit terms.

Estimates are used in determining the level of receivables that will not, in the opinion of the Directors, be collected. These estimates include such factors as historical experience, the current state of the UK and overseas economies and industry specific factors. A provision for impairment of trade receivables is established when there is sufficient evidence that the Group will not be able to collect all amounts due.

The carrying value of trade receivables is considered to approximate fair value. During the year £35 million of trade receivable invoices were sold under a receivables purchase agreement (see note 4.2 for more details). Trade and other receivables can be analysed as follows:

	2016 £m	2015 £m
Due within one year:		
Trade receivables	315	328
Other receivables	39	37
Prepaid employment linked consideration (see note 3.4)	21	55
Prepayments and accrued income	151	111
	526	531
Due after more than one year:		
Trade receivables	12	8
Prepaid employment linked consideration (see note 3.4)	–	18
Accrued income and other receivables	27	7
Total trade and other receivables	**565**	**564**

Prepaid employment linked consideration totalling £21 million (2015: £55 million) relates to the acquisition of Talpa Media in 2015 (see note 3.4 for details). This represents the portion of the initial consideration of €150 million that is recoverable from the seller in the event he leaves within the initial two years following acquisition. This amount is amortised over the two years to 31 March 2017 and recognised as exceptional expense (see note 2.2).

£327 million (2015: £336 million) of total trade receivables that are not impaired are aged as follows:

	2016 £m	2015 £m
Current	299	308
Up to 30 days overdue	19	17
Between 30 and 90 days overdue	6	8
Over 90 days overdue	3	3
	327	336

The balance above is stated net of a provision of £4 million (2015: £5 million) for impairment of trade receivables. Of the provision total, £3 million relates to balances overdue by more than 90 days (2015: £4 million) and £1 million relates to current balances (2015: £1 million).

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

	2016 £m	2015 £m
At 1 January	5	7
Charged during the year	3	3
Unused amounts reversed	(4)	(5)
At 31 December	4	5

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:

	2016 £m	2015 £m
Trade payables	71	65
VAT and social security	61	71
Other payables	291	177
Accruals	332	289
Deferred income	205	184
	960	786

Other payables include £105 million (2015: £3 million) of acquisition related liabilities due in 2017, of which £72 million is employment linked contingent consideration and £33 million is payable to sellers under put options agreed on acquisition.

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:

	2016 £m	2015 £m
Trade payables	57	48
Other payables	63	89
	120	137

Trade payables primarily relate to film creditors for which payment is due after more than one year. Other payables include the non-current portion of acquisition related liabilities of £53 million (2015: £82 million), of which £38 million is employment linked contingent consideration and £15 million is payable to sellers under put options agreed on acquisition.

3.1.6 Working capital management

Cash and working capital management continues to be a key focus. During the year the cash outflow from working capital was £28 million (2015: outflow of £59 million) derived as follows:

	2016 £m	2015 £m
(Increase)/decrease in programme rights and other inventory and distribution rights	(35)	4
(Increase) in receivables	(56)	(21)
Increase/(decrease) in payables	63	(42)
Working capital outflow	(28)	(59)

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

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities continued

3.2 Property, plant and equipment

Keeping it simple

The following section shows the physical assets used by the Group to operate the business, generating revenues and profits. These assets include office buildings and studios, as well as equipment used in broadcast transmission, programme production and support activities.

The cost of these assets is the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and the reduced value of the asset over time. Depreciation is calculated by estimating the number of years the Group expects the asset to be used (useful economic life). If there has been a technological change or decline in business performance the Directors review the value of the assets to ensure they have not fallen below their depreciated value. If an asset's value falls below its depreciated value an additional one-off impairment charge is made against profit.

This section also explains the accounting policies followed by ITV and the specific estimates made in arriving at the net book value of these assets.

Accounting policies

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Certain items of property, plant and equipment that were revalued to fair value prior to 1 January 2004 (the date of transition to IFRS) are measured on the basis of deemed cost, being the revalued amount less depreciation up to the date of transition.

Leases

Finance leases are those which transfer substantially all the risks and rewards of ownership to the lessee.

Determining whether a lease is a finance lease requires judgement as to whether substantially all of the risks and benefits of ownership have been transferred to the Group. Estimates used by management in making this assessment include the useful economic life of assets, the fair value of the asset and the discount rate applied to the total payments required under the lease. Assets held under such leases are included within property, plant and equipment and depreciated on a straight-line basis over their estimated useful lives.

Outstanding finance lease obligations, which comprise the principal plus accrued interest, are included within borrowings. The finance element of the agreements is charged to the income statement over the term of the lease on an effective interest basis.

All other leases are operating leases, the rentals on which are charged to the income statement on a straight-line basis over the lease term (see note 2.1 for further details of operating lease commitments).

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

* Equipment includes studio production and technology assets.

Impairment of assets
Property, plant and equipment that is subject to depreciation is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indicators of impairment may include changes in technology and business performance.

Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	Freehold land and buildings	Improvements to leasehold land and buildings		Vehicles, equipment and fittings		Total
	£m	Long £m	Short £m	Owned £m	Finance leases £m	**£m**
Cost						
At 1 January 2015	120	67	17	237	16	457
Additions	–	–	1	37	–	38
Disposals and retirements	(31)	(1)	–	(10)	–	(42)
At 31 December 2015	89	66	18	264	16	453
Additions	3	–	2	28	–	33
Foreign exchange	–	–	–	6	–	6
Reclassifications	–	–	–	3	(3)	–
Disposals and retirements	–	–	–	(29)	(13)	(42)
At 31 December 2016	**92**	**66**	**20**	**272**	**–**	**450**
Depreciation						
At 1 January 2015	17	13	15	150	14	209
Charge for the year	1	2	–	24	–	27
Disposals and retirements	(12)	(1)	–	(9)	–	(22)
At 31 December 2015	6	14	15	165	14	214
Charge for the year	1	2	1	27	–	31
Foreign exchange	–	–	–	3	–	3
Reclassifications	–	–	–	1	(1)	–
Disposals and retirements	–	–	–	(29)	(13)	(42)
At 31 December 2016	**7**	**16**	**16**	**167**	**–**	**206**
Net book value						
At 31 December 2016	**85**	**50**	**4**	**105**	**–**	**244**
At 31 December 2015	83	52	3	99	2	239

Additions in the year includes £4 million (2015: £6 million) relating to assets owned by subsidiaries acquired during the year.

Included within property, plant and equipment are assets in the course of construction of £19 million (2015: £16 million).

In 2016, the Group retired £42m of assets from use with a net book value of £Nil. In 2015, the Group disposed of the Quay Street site and related assets in Manchester for £23 million, representing a gain on sale of £5 million.

In 2013 the Group acquired the freehold for the London Television Centre for £58 million, although the Directors' view is that fair value of the property would be significantly higher than the carrying value.

Capital commitments
There are £4 million of capital commitments at 31 December 2016 (2015: £2 million).

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities continued

3.3 Intangible assets

Keeping it simple

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

These assets include formats and brands, customer contracts and relationships, contractual arrangements, licences, software development, film libraries and goodwill. The cost of these assets is the amount that the Group has paid or, where there has been a business combination, the fair value of the specific intangible assets that could be sold separately or which arise from legal rights. In the case of goodwill, its cost is the amount the Group has paid in acquiring a business over and above the fair value of the individual assets and liabilities acquired. The value of goodwill is 'intangible' value that comes from, for example, a uniquely strong market position and the outstanding productivity of its employees.

The value of intangible assets, with the exception of goodwill, reduces over the number of years the Group expects to use the asset, the useful economic life, via an annual amortisation charge to the income statement. Where there has been a technological change or decline in business performance the Directors review the value of assets, including goodwill, to ensure they have not fallen below their amortised value. Should an asset's value fall below its amortised value an additional one-off impairment charge is made against profit.

This section explains the accounting policies applied and the specific judgements and estimates made by the Directors in arriving at the net book value of these assets.

Accounting policies

Goodwill

Goodwill represents the future economic benefits that arise from assets that are not capable of being individually identified and separately recognised. The goodwill recognised by the Group has all arisen as a result of business combinations. Goodwill is stated at its recoverable amount being cost less any accumulated impairment losses and is allocated to the business to which it relates.

Due to changes in accounting standards goodwill has been calculated using three different methods depending on the date the relevant business was purchased.

Method 1: All business combinations that have occurred since 1 January 2009 were accounted for using the acquisition method. Under this method, goodwill is measured as the fair value of the consideration transferred (including the recognition of any part of the business not yet owned (non-controlling interests)), less the fair value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. Any contingent consideration expected to be transferred in the future will be recognised at fair value at the acquisition date and recognised within other payables. Contingent consideration classified as an asset or liability that is a financial instrument is measured at fair value with changes in fair value recognised in the income statement. The determination of fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount rate.

Where less than 100% of a subsidiary is acquired, and call and put options are granted over the remaining interest, a non-controlling interest is 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.

Method 2: All business combinations that occurred between 1 January 2004 and 31 December 2008 were accounted for using the purchase method in accordance with IFRS 3 Business Combinations (2004). Goodwill on those combinations represents the difference between the cost of the acquisition and the fair value of the identifiable net assets acquired and did not include the value of the non-controlling interest. Transaction costs incurred in connection with those business combinations, such as legal fees, due diligence fees and other professional fees, were included in the cost of acquisition.

Method 3: For business combinations prior to 1 January 2004, goodwill is included at its deemed cost, which represents the amount recorded under UK GAAP at that time less accumulated amortisation up to 31 December 2003. The classification and accounting treatment of business combinations occurring prior to 1 January 2004, the date of transition to IFRS, has not been reconsidered as permitted under IFRS 1.

Other intangible assets

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

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.

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

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

Class of intangible asset	Amortisation method	Estimated useful life	Valuation method
Brands	Straight-line	8 to 14 years	Applying a royalty rate to the expected future revenue over the life of the brand.
Formats	Straight-line	up to 8 years	Expected future cash flows from those assets existing at the date of acquisition are estimated. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value.
Customer contracts	Straight-line or reducing balance as appropriate	up to 6 years	
Customer relationships	Straight-line	5 to 10 years	
Contractual arrangements	Straight-line	up to 10 years depending on the contract terms	Expected future cash flows from those contracts existing at the date of acquisition are estimated. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value.
Licences	Straight-line	11 to 29 years depending on term of licence	Start-up basis of expected future cash flows existing at the date of acquisition. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value. PSB licences are valued as a start-up business with only the license 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 5 years	Initially at cost and subsequently at cost less accumulated amortisation.

Determining the fair value of intangible assets arising on acquisition requires judgement. The Directors make estimates regarding the timing and amount of future cash flows derived from exploiting the assets being acquired. The Directors then estimate an appropriate discount rate to apply to the forecast cash flows. Such estimates are based on current budgets and forecasts, extrapolated for an appropriate period taking into account growth rates, operating costs and the expected useful lives of assets. Judgements are also made regarding whether, and for how long, licences will be renewed; this drives our amortisation policy for those assets.

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities continued

The Directors estimate the appropriate discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the assets or businesses being acquired.

Amortisation
Amortisation is charged to the income statement over the estimated useful lives of intangible assets unless such lives are judged to be indefinite. Indefinite life assets, such as goodwill, are not amortised but are tested for impairment at each year end.

Impairment
Goodwill is not subject to amortisation and is tested annually for impairment and when circumstances indicate that the carrying value may be impaired.

Other intangible assets are subject to amortisation and are reviewed for impairment whenever events or changes in circumstances indicate that the amount carried in the statement of financial position is less than its recoverable amount.

Determining whether the carrying amount of intangible assets has any indication of impairment requires judgement. Any impairment is recognised in the income statement.

An impairment test is performed by assessing the recoverable amount of each asset, or for goodwill, the cash-generating unit (or group of cash-generating units) related to the goodwill. Total assets (which include goodwill) are grouped at the lowest levels for which there are separately identifiable cash flows ('cash-generating unit' or CGU).

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value in use is based on the present value of the future cash flows expected to arise from the asset.

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 statements.

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.

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	**Total £m**
Cost								
At 1 January 2015	3,627	201	385	10	121	97	89	4,530
Additions	102	273	23	–	–	1	15	414
Foreign exchange	15	7	3	–	–	1	–	26
At 31 December 2015	3,744	481	411	10	121	99	104	4,970
Additions	44	3	–	–	55	–	13	115
Foreign exchange	47	51	9	1	–	4	–	112
At 31 December 2016	**3,835**	**535**	**420**	**11**	**176**	**103**	**117**	**5,197**
Amortisation and impairment								
At 1 January 2015	2,654	177	347	5	90	57	71	3,401
Charge for the year	–	27	17	2	4	8	9	67
Foreign exchange	–	1	1	–	–	–	–	2
At 31 December 2015	2,654	205	365	7	94	65	80	3,470
Charge for the year	–	44	16	2	6	9	12	89
Foreign exchange	–	5	6	1	–	2	–	14
At 31 December 2016	**2,654**	**254**	**387**	**10**	**100**	**76**	**92**	**3,573**
Net book value								
At 31 December 2016	**1,181**	**281**	**33**	**1**	**76**	**27**	**25**	**1,624**
At 31 December 2015	1,090	276	46	3	27	34	24	1,500

All intangible asset additions in the year, excluding software, are due to the acquisition of UTV Limited, as detailed in note 3.4 (2015: four companies acquired).

Goodwill impairment tests

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

	2016 £m	2015 £m
Broadcast & Online	386	342
SDN	76	76
ITV Studios	719	672
	1,181	1,090

There has been no impairment charge for any CGU during the year (2015: £nil).

When assessing impairment, the recoverable amount of each CGU is based on value in use calculations. These calculations require the use of estimates, specifically: pre-tax cash flow projections; long-term growth rates; and a pre-tax market discount rate.

Cash flow projections are based on the Group's current five-year plan. Beyond the five-year plan these projections are extrapolated using an estimated long-term growth rate of 2% (2015: 2%). The growth rate used is consistent with the long-term average growth rates for both the industry and the countries in which they are located and is appropriate because these are long-term businesses.

The discount rate has been revised for each CGU to reflect the latest market assumptions for the risk-free rate, the equity risk premium and the net cost of debt. There is currently no reasonably possible change in discount rate that would reduce the headroom in any CGU to zero.

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities continued

Broadcast & Online

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

The main assumptions on which the forecast cash flow projections for this CGU are based include: the share of the television advertising market; share of commercial impacts; programme and other costs; and the pre-tax market discount rate.

The key assumption in assessing the recoverable amount of Broadcast & Online goodwill is the size of the television advertising market. In forming its assumptions about the television advertising market, the Group has used a combination of long-term trends, industry forecasts and in-house estimates, which place greater emphasis on recent experience. No impairment was identified. Also as part of the impairment review, a sensitivity of up to -10% was applied to 2017 and -3% to 2018 with no subsequent recovery, again with no impairment identified. The Directors believe that currently no reasonably possible change in these assumptions would reduce the headroom in this CGU to zero.

An impairment charge of £2,309 million was recognised in the Broadcast & Online CGU in 2008, as a result of the downturn in the short-term outlook for the advertising market. The advertising market has substantially improved since then however the impairment cannot be reversed. The impairment review set out above results in significant headroom in excess of the 2008 impairment amount.

A pre-tax market discount rate of 10.4% (2015: 9.7%) has been used in discounting the projected cash flows.

SDN

Goodwill was recognised when the Group acquired SDN (the licence operator for DTT Multiplex A) in 2005. It represented the wider strategic benefits of the acquisition specific to the Group, principally the enhanced ability to promote Freeview as a platform, business relationships with the channels which are on Multiplex A and additional capacity available from 2010.

The main assumptions on which the forecast cash flows are based are: income to be earned from medium-term contracts; the market price of available multiplex video streams; and the pre-tax market discount rate. These assumptions have been determined by using a combination of current contract terms, recent market transactions and in-house estimates of video stream availability and pricing. No impairment was identified.

As part of the impairment review, sensitivity was applied to the main assumptions with no impairment identified (2017: -10% growth, 2018: 0% growth). The Directors believe that currently no reasonably possible change in the income and availability assumptions would reduce the headroom in this CGU to zero.

A pre-tax market discount rate of 11.7% (2015: 11.5%) has been used in discounting the projected cash flows.

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 all of the goodwill arising from recent acquisitions since 2012, with the largest acquisitions being Leftfield in 2014, followed by Talpa and Twofour Group in 2015.

The key assumptions on which the forecast cash flows for the whole CGU were based include revenue (including international revenue and the ITV Studios share of ITV output, growth in commissions and hours produced), margins and the pre-tax market discount rate. These assumptions have been determined by using a combination of extrapolation of historical trends within the business, industry estimates and in-house estimates of growth rates in all markets. No impairment was identified.

As part of the impairment review sensitivity was applied to the main assumptions with no impairment identified (2017: -10% growth, 2018: 0% growth). The Directors believe that currently no reasonably possible change in the income and availability assumptions would reduce the headroom in this CGU to zero.

A pre-tax market discount rate of 11.6% (2015: 10.1%) has been used in discounting the projected cash flows.

There have been no changes to the ITV Studios CGU in the year and the Directors consider that a single ITV Studios CGU continues to remain appropriate.

3.4 Acquisitions

Keeping it simple

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

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

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

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

Acquisitions

During the period, the Group completed the acquisition of UTV Limited, which has been included in the results of the Broadcast & Online operating segment. The business fits with the strategy of strengthening the Group's free-to-air business and enables it to run a more efficient network. The following section provides a summary of the acquisition.

UTV Limited

On 29 February 2016 the Group acquired a 100% controlling interest in UTV Limited which, together with its 100% subsidiary UTV Ireland Limited, owned the television assets of UTV Media plc. UTV is the market leading commercial broadcaster in Northern Ireland, broadcasting ITV content alongside high-quality local programming. The strategic rationale for the acquisition was to purchase the Northern Irish Channel 3 license.

UTV Limited launched a new dedicated channel for the Republic of Ireland in 2015 via its subsidiary UTV Ireland Limited. Management concluded that the best prospect of delivering a strong and sustainable Irish broadcaster was to bring UTV Ireland under common ownership with TV3. ITV therefore sold the company to Virgin Media, owner of TV3 on 30 November 2016, for consideration of €10million. Further details are included in note 2.5.

Key terms:
The Group purchased the businesses for a cash consideration of £100 million.

UTV Limited acquisition accounting:
Intangibles, being the value placed on brands and licences of £58 million were identified and goodwill was valued at £44 million. Goodwill represents the value placed on the opportunity to diversify and grow the business by the Group. The goodwill arising on acquisition is not expected to be deductible for tax purposes. Other fair value adjustments have been made to the opening balance sheet, though none of them are individually significant.

Acquisitions in 2015

In 2015 the Group made four acquisitions, all of which are included in the results of the ITV Studios operating segment.

Talpa Media B.V.

On 30 April 2015 the Group acquired a 100% controlling interest in Talpa Media B.V. and its subsidiaries.

Key terms:
Cash consideration of £362 million (€500 million) was paid at acquisition and the maximum total consideration for 100% of the business, including the initial payment, was £796 million (€1,100 million, undiscounted). All future payments are performance based.

The deal structure allows for a further £434 million (€600 million) payable after two, five and eight years, on the achievement of stretching performance targets for the business in the years following acquisition. For these amounts to be payable in the future, the deal requires the seller to remain with the business during the earnout period. Further, if the seller leaves within the first two years following acquisition, €150 million of the initial consideration would be refunded to ITV. While accounting standards determine that these payments are treated as an expense, even the €150 million refundable, 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.

Talpa Media B.V. acquisition accounting:
Intangibles, being the value placed on formats, brands, customer contracts, non-compete arrangements and libraries, of £276 million (€382 million) were identified and goodwill was valued at £41 million (€57 million). Goodwill represents the value placed on the opportunity to diversify and grow the content and formats produced by the Group. The goodwill arising on acquisition is not expected to be deductible for tax purposes. Other fair value adjustments have been made to the opening balance sheet, though none of them are individually significant.

Twofour Group

On 24 June 2015 the Group acquired Boom Supervisory Limited, the holding company of Twofour Group.

Key terms:
The Group purchased 100% of the Twofour Group for a cash consideration of £55 million. Subsequently the sellers subscribed to 25% of the share capital of the acquiring company. Put and call options have been granted over this 25% in Twofour Group; these options both being exercisable over the next three to five years. The transaction has been accounted for on an anticipated acquisition basis and a non-controlling interest has not been recognised. The maximum total consideration, including the initial payment, is £280 million (undiscounted). These payments are dependent on future performance of the business and linked to ongoing employment, therefore 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.

Twofour Group acquisition accounting:
Intangibles, being the value placed on formats, brands, customer contracts, non-compete arrangements and libraries, of £18 million were identified and goodwill was valued at £50 million. Goodwill represents the value placed on the opportunity to diversify and grow the content and formats produced by the Group. The goodwill arising on acquisition is not expected to be deductible for tax purposes. Other fair value adjustments have been made to the opening balance sheet, though none of them are individually significant.

Other 2015 acquisitions

The Group made initial payments totalling £15 million for two smaller acquisitions, Cats on the Roof Media Ltd and Mammoth Screen Ltd, with a view that these acquisitions will strengthen and complement ITV's existing position as a producer for major television networks in the UK. The maximum additional consideration that the Group could pay is £66 million (undiscounted). Goodwill totalling £11 million arising on these acquisitions is not expected to be deductible for tax purposes.

Effect of acquisition

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

£m	2016 UTV	2015 Total
Consideration transferred:		
Initial consideration (net of cash acquired) (Note A)	97	406
Less: consideration classified as prepaid employment linked consideration (Note B)	–	(109)
Total consideration	97	297
Fair value of net assets acquired:		
Property, plant and equipment	4	6
Intangible assets	58	297
Deferred tax liabilities	(11)	(71)
Trade and other receivables	5	101
Trade and other payables	(7)	(138)
Net assets held for sale	4	–
Fair value of net assets	53	195
Goodwill	44	102
Contributions to the Group's performance:		
From date of acquisition		
Revenue	27	185
EBITA before exceptionals (Note C)	8	29
Proforma – January to December		
Revenue	33	306
EBITA before exceptionals (Note C)	9	49

Note A: Consideration for all acquisitions is net of cash acquired and estimated debt and working capital settlements. Cash acquired during the year is £3 million (2015: £33 million).

Note B: In 2015 total consideration was net of employment linked consideration of £109 million (€150 million). IFRS requires the employment linked consideration to be treated as remuneration. See note 3.1.4 for further detail of this prepayment.

Note C: UTV profit for the ten months from date of acquisition is £8 million and £9 million for January to December 2016, both excluding the effect of discontinued operations. This represents UTV's contribution to Group profits. On a consolidated basis the acquisition resulted in a reduction in ITV Non-NAR revenues previously earned from UTV, which on a Group basis is offset by the reduction in UTV's costs.

3.5 Investments

Keeping it simple

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

A joint venture 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 available for sale investment.

Accounting policies

For joint ventures and associates the Group applies equity accounting. Under this method, it recognises the investment in the entity at cost and subsequently adjusts this for its share of profits or losses, which are recognised in the income statement within non-operating items and included in adjusted profit. Where the Group has invested in associates by acquiring preference shares or convertible debt instruments, the share of profit recognised is usually £nil as no equity interest exists. Available for sale investments are held at fair value unless the investment is a start-up business, in which case it is valued at cost and assessed for impairment.

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

	2016 £m	2015 £m
Joint ventures	**4**	1
Associates	**60**	18
Available for sale investments	**12**	11
	76	30

The increase in the year is due to investment in New Form, a digital producer-broadcaster, and increased investment in ITV Tomorrow Studios, a scripted studio launched in 2014. Further smaller investments have been made in line with Group's strategy to grow the international content business.

Please refer to page 184 of the Annual Report for the list of principal investments held at 31 December 2016.

3.6 Provisions

Keeping it simple

A provision is recognised by the Group where an obligation exists relating to events in the past and it is probable that cash will be paid to settle it.

A provision is made where the Group is not certain how much cash will be required to settle a liability, so an estimate is required. The main estimates relate to the cost of holding properties that are no longer in use by the Group, the likelihood of settling legal claims and contracts the Group has entered into that are now unprofitable.

Accounting policies

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation arising from past events, it is probable cash will be paid to settle it and the amount can be estimated reliably. Provisions are determined by discounting the expected future cash flows by a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a financing cost in the income statement. The value of the provision is determined based on assumptions and estimates in relation to the amount and timing of actual cash flows which are dependent on future events.

Provisions

The movements in provisions during the year are as follows:

	Contract provisions £m	Property provisions £m	Legal and Other provisions £m	Total £m
At 1 January 2016	6	2	25	33
Additions	–	1	–	1
Utilised	(6)	–	(4)	(10)
Released	–	(1)	–	(1)
At 31 December 2016	–	2	21	23

Provisions of £19 million are classified as current liabilities (2015: £28 million). Unwind of the discount is £nil in 2016 and 2015.

Contract provisions comprised onerous commitments on transmission infrastructure that were expected to be utilised over the remaining contract period and onerous technology services contracts which would not be utilised.

Legal and Other provisions totalling £21 million (2015: £25 million) primarily relate to potential liabilities that may arise as a result of Boxclever having been placed into administrative receivership, most of which relate to pension arrangements. In 2011 the Determinations Panel of the Pensions Regulator determined that Financial Support Directions (FSDs) should be issued against certain Group companies, which would require the Group to put in place financial support for the Boxclever Scheme. The Group is challenging this in the Upper Tribunal. The process is ongoing and aside from procedural issues there were no substantive case developments in the period. The Directors have obtained leading counsel's opinion and extensive legal advice in connection with the proceedings and continue to believe that the provision held is appropriate. The reduction in provisions during the year was due to settlement of various other legal matters.

3.7 Pensions

Keeping it simple

In this note we explain the accounting policies governing the Group's pension scheme, 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 statements. 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 will close to future accrual in 2017. In 2016 on acquisition of UTV Limited the Group took over the UTV Defined Benefit Scheme.

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 that have elected to participate 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. 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 cash 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 statements, but is reflected on the defined benefit pension deficit line on the consolidated statement of financial position. It is the responsibility of the Trustee to manage and invest the assets of the Scheme and its funding position. The Trustee, appointed according to the terms of the Scheme's documentation, is required to act in the best interest of the members and is responsible for managing and investing the assets of the scheme and its funding position.

In the event of poor returns the Group needs to address this through a combination of increased levels of contribution or by making adjustments to the scheme. Schemes can be funded, where regular cash contributions are made by the employer into a fund which is invested, or unfunded, where no regular money or assets are required to be put aside to cover future payments.

Accounting policies

Defined contribution scheme
Obligations under the Group's defined contribution schemes are recognised as an operating cost in the income statement as incurred. For 2016, total contributions expensed were £16 million (2015: £16 million).

Defined benefit scheme
The Group's obligation in respect of the Defined Benefit Scheme (the 'Scheme') is calculated by estimating the amount of future retirement benefit that eligible employees ('members') have earned in return for 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 deficit.

The liabilities of the Scheme are measured by discounting the best estimate of future cash flows to be paid using the 'projected unit' method. This method is an accrued benefits valuation method that makes allowance for projected earnings of members in the future up to retirement.

These calculations are complex and are performed by a qualified actuary. There are many judgements and estimates necessary to calculate the Group's estimated liabilities, the main assumptions are set out later in this section. Movements in assumptions during the year are called 'actuarial gains and losses' and these are recognised in the period in which they arise through the statement of comprehensive income.

The latest triennial valuation of the Scheme was undertaken as at 1 January 2014 by an independent actuary appointed by the Trustee of the Scheme and agreed in early 2016. The next triennial valuation will be as at 1 January 2017 and is expected to be agreed in late 2017 or early 2018. This will drive subsequent contribution rates.

An unfunded scheme in relation to four former Granada executives is accounted for under IAS 19 and the Group is responsible for meeting the pension obligations as they fall due. The unfunded scheme has additional security compared to the ITV main scheme, in the form of a charge over gilts held by the Group. The current Directors of ITV plc recognise the legacy pension obligations should be honoured, but believe the additional security for the scheme is inappropriate compared to the security provided to the members of the ITV Pension Scheme. Following the Group's unsuccessful attempt to remove the charge, the £39 million securitised gilts have been classified as other pension assets, rather than cash/cash equivalents, to more fairly reflect the Group's net pension deficit.

In December 2016, following a member consultation, the Group decided to close the ITV Pension Scheme to future benefit accrual with effect from 28 February 2017. Members' benefits are no longer subject to a capped pensionable salary, the benefits will be linked to statutory revaluation until retirement. This decision gave rise to a one off, non-cash £19 million curtailment charge recognised in the year.

On 29 February 2016 the Group acquired 100% of the assets and liabilities of UTV Limited, including responsibility for a defined benefit pension scheme. At acquisition the UTV Scheme had neither surplus nor deficit on an IAS 19 basis, and had a surplus of £1 million as of 31 December 2016. Due to the size of the surplus the Directors present the results and position of the UTV Scheme together with the existing ITV Schemes. The next triennial valuation will be as at 30 June 2017 and is expected to be agreed in 2018.

Unless otherwise stated, references to 'the Schemes' within this note refer to the ITV Pension Scheme, the unfunded scheme and the UTV Scheme combined.

The defined benefit pension deficit
Net pension deficit of £328 million at 31 December 2016 (2015: £176 million) is stated after including the unfunded scheme security asset of £39 million (2015: £nil).

The totals recognised in the current and previous years are:

	2016 £m	2015 £m
Total defined benefit scheme obligations	**(4,200)**	(3,446)
Total defined benefit scheme assets	**3,833**	3,270
Defined benefit pension deficit (IAS 19)	**(367)**	(176)
Other pension asset	**39**	–
Net pension deficit	**(328)**	(176)

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

Defined benefit scheme obligations

Keeping it simple

What cause 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:

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

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

	2016 £m	2015 £m
Defined benefit obligation at 1 January	3,446	3,687
Current service cost	7	8
Curtailment charge	19	–
Interest cost	131	126
Actuarial loss/(gain)	664	(217)
UTV acquisition	98	–
Benefits paid	(165)	(158)
Defined benefit obligation at 31 December	4,200	3,446

Of the above total defined benefit obligation at 31 December 2016, £51 million relates to unfunded schemes (2015: £46 million), including the scheme in relation to the four former Granada executives.

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:

- future salary levels
- future pensionable salary levels
- an estimate of increases in pension payments
- the life expectancy of members
- the effect of inflation on all these factors
- 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 17 years (2015: 15 years).

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

	2016	2015
Discount rate for:		
Past service liabilities	2.60%	3.80%
Future service liabilities	2.70%	4.00%
Inflation assumption for:		
Past service liabilities	3.25%	3.00%
Future service liabilities	3.20%	3.10%
Rate of pensionable salary increases		
ITV Pension Schemes	N/A	0.90%
UTV Pension Scheme	3.75%	N/A
Rate of increase in pension payment (LPI[1] 5% pension increases)	3.15%	2.90%
Rate of increase to deferred pensions (CPI)	2.25%	2.00%

1. Limited Price Index.

The table below reflects published mortality investigation data in conjunction with the results of investigations into the mortality experience of Scheme members. The assumed life expectations on retirement are:

	2016	2016	2015	2015
Retiring today at age	60	65	60	65
Males	27.1	22.4	28.0	23.2
Females	29.3	24.5	30.6	25.7
Retiring in 20 years at age	60	65	60	65
Males	28.8	23.9	30.0	25.0
Females	31.0	26.1	32.6	27.6

During 2016 a review of the longevity of the Scheme pensioners was conducted and revealed lower life expectancy than previously assumed. The net pension deficit is sensitive to changes in assumptions. Those are disclosed further in this section.

Total defined benefit scheme assets

Keeping it simple

The Scheme holds assets across a number of different classes which are managed by the Trustee, who consults with the Group on changes to its investment policy.

What are the pension Scheme assets?
At 31 December 2016 the Scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. 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 defined benefit pension deficit. These financial instruments are classified as Scheme assets.

One such instrument is the longevity swap which the Scheme transacted in 2011 to obtain protection against the effect of increases in the life expectation of the majority of pensioner members 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 members and their dependants live. The difference in the present values of these two streams of payments is reflected in the Scheme assets. The swap had a nil valuation at inception and, using market-based assumptions, is subsequently adjusted for changes in the market life expectancy and market discount rates, in line with its fair value.

How do we measure the pension Scheme assets?
Defined benefit scheme assets are measured at their fair value and can change due to the following:

- Interest income on scheme assets – this is determined by multiplying the fair value of the Scheme assets by the discount rate, both taken as of the beginning of the year. This is recognised through net financing costs in the income statement.
- Return on assets arise from differences between the actual return and interest income on Scheme assets and are recognised through other comprehensive income.
- Employer's contributions are paid into the Scheme to be managed and invested.
- Benefits and administrative expenses paid out by the Schemes will lower the fair value of the Scheme's assets.

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

	2016 £m	2015 £m
Fair value of Scheme assets at 1 January	**3,270**	3,341
Interest income on Scheme assets	**126**	116
Return/(loss) on assets, excluding interest income	**416**	(126)
Employer contributions	**93**	102
UTV acquisition	**98**	–
Benefits paid	**(165)**	(158)
Administrative expenses paid	**(5)**	(5)
Fair value of Scheme assets at 31 December	**3,833**	3,270

The actual return on the Scheme's assets, being the sum of the interest income on Scheme assets and return on Scheme assets, for the year ended 31 December 2016 was an increase of £542 million (2015: decrease of £10 million).

How are the Scheme's assets invested?

At 31 December 2016 the Scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. The Trustee is responsible for deciding the investment strategy for the scheme's 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 Scheme's assets are shown in the following table by major category:

	Market value 2016 £m		Market value 2015 £m	
Liability hedging assets				
Fixed interest gilts	**678**		532	
Index-linked interest gilts	**1,135**		914	
Interest rate and inflation hedging derivatives (swaps and repos)	**270**		59	
	2,083	**54%**	1,505	46%
Other bonds	**784**	**20%**	733	22%
Return seeking investments				
Quoted equities	**633**		653	
Infrastructure	**95**		68	
Property	**62**		54	
Hedge funds/alternatives	**222**		196	
	1,012	**27%**	971	30%
Other investments				
Cash and cash equivalents	**183**		86	
Insurance policies	**42**		40	
Longevity swap fair value	**(271)**		(65)	
	(46)	**(1%)**	61	2%
Total Scheme assets	**3,833**	**100%**	3,270	100%

Included in the above are overseas assets of £1,304 million (2015: £1,198 million), comprised of quoted equities of £565 million (2015: £564 million) and bonds of £739 million (2015: £634 million).

The Trustee entered a longevity swap in 2011 which provides cash flow certainty by hedging the risk of increasing life expectancy over the next 70 years for 11,700 of current pensioners covering £1.7bn of the pension obligation. The fair value of the longevity swap equals the discounted value of the projected net cash flows resulting from the contract and has changed substantially over the year due to two key factors:

- A review of the longevity of pensioners covered by the swap which revealed lower life expectancy than previously expected. This reduced the asset value by £127 million.
- A reduction in the yields used to value the swap as falling yields adversely impact the fair value. This reduced the asset value by £79 million.

Defined pension deficit sensitivities

Keeping it simple

Which assumptions have the biggest impact on the Scheme?
It is important to note that comparatively small changes in the assumptions used may have a significant effect on the consolidated income statement and statement of financial position. This 'sensitivity' to change is analysed below to demonstrate how small changes in assumptions can have a large impact on the estimation of the defined benefit pension deficit.

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 valuation obligation rather than IAS19 defined pension deficit value. As such the effectiveness of the risk hedging strategies on a valuation basis will not be the same as on an accounting basis. Those hedging strategies have significant impact on the movement in the net pension deficit as assumptions change, offsetting the impacts on the obligation disclosed below.

In practice, changes in one assumption may be accompanied by offsetting changes in another assumption (although this is not always the case). Changes in the assumptions may occur at the same time as changes in the market value of Scheme assets, which may or may not offset the changes in assumptions.

Changes in assumptions have a different level of impact as the value of the net pension deficit fluctuates, because the relationship between them is not linear.

The analysis below considers the impact of a single change in principal assumptions on the defined benefit obligation while keeping the other assumptions unchanged and does not take into account any risk hedging strategies:

Assumption	Change in assumption	Impact on defined benefit obligation
	Increase by 0.1%	Decrease by £65 million
Discount rate	Decrease by 0.1%	Increase by £75 million
	Increase by 0.1%	Increase by £15 million
Rate of inflation (Retail Price Index)	Decrease by 0.1%	Decrease by £15 million
	Increase by 0.1%	Increase by £10 million
Rate of inflation (Consumer Price Index)	Decrease by 0.1%	Decrease by £10 million
Life expectations	Increase by one year	Increase by £130 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 Scheme's risk hedging strategy is aimed at a valuation basis, the Directors estimate that on an accounting basis it would significantly reduce the above impact on the defined benefit obligation.

In particular, an increase in assumption of life expectations by one year would benefit from an estimated increase of the value of the longevity swap by £100 million, reducing the net impact on the defined pension deficit to £30 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. This occurred during 2016 when both corporate and UK government bond yields fell significantly and the market expectation of future inflation rose. However, as corporate bond yields fell further than UK Government Bond yields, the impact on the defined benefit obligation exceeded the impact on the assets.

Keeping it simple

What was the impact of movements on the Scheme's assets and liabilities?
The sections above describe how the Scheme obligations and assets are comprised and measured. The following section sets out the impact of various movements and expenses on the Scheme on the Group's financial statements.

Amounts recognised through the income statement
Amounts recognised through the income statement are as follows:

	2016 £m	2015 £m
Amount charged to operating costs:		
Current service cost	(7)	(8)
Scheme administration expenses	(5)	(5)
	(12)	(13)
Amount charged to net financing costs:		
Net interest on defined benefit obligation	(5)	(10)
Amount charged to exceptional costs:		
Curtailment cost	(19)	–
Total charged in the consolidated income statement	(36)	(23)

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

	2016 £m	2015 £m
Remeasurement gains / (losses):		
(Loss)/Return on scheme assets excluding interest income	416	(126)
Actuarial gains / (losses) on liabilities arising from change in:		
– inflation experience	31	48
– financial assumptions	(868)	169
– mortality assumptions	173	–
	(664)	217
Total recognised in the consolidated statement of comprehensive income	(248)	91

The £664 million actuarial loss on the Scheme's liabilities was principally due to a decrease in bond yields over the year, which has resulted in an increase in the liabilities. The £416 million gain on the Scheme's assets primarily results from increases in the market values of gilts and swaps, which has led to assets outperforming expectations.

Notes to the Financial Statements
Section 3: Operating Assets and Liabilities continued

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 scheme members 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 ('LTVC') pension funding partnerships (explained below).

The levels of ongoing contributions to the Scheme are based on the current service costs (as assessed by the Scheme Trustee) and the expected future cash flows of the Scheme. Normal employer contributions in 2017 for current service (including administration expenses) are expected to be in the region of £6 million (2016: £12 million) and deficit funding contributions in 2017 are expected to be £66 million (2016: £66 million), assuming current contribution rates continue as agreed with the Trustee. The reduction in normal employer contributions for current service is as a result of the closure of the ITV Pension Scheme to future benefit accrual.

The Group has two asset-backed pension funding agreements with the Trustee and makes annual payments of £11 million for 12 years from 2011 and £2.5 million, increasing by 5% per annum until 2038. In 2017 a payment of £14 million is expected as a result of those agreements.

IFRIC 14 clarifies how the asset ceiling should be applied, and in particular, how local minimum funding rules work. The Group has determined that it has an unconditional right to a refund of surplus assets if the Schemes are run off until the last member dies, on which basis IFRIC 14 does not cause any change in the balance sheet disclosures before tax.

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, as seen through the issuance of a new Eurobond during the year. Any potential courses of action will take into account the Group's liquidity needs, flexibility to invest in the business, pension deficit initiatives and impact on credit ratings.

The Directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results and do so in the context of its ability to continue as a going concern, to execute the strategy and to invest in opportunities to grow the business and enhance shareholder value.

A Tax and Treasury committee acting under delegated authority from the Board, approves certain financial transactions and monitors compliance with the Group's tax and treasury policies.

4.1 Net debt

Keeping it simple

Net cash / (debt) is the Group's key measure used to evaluate total cash resources net of the current outstanding debt.

Adjusted net debt is also monitored by the Group and more closely reflects how credit agencies see the Group's gearing. To arrive at the adjusted net debt amount, we add our total undiscounted expected contingent payments on acquisitions, our net pension deficit and our undiscounted operating lease commitments. A full analysis and discussion of adjusted net debt is included in the Financial and Performance Review.

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

	1 January 2016 £m	Net cash flow and acquisitions £m	Reclassifications £m	Currency and non-cash movements £m	**31 December 2016 £m**
Cash	238	304	–	7	**549**
Cash equivalents	56	(6)	(39)	1	**12**
Total cash and cash equivalents	294	298	(39)	8	**561**
Loans and facilities due within one year	(5)	5	–	(161)	**(161)**
Finance leases due within one year	(6)	6	–	(4)	**(4)**
Loans and facilities due after one year	(598)	(525)	–	88	**(1,035)**
Finance leases due after one year	(4)	–	–	4	**–**
Total debt	(613)	(514)	–	(73)	**(1,200)**
Currency component of swaps held against euro denominated bonds	–	–	–	2	**2**
Net cash/(debt)	(319)	(216)	(39)	(63)	**(637)**

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs continued

	1 January 2015 £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	31 December 2015 £m
Cash	234	3	1	238
Cash equivalents	63	(6)	(1)	56
Total cash and cash equivalents	297	(3)	–	294
Loans and facilities due within one year	(78)	73	–	(5)
Finance leases due within one year	(7)	7	(6)	(6)
Loans and facilities due after one year	(161)	(433)	(4)	(598)
Finance leases due after one year	(10)	–	6	(4)
Total debt	(256)	(353)	(4)	(613)
Net cash/(debt)	41	(356)	(4)	(319)

Cash and cash equivalents

Included within cash equivalents is £4 million (2015: £10 million), the use of which is restricted to meeting finance lease commitments under programme sale and leasebacks (see note 4.2). During 2016 gilts of £39 million (2015: £39 million) were reclassified to other pension assets. This was as a result of the outcome of legal action attempting to remove the charging deed executed on these gilts in respect of the unfunded pension commitments of four former Granada executives. Refer to Note 3.7 for further details.

Loans and facilities due within one year

At various periods during the year the Group drew down on the Revolving Credit Facility ('RCF') to meet short-term funding requirements. All short-term drawings were repaid by the end of the year (2015: no outstanding short-term funding). The maximum draw down of the RCF during the year was £500 million in May. The maximum draw down on the RCF during 2015 was £362 million.

The Group also had an unsecured £161 million Eurobond which matured in January 2017 and had a coupon of 6.125%.

Loans and loan notes due after one year

The Group has two bilateral loan facilities maturing in March 2017; both loans can be extended until 2018 at ITV's option. The two facilities are a £100 million bilateral loan that is fully drawn down as of 31 December 2016, and a £150 million bilateral loan with an unconditional right to set off with cash on deposit with the counterparty. The £150 million arrangement is in a net £nil position.

In December 2016 the Group issued a seven-year €500 million Eurobond at a fixed coupon of 2.0% which will mature in December 2023. The bond has been swapped back to sterling using a cross currency interest swap. The resulting fixed rate payable is c. 3.5%. The proceeds of the bond were for general corporate purposes including the repayment of the £161 million sterling bond which matured in January 2017 and settling the acquisition related liabilities due in 2017.

In September 2015 the Group issued a seven-year €600 million Eurobond at a fixed coupon of 2.125% which will mature in September 2022. The bond refinanced the 12-month bridge loan facility of €500 million used for the purchase of Talpa Media in April 2015.

4.2 Borrowings and finance leases

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 in 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 discussed 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. It is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. This calculation of fair value is consistent with instruments valued under level 2 in note 4.5.

Accounting policies

Borrowings

Borrowings are recognised initially at fair value less directly attributable transaction costs, with subsequent measurement at amortised cost using the effective interest rate method. Under the amortised cost method the difference between the amount initially recognised and the redemption value is recorded in the income statement over the period of the borrowing on an effective interest rate basis.

Finance leases

Historically, ITV has entered into sale and leaseback agreements in relation to certain programme titles. Related outstanding sale and leaseback obligations, which comprise the principal and accrued interest, are included within borrowings. The finance related element of the agreement is charged to the income statement over the term of the lease on an effective interest basis. Sale and leaseback obligations are secured against an equivalent cash balance held within cash and cash equivalents.

Managing credit and liquidity risk

Credit risk

The Group's maximum exposure to credit risk is represented by the carrying amount of derivative financial assets (see note 4.3), trade receivables (see note 3.1.3), and cash and cash equivalents (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 and is also taken out for other significant receivables. In December 2016 the Group signed a new £100 million non-recourse receivables purchase agreement to replace the £75 million invoice discount facility. In December 2016 £35 million invoices were sold under the agreement (2015: £nil). The receivables in relation to those were derecognised and the Group collected cash on behalf of the counterparty.

Cash

The Group operates investment guidelines with respect to surplus cash that emphasise preservation of capital. The guidelines set out procedures and limits on counterparty risk and maturity profile of cash placed. Counterparty limits for cash deposits are largely based upon long-term ratings published by the major credit rating agencies and perceived state support. Deposits longer than 12 months require the approval of the Board.

Borrowings
ITV is rated as investment grade by Moody's and S&P. ITV's credit ratings, the cost of credit default swap hedging and the absolute level of interest rates are key determinants in the cost of new borrowings for ITV.

Liquidity risk
The Group's financing policy is to fund itself for the medium to long-term by using debt instruments with a range of maturities and to ensure access to appropriate short-term borrowing facilities with a minimum of £250 million of undrawn facilities available at all times.

Long-term funding comes from the UK and European Capital markets, while any short to medium-term debt requirements are provided through bank credit facilities totalling £930 million (see below). Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn bank facilities and cash and cash equivalents) on the basis of expected cash flows. This monitoring includes financial ratios to assess any possible future impact on credit ratings and headroom and takes into account the accessibility of cash and cash equivalents.

The Group has £630 million available funds through a Revolving Credit Facility ('RCF') with a group of relationship banks. This £630 million facility was amended and extended in December 2016, matures in 2021 and is committed with leverage and interest cover financial covenants. In addition, the Group has £300 million of financial covenant free financing which runs to 2021. Both of these facilities were undrawn at 31 December 2016 (2015: no drawings).

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

		Book value		Fair value	
	Maturity	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Loans due within one year					
Other short-term loans	Various	**–**	5	**–**	5
£161 million Eurobond	Jan 2017	**161**	161	**162**	168
Loans due in more than one year					
Bilateral loan facility	Jun 2018	**100**	–	**100**	–
€600 million Eurobond	Sept 2022	**508**	437	**529**	445
€500 million Eurobond	Dec 2023	**427**	–	**431**	–
		1,196	603	**1,222**	618

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

	Minimum lease payments £m	**Interest £m**	**2016 Principal £m**	Minimum lease payments £m	Interest £m	2015 Principal £m
In one year or less	**4**	**–**	**4**	6	–	6
In more than one year but not more than five years	**–**	**–**	**–**	4	–	4
	4	**–**	**4**	10	–	10

Finance leases principally comprise programmes under sale and leaseback arrangements. The net book value of tangible assets held under finance leases at 31 December 2016 was £nil (2015: £1 million).

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 four 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 ;
- Interest rate swaps are derivative instruments that exchange a fixed rate of interest for a floating rate, or vice versa, or one type of floating rate for another, and are used to manage interest rate risk; and
- Cross-currency interest rate swaps are derivative instruments used to exchange the principal and interest coupons in a debt instrument from one currency to another.

Analysis of the derivatives used by the Group to hedge its exposure and the various methods used to calculate their respective fair values are detailed in this section.

Accounting policies

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the income statement, except where derivatives qualify for cash flow hedge accounting. In this case, the effective portion of a cash flow hedge is recognised in other comprehensive income and presented in the hedging reserve within equity. The cumulative gain or loss is later reclassified to the income statement in the same period as the relevant hedged transaction is realised. Derivatives with positive fair values are recorded as assets and negative fair values as liabilities.

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs continued

Determining Fair Value

The fair value of forward foreign exchange contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and our current creditworthiness, as well as that of our swap counterparties.

Third-party valuations are used to fair value the Group's interest rate derivatives. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs.

How do we manage our currency and interest rate risk?

Currency risk

As the Group expands its international operations, the performance of the business becomes increasingly sensitive to movements in foreign exchange rates, primarily with respect to the US dollar and the euro.

The Group's foreign exchange policy is to use forward foreign exchange contracts to hedge material non-functional currency denominated costs or revenue at the time of commitment for up to five years forward. The Group also hedges a proportion of highly probable non-functional currency denominated costs or revenue on a rolling 18-month basis (see 'Keeping it simple box' for explanation of non-functional currency transactions).

The Group ensures that its net exposure to foreign currency denominated cash balances is kept to a minimal level by using foreign currency swaps to exchange balances back into sterling or by buying or selling foreign currencies at spot rates when necessary.

The Group also utilises foreign exchange swaps and cross-currency interest rate swaps both to manage foreign currency cash flow timing differences and to hedge foreign currency denominated monetary items.

The Group's net investments in overseas subsidiaries may be hedged where the currency exposure is considered to be material. In 2015 the Group designated a portion of its euro borrowings into a net investment hedge against its euro denominated assets following the acquisition of Talpa Media.

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

	2016 – post-tax profit	**2016 – equity**	2015 – post-tax profit	2015 – equity
US dollar	**£3 million**	**£32 million**	£10 million	£63 million
Euro	**£10 million**	**£11 million**	£8 million	£41 million

The Group's sensitivity to translation risk for revenue and adjusted EBITA is disclosed in the Financial and Performance Review on page 31. The key difference between the foreign currency sensitivity for adjusted EBITA and profit after tax is the impact on the US dollar and euro denominated exceptional costs, including acquisition related costs, acquired intangible amortisation and net financing cost.

Interest rate risk

The Group's interest rate policy is to allow fixed rate gross debt to vary between 20% and 100% of total gross debt to accommodate floating rate borrowings under the revolving credit facility.

At 31 December 2016 the Group's fixed rate debt represented 92% of total gross debt (2015: 99%). Consequently a 1% movement in interest rates on floating rate debt would impact the 2016 post-tax profit for the year by £2m (2015: £nil).

For financial assets and liabilities classified at fair value through profit or loss, the movements in the year relating to changes in fair value and interest are not separated.

What is the value of our derivative financial instruments?

The following table shows the fair value of derivative financial instruments analysed by type of contract. Interest rate swap fair values exclude accrued interest.

At 31 December 2016	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	6	(1)
Foreign exchange forward contracts and swaps – fair value through profit or loss	2	(2)
Non-current		
Cross currency interest swaps – cash flow hedges	–	(6)
Foreign exchange forward contracts and swaps – cash flow hedges	1	(3)
	9	(12)

At 31 December 2015	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	–	(4)
Foreign exchange forward contracts and swaps – fair value through profit or loss	1	(1)
Non-current		
Interest rate swaps – fair value through profit or loss	8	(6)
	9	(11)

Cash flow hedges

The Group applies hedge accounting for certain foreign currency firm commitments and highly probably cash flows where the underlying cash flows are payable within the next two to seven years. In order to fix the sterling cash outflows associated with the commitments and interest payments – which are mainly denominated in AUD or euros – the Group has taken out forward foreign exchange contracts and cross currency interest swaps for the same foreign currency amount and maturity date as the expected foreign currency outflow.

The amount recognised in other comprehensive income during the period all relates to the effective portion of the revaluation loss associated with these contracts. There was less than £1 million (2015: £1 million) ineffectiveness taken to the income statement and £5 million cumulative gain (2015: £6 million loss) recycled to the income statement in the year.

On issuing the 2023 Eurobond, the Group entered into a portfolio of cross-currency interest rate swaps, which swapped the euro principal and fixed rate coupons into sterling. As a result the Group makes sterling interest payments at a fixed rate.

Net investment hedges

The Group uses euro denominated debt to partially hedge against the change in the sterling value of its euro denominated net assets due to movements in foreign exchange rates. The fair value of debt in a net investment hedge was £168 million (2015: £141 million). A foreign exchange loss of £21 million (2015: £2 million) relating to the net investment hedges has been netted off within exchange differences on translation of foreign operations as presented on the consolidated statement of comprehensive income.

Interest rate swaps

On issuing the 2017 Eurobond, the Group entered into a portfolio of fixed to floating interest rate swaps and then subsequently overlaid a portfolio of floating to fixed interest rate swaps with the result that interest was 100% fixed on these borrowings. The timing of entering into these swaps locked in an interest benefit for the Group, resulting in a net mark-to-market gain on the portfolio.

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs continued

Undiscounted financial liabilities

Keeping it simple

The Group is required to disclose the expected timings of cash outflows for each of its financial liabilities (including derivatives). The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the amounts disclosed on the statement of financial position.

At 31 December 2016	Carrying value £m	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-derivative financial liabilities						
Borrowings	(1,196)	(1,338)	(194)	(119)	(58)	(967)
Trade and other payables	(912)	(912)	(855)	(48)	(8)	(1)
Other payables – non-current	(11)	(11)	–	(6)	(4)	(1)
Other payables – commitments on acquisitions	(158)	(328)*	(122)	(56)	(150)	–
Derivative financial instruments						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	7	213	127	86	–	–
Outflow	(4)	(210)	(123)	(87)	–	–
Cross currency swaps – cash flow hedges						
Inflow	–	497	10	10	30	447
Outflow	(6)	(542)	(17)	(17)	(51)	(457)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	263	263	258	5	–	–
Outflow	(263)	(263)	(258)	(5)	–	–
Interest rate swaps – fair value through profit or loss						
Inflow	–	13	13	–	–	–
Outflow	–	(6)	(6)	–	–	–
	(2,280)	(2,624)	(1,167)	(237)	(241)	(979)

At 31 December 2015	Carrying value £m	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-derivative financial liabilities						
Borrowings	(613)	(703)	(30)	(184)	(28)	(461)
Trade and other payables	(834)	(834)	(786)	(34)	(14)	–
Other payables – non-current	(4)	(4)	–	(1)	(2)	(1)
Other payables – commitments on acquisitions	(85)	(303)*	(12)	(108)	(183)	–
Derivative financial instruments						
Cash flow hedges						
Inflow	66	66	49	17	–	–
Outflow	(70)	(70)	(53)	(17)	–	–
Foreign exchange forward contracts and swaps						
Inflow	147	147	144	3	–	–
Outflow	(147)	(147)	(144)	(3)	–	–
Interest rate swaps						
Inflow	8	22	9	13	–	–
Outflow	(6)	(12)	(6)	(6)	–	–
	(1,538)	(1,838)	(829)	(320)	(227)	(462)

* Expected future payments depending on performance of acquisitions, the total maximum consideration is discussed in the Financial and Performance Review.

4.4 Net financing costs

Keeping it simple

This section details the interest income generated on the Group's cash and other financial assets and the interest expense incurred on borrowings and other financial liabilities.

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

Our rationale for adjustments made to financing costs is set out in the Financial and Performance 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 and finance leases, unwinding of the discount on provisions, unwinding of the discount on liabilities to non-controlling interest, foreign exchange gains/losses, and imputed interest on pension assets and liabilities. Interest income and expense is recognised as it accrues in profit or loss, using the effective interest method.

Net financing costs

Net financing costs can be analysed as follows:

	2016 £m	2015 £m
Financing income:		
Interest income	2	3
Change in fair value of instruments classified at fair value through profit or loss	–	3
	2	6
Financing costs:		
Interest expense on financial liabilities measured at amortised cost	(25)	(17)
Net pension interest (see note 3.7)	(5)	(10)
Change in fair value of instruments classified at fair value through profit or loss	(1)	–
Foreign exchange loss	(8)	(2)
Other finance expense	(14)	(8)
	(53)	(37)
Net financing costs	(51)	(31)

Interest on financial liabilities relates to the interest incurred on the Group's borrowings in the year.

Other finance expense includes the amortisation of facility commitment and upfront fees as well as movements in the estimated value of acquisition-related contingent liabilities, which contributed to most of the 2016 expense. This is where estimates of the future performance against stretch targets is reassessed, resulting in adjustments to the related put option liabilities.

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs continued

4.5 Fair value hierarchy

Keeping it simple

The financial instruments included on the ITV statement of financial position are measured at either fair value or amortised cost. The measurement of this fair value can in some cases be subjective, and can depend on the inputs used in the calculations. ITV generally uses external valuations using market inputs or market values (e.g. external share prices). The different valuation methods are called 'hierarchies' and are described below.

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

Level 2
Fair values are measured using inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly.

Interest rate swaps and options are accounted for at their fair value based upon termination prices. Forward foreign exchange contracts are accounted for at the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date.

Level 3
Fair values are measured using inputs for the asset or liability that are not based on observable market data.

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

	Fair value 31 December 2016 £m	Level 1 31 December 2016 £m	Level 2 31 December 2016 £m	Level 3 31 December 2016 £m
Assets measured at fair value				
Available for sale financial instruments				
Other pension assets – gilts (see note 3.7)	39	39	–	–
Available for sale investments (see note 3.5)	12	–	–	12
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	2	–	2	–
Financial liabilities at fair value through reserves				
Cash flow hedges	7	–	7	–
	60	39	9	12

	Fair value 31 December 2016 £m	Level 1 31 December 2016 £m	Level 2 31 December 2016 £m	Level 3 31 December 2016 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Contingent consideration	(1)	–	–	(1)
Foreign exchange forward contracts and swaps	(3)	–	(3)	–
Financial liabilities at fair value through reserves				
Cash flow hedges	(9)	–	(9)	–
	(13)	–	(12)	(1)

	Fair value 31 December 2015 £m	Level 1 31 December 2015 £m	Level 2 31 December 2015 £m	Level 3 31 December 2015 £m
Assets measured at fair value				
Available for sale financial instruments				
Available for sale gilts (see note 4.1)	38	38	–	–
Available for sale investments (see note 3.5)	11	–	–	11
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	1	–	1	–
Interest rate swaps	8	–	8	–
	58	38	9	11

	Fair value 31 December 2015 £m	Level 1 31 December 2015 £m	Level 2 31 December 2015 £m	Level 3 31 December 2015 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Contingent consideration	(3)	–	–	(3)
Foreign exchange forward contracts and swaps	(1)	–	(1)	–
Interest rate swaps	(6)	–	(6)	–
Financial liabilities at fair value through reserves				
Cash flow hedges	(4)	–	(4)	–
	(14)	–	(11)	(3)

Refer to note 4.3 for how we value interest rate swaps and forward foreign currency contracts. The available for sale investments are valued at cost and assessed for impairment.

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs continued

4.6 Equity

Keeping it simple

This section explains material movements recorded in shareholders' equity that are not explained elsewhere in the financial statements. The movements in equity and the balance at 31 December 2016 are presented in the consolidated statement of changes in equity.

Accounting policies

Available for sale reserve

Available for sale assets are stated at fair value, with any gain or loss recognised directly in the available for sale reserve in equity, unless the loss is a permanent impairment, when it is then recorded in the income statement.

Dividends

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

4.6.1 Share capital and share premium

The Group's share capital at 31 December 2016 of £403 million (2015: £403 million) and share premium of £174 million (2015: £174 million) is the same as that of ITV plc. Details of this are given in the ITV plc Company financial statements section of this Annual Report.

4.6.2 Merger and other reserves

Merger and other reserves at 31 December 2016 include the following reserves:

	2016 £m	2015 £m
Merger reserves	98	98
Capital reserves	112	112
Capital redemption reserves	36	36
Revaluation reserves	2	2
Put option liabilities arising on acquisition of subsidiaries	(27)	(27)
Total	221	221

4.6.3 Translation reserve

The translation reserve comprises:

- all foreign exchange differences arising on the translation of the accounts of, and investments in, foreign operations; and
- the gains or losses on the portion of cash flow hedges that have been deemed effective (see note 4.3).

4.6.4 Available for sale reserve

The available for sale reserve comprises all movements arising on the revaluation of gilts accounted for as available for sale financial instruments (See note 3.7).

4.6.5 Retained earnings

The retained earnings reserve comprises profit for the year attributable to owners of the Company of £448 million (2015: £495 million) and other items recognised directly through equity as presented in the consolidated statement of changes in equity. Other items include the credit for the Group's share-based compensation schemes and the charge for the purchase of ITV shares via the ITV Employees' Benefit Trust, which are described in note 4.7.

The distributable reserves of ITV plc are disclosed in note viii to the ITV plc Company Financial Statements. The Directors of ITV plc propose a final dividend of 7.2p per share and a special dividend of 5p per share. See details on distributable reserves on page 124.

4.6.6 Non-controlling interests

The movement for the year comprises:

- the share of profits attributable to non-controlling interests of £4 million (2015: £7million); and
- the distributions made to non-controlling interests of £4 million (2015: £5 million).

4.7 Share-based compensation

Keeping it simple

The Group utilises share award schemes as part of its employee remuneration packages, and therefore operates a number of share-based compensation schemes, namely the Deferred Share Award (DSA), Performance Share Plan (PSP), Long Term Incentive Plan (LTIP) and Save As You Earn (SAYE) schemes.

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 based on the price or value of the Group's shares then this will also fall under a share-based transaction.

A description of each type of share-based payment arrangement that existed at any time during the period are set out in the Annual Remuneration Report.

Accounting policies

For each of the Group's share-based compensation schemes, the fair value of the equity instrument granted is measured at grant date and spread over the vesting period via a charge to the income statement with a corresponding increase in equity.

The fair value of the share options and awards is measured using either market price at grant date or, for the Save As You Earn scheme (SAYE), a Black–Scholes model, taking into account the terms and conditions of the individual scheme.

Vesting conditions are limited to service conditions and performance conditions. For performance-based schemes, the relevant Group performance measures are projected to the end of the performance period in order to determine the number of options expected to vest. The estimate is then used to determine the option fair value, discounted to present value. The Group 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, are recognised in the income statement, with a corresponding adjustment to equity.

Exercises of share options granted to employees can be satisfied by market purchase or issue of new shares. No new shares may be issued to satisfy exercises under the terms of the DSA. During the year all exercises were satisfied by using shares purchased in the market and held in the ITV Employees' Benefit Trust.

Share-based compensation charges totalled £10 million in 2016 (2015: £14 million).

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs continued

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:

	2016 Number of options ('000)	**2016** Weighted average exercise price (pence)	2015 Number of options ('000)	2015 Weighted average exercise price (pence)
Outstanding at 1 January	40,167	55.63	51,933	32.97
Granted during the year – nil priced	7,351	–	6,744	–
Granted during the year – other	8,002	167.62	4,615	198.94
Forfeited during the year	(255)	151.17	(30)	143.65
Exercised during the year	(12,293)	28.81	(19,477)	16.65
Expired during the year	(6,439)	109.25	(3,618)	18.77
Outstanding at 31 December	36,533	67.86	40,167	55.63
Exercisable at 31 December	83	–	610	53.17

The average share price during 2016 was 209.91 pence (2015: 254.24 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)	**2016** Weighted average exercise price (pence)	**2016** Number of options ('000)	**2016** Weighted average remaining contractual life (years)	2015 Weighted average exercise price (pence)	2015 Number of options ('000)	2015 Weighted average remaining contractual life (years)
Nil	–	21,531	1.89	–	25,910	1.79
20.00 – 49.99	–	–	–	–	–	–
50.00 – 69.99	67.71	505	0.91	67.24	991	0.98
70.00 – 99.99	–	–	–	73.58	301	0.92
100.00 – 109.99	102.59	185	1.92	102.59	1,672	1.14
110.00 – 119.99	–	–	–	–	–	–
120.00 – 149.99	131.44	193	2.16	131.44	1,175	1.52
150.00 – 199.99	167.37	13,251	1.87	172.58	8,089	2.22
200.00 – 249.99	206.83	891	1.41	206.83	2,054	2.52

Assumptions

DSA, LTIP and PSP options are valued directly by reference to the share price at date of grant.

The options for the SAYE scheme, an 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	2 April 2015	251.00	192.52	26.00	3.25	2.27	0.74	65.85
5 Year	2 April 2015	251.00	192.52	32.00	5.25	2.27	1.14	80.81
3 Year	16 Sept 2015	249.60	206.83	25.00	3.25	2.28	0.97	55.71
5 Year	16 Sept 2015	249.60	206.83	30.00	5.25	2.28	1.38	72.02
3 Year	29 March 2016	243.30	187.79	25.00	3.25	3.00	0.41	56.64
5 Year	29 March 2016	243.30	187.79	29.00	5.25	3.00	0.73	65.94
3 Year	16 Sept 2016	195.40	157.46	30.00	3.25	3.00	0.41	46.97
5 Year	16 Sept 2016	195.40	157.46	31.00	5.25	3.00	0.73	52.15

Notes to the Financial Statements
Section 5: Other Notes

Employees' Benefit Trust

The Group has investments in its own shares as a result of shares purchased by the ITV Employees' Benefit Trust ('EBT'). Transactions with the Group-sponsored EBT are included in these financial statements and primarily consist of the EBT's purchases of shares in ITV plc, which are 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 2016 and the purchases/(releases) from the EBT made in the year to satisfy awards under the Group's share schemes:

Scheme	Shares held at	Number of shares (released)/purchased	Nominal value £
	1 January 2016	16,949,851	1,694,985
DSA releases		(2,889,078)	
PSP releases		(6,200,608)	
SAYE releases		(3,003,419)	
Shares purchased		9,553,378	
	31 December 2016	**14,410,124**	**1,438,557**

The total number of shares held by the EBT at 31 December 2016 represents 0.36% (2015: 0.42%) of ITV's issued share capital. The market value of own shares held at 31 December 2016 is £30 million (2015: £47 million).

The shares will be held in the EBT until such time as they may be transferred to participants of the various Group share schemes. Rights to dividends have been waived by the EBT in respect of shares held which do not relate to restricted shares under the 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.

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 statements 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:

	2016 £m	2015 £m
Sales to joint ventures	**8**	9
Sales to associated undertakings	**10**	13
Purchases from joint ventures	**26**	24
Purchases from associated undertakings	**70**	65

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

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

All transactions with associated undertakings and joint ventures arise in the normal course of business on an arm's length basis. None of the balances are secured.

Notes to the Financial Statements
Section 5: Other Notes continued

The amounts owed by and to these related parties at the year end were:

	2016 £m	2015 £m
Amounts owed by joint ventures	–	3
Amounts owed by associated undertakings	57	66
Amounts owed to joint ventures	–	2
Amounts owed to associated undertakings	–	5

Balances owed by associated undertakings largely relate to loan notes and production funding advanced to Tomorrow ITV Studios for US scripted investment.

Amounts paid to the Group's retirement benefit plans are set out in note 3.7.

Transactions with key management personnel

Key management consists of ITV plc Executive and Non-executive Directors and the ITV Management Board. Key management personnel compensation is as follows:

	2016 £m	2015 £m
Short-term employee benefits	8	9
Share-based compensation	2	6
	10	15

5.2 Contingent liabilities

Keeping it simple

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty may exist regarding the outcome of future events.

There are contingent liabilities in respect of certain litigation and guarantees, broadcasting issues, and in respect of warranties given in connection with certain disposals of businesses. None of these items are expected to have a material effect on the Group's results or financial position.

5.3 Subsequent events

Keeping it simple

Where the Group receives information in the period between 31 December 2016 and the date of this report about conditions related to certain events that existed at 31 December 2016, we update our disclosures that relate to those conditions in light of the new information. Such events can be categorised as adjusting or non-adjusting depending on whether the condition existed at 31 December 2016. If non-adjusting events are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, for each material category of non-adjusting event after the reporting period we disclose in this section the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

Eurobond repayment

On 5 January 2017 the £161 Eurobond matured and the Group repaid the capital amount. The related interest rate swap contracts were settled at the same time. The repayment was financed using the €500 million Eurobond issued in December 2016.

Exercise of Gurney Productions LLC call option

On 6 February 2017, the Group exercised the call option to acquire the remaining 38.5% membership interest of Gurney Productions LLC.

The Group has initiated legal proceedings against the sellers for alleged breaches of contracts and their fiduciary duties, as well as self-dealing and fraudulent concealment. The sellers dispute the allegations, the exercise and the value of the call option, and they have counter-claimed for unspecified damages of at least $100 million, which the Directors believe is completely without merit.

London Property Strategy

On 21 February 2017, the Directors announced the outcome of an extensive review of the Group's London property requirements. The Group intends to seek planning permission to redevelop its South Bank site and build a new London home.

The teams currently located in the South Bank site will be relocated to various sites in London during the redevelopment period.

As a result of the review of the Group's London property needs, the Directors are proposing to close The London Studios (TLS) business and use studio capacity in the external market to meet our future business needs. The Group has begun a period of consultation with the employees affected by this closure.

Acquisition of Tetra Media Studios SAS

On 28 February 2017, the Group announced the acquisition of 65.05% of the capital of the French production business Tetra Media Studios SAS. The transaction is on a cash free / debt free basis, with put/call options to acquire the remaining interest depending on future performance of the business. The acquisition was financed through the Group's existing cash and debt facilities.

Notes to the Financial Statements
Section 5: Other Notes continued

5.4 Subsidiaries exempt from audit

Keeping it simple

Certain subsidiaries of the Group can take an exemption from having an audit. Strict criteria must be met for this exemption to be taken, and it must be agreed to by the Directors of that subsidiary entity.

Listed below are subsidiaries controlled and consolidated by the Group, where the Directors have taken the exemption from having an audit of its financial statements. This exemption is taken in accordance with Companies Act s479A.

Company Number	Company Name	Company Number	Company Name
10058419	Back Productions Limited	10171346	BGSS Limited
10404493	Big Talk Bliss Limited	10496857	Big Talk Cold Feet Limited
10528766	Big Talk Diana Limited	10528592	Big Talk Living the Dream Limited
1891539	Broad Street Films Limited	2285229	Campania Limited
5078683	Carbon Media Limited	4159249	Carlton Content Holdings Limited
301188	Carlton Film Distributors Limited	1692483	Carlton Finance Limited
3984490	Carlton Food Network Limited	3307790	Carltonco 103
3210452	Carlton Screen Advertising (Holdings) Limited	3053908	Carlton Programmes Development Limited
2625225	Carltonco Forty Investments	3210363	Carltonco Ninety-Six
2852812	Cosgrove Hall Films Limited	3209058	DTV Limited
290076	Granada Group Limited	3962410	Granada Limited
3106798	Granada Media Limited	5344772	Granada Screen (2005) Limited
733063	Granada Television Overseas Limited	6914987	ITV (HC) Limited
10384774	ITV Bancroft Limited	4206924	ITV Beowulf Limited
1127149	ITV Breathless Limited	4209918	ITV Cilla Limited
4206900	ITV Cradle Limited	4159210	ITV Holdings Limited
4207680	ITV Home Fires Limited	4206912	ITV J&H Limited
4206871	ITV Jericho Limited	4206927	ITV JR Limited
8723446	ITV Lewis Limited	10031419	ITV Little Boy Blue Limited
10058180	ITV Loch Ness Limited	8534385	ITV Lucan Limited
4206935	ITV Moorside Limited	4033106	ITV Mr Selfridge Limited
3916436	ITV News Channel Limited	8554937	ITV Shetland Limited
4206897	ITV Spirit Limited	10528702	ITV Studios Newco 1 Limited
10031818	ITV T&B Limited	9499040	ITV Tennison Limited
9498177	ITV Top Class Limited	8586211	ITV Thunderbirds Limited
9499012	ITV Tut Limited	10384819	ITV Trauma Limited
5518785	Juice Music UK Limited	10058008	ITV Wagstaffe Limited
10528827	Mammoth Screen (END5) Limited	10528851	Mammoth Screen (City) Limited
10031005	Mammoth Screen (Pol3) Limited	10491117	Mammoth Screen (NOK) Limited
9646520	Mammoth Screen (QV) Limited	10528763	Mammoth Screen (Pol4) Limited
4201477	Morning TV Limited	10043079	Mammoth Screen (WFTP) Limited
4206913	SOM (ITV) Limited		

ITV plc Company Financial Statements

Company Balance Sheet

As at 31 December	Note	2016 £m	2016 £m	2015 £m	2015 £m
Non-current assets					
Investments in subsidiary undertakings	iii		1,861		1,861
Derivative financial instruments	vi		4		9
Deferred tax asset			2		2
			1,867		1,872
Current assets					
Amounts owed by subsidiary undertakings		4,066		3,864	
Derivative financial instruments	vi	10		6	
Other receivables		19		16	
Cash and cash equivalents		438		126	
		4,533		4,012	
Current liabilities					
Borrowings	v	(161)		–	
Amounts owed to subsidiary undertakings		(2,856)		(3,760)	
Accruals and deferred income		(22)		(21)	
Derivative financial instruments	vi	(10)		(6)	
		(3,049)		(3,787)	
Net current assets/(liabilities)			1,484		225
Total assets less current liabilities			3,351		2,097
Non-current liabilities					
Borrowings	v	(1,035)		(598)	
Derivative financial instruments	vi	(9)		(6)	
		(1,044)		(604)	
Net assets			2,307		1,493
Capital and reserves					
Share capital	vii		403		403
Share premium	viii		174		174
Other reserves	viii		28		36
Retained earnings	viii		1,702		880
Total equity			2,307		1,493

The accounts were approved by the Board of Directors on 1 March 2017 and were signed on its behalf by:

Ian Griffiths
Director

ITV plc Company Financial Statements

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 2016		403	174	36	880	1,493
Total comprehensive income for the year						
Profit		–	–	–	1,475	1,475
Net loss on cash flow hedges		–	–	(8)	–	(8)
Total comprehensive income for the year		**–**	**–**	**(8)**	**1,475**	**1,467**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Equity dividends		–	–	–	(663)	(663)
Movements due to share based compensation		–	–	–	10	10
Total contributions by and distributions to owners		–	–	–	(653)	(653)
Total transactions with owners		–	–	–	(653)	(653)
Balance at 31 December 2016	vii/viii	**403**	**174**	**28**	**1,702**	**2,307**

	Note	Share Capital £m	Share Premium £m	Other Reserves £m	Retained Earnings £m	Total £m
Balance at 1 January 2015		403	174	36	654	1,267
Total comprehensive income for the year						
Profit		–	–	–	671	671
Total comprehensive income for the year		**–**	**–**	**–**	**671**	**671**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Equity dividends		–	–	–	(459)	(459)
Movements due to share based compensation		–	–	–	14	14
Total contributions by and distributions to owners		–	–	–	(445)	(445)
Total transactions with owners		–	–	–	(445)	(445)
Balance at 31 December 2015	vii/viii	**403**	**174**	**36**	**880**	**1,493**

Note i Accounting policies

In this section

This section sets out the notes to the ITV plc Company only financial statements. Those statements form the basis of the dividend decisions made by the Directors, as explained in detail in note viii below.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

Basis of preparation

The Company is a qualifying entity as it is a member of the ITV plc Group where ITV plc, the ultimate parent prepares publicly available consolidated financial statements.

Exemptions Applied

The Company is taking advantage of the following disclosure exemptions under FRS101.

- Presentation of a Statement of Cash Flows
- Disclosure of key management personnel compensation
- Disclosure of related party transactions between wholly-owned subsidiaries and parents within a group
- Disclosures required under IFRS 2 Share Based Payments in respect of group settled share based payments
- Disclosures required by IFRS 7 Financial Instrument: Disclosure
- Certain disclosures required under IFRS 13 Fair Value Measurement
- Disclosure of information in relation to new standards not yet applied

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

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.

Notes to the ITV plc Company Financial Statements
continued

Derivatives and other financial instruments

The Company uses a limited number of derivative financial instruments to hedge its exposure to fluctuations in interest and other foreign exchange rates. The Company does not hold or issue derivative instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the profit and loss account within net financing costs, except where derivatives qualify for cash flow hedge accounting. In this case, the effective portion of cash flow hedge is recognised in retained profits within equity. The cumulative gain or loss is later reclassified to the profit and loss account in the same period as the relevant hedged transaction is realised. Derivatives with positive fair values are recorded as assets and negative fair values as liabilities.

The fair value of foreign currency forward contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the balance sheet date.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of swap counterparties.

Third-party valuations are used to fair value the Company's derivatives. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs. For financial assets and liabilities classified at fair value through profit or loss the fair value change and interest income/expense are not separated.

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 then 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 recharged to 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 Save As You Earn scheme (SAYE), 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, are recognised in the income statement, with a corresponding adjustment to equity.

Exercises of share options granted to employees can be satisfied by market purchase or issue of new shares. No new shares may be issued to satisfy exercises under the terms of the DSA. During the year all exercises were satisfied by using shares purchased in the market and held in the ITV Employees' Benefit Trust.

Dividends

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

Note ii Employees and share based payments

Two (2015: two) Directors of ITV plc were employees of the Company during the year, both of whom remain at the year end. The costs relating to these Directors are disclosed in the Remuneration Report.

Share based payments

The weighted average share price of share options exercised during the year was 55.33p (2015: 16.65p). The options outstanding at the year end have an exercise price in the range of nil to 206.83p (2015: nil to 206.83p) and a weighted average contractual life of one year (2015: one year) for all the Schemes in place for the Group.

Note iii Investments in subsidiary undertakings

The principal subsidiary undertakings are listed on page 184 of the Annual Report. The carrying value at 31 December 2016 was £1,861 million (2015: £1,861 million).

In 2015, the Company increased investment in subsidiaries by £156 million.

Note iv Amounts owed (to)/from subsidiary undertakings

The Company operates an intra-group cash pool policy with certain 100% owned UK subsidiaries. The pool applies to bank accounts where there is an unconditional right of set off and involves the daily closing cash position for participating subsidiaries whether positive or negative, being cleared to £nil via daily bank transfers to/from ITV plc. These daily transactions create a corresponding intercompany creditor or debtor which can result in significant movements in amounts owed to and from subsidiary undertakings in the Company balance sheet.

Note v Borrowings

Keeping it simple

The Directors manage the Group's capital structure as disclosed in Section 4 to the consolidated financial statements. Borrowings, cash and derivative financial instruments are mainly held by ITV plc and disclosed in these Company financial statements.

Loans and facilities due within one year

At various periods during the year the Group drew down on the Revolving Credit Facility ('RCF') to meet short-term funding requirements. All short-term drawings were repaid by the end of the year (2015: no outstanding short-term funding). The maximum draw down of the RCF during the year was £500 million in May.

The Group also had an unsecured £161 million Eurobond which matured in January 2017 and had a coupon of 6.125%.

Notes to the ITV plc Company Financial Statements
continued

Loans and loan notes due after one year

The Group has two bilateral loan facilities maturing in March 2017; both loans can be extended until 2018 at ITV's option. The two facilities are a £100 million bilateral loan that is fully drawn down as of 31 December 2016, and a £150 million bilateral loan with an unconditional right to set off with cash on deposit with the counterparty. The £150 million arrangement is in a net £nil position.

In December 2016 the Group issued a seven year €500 million Eurobond at a fixed coupon of 2.0% which will mature in December 2023. The bond has been swapped back to sterling using a cross currency interest swap. The resulting fixed rate payable is c. 3.5%. The proceeds of the bond were for general corporate purposes including the repayment of the £161 million sterling bond which matured in January 2017.

In September 2015 the Group issued a seven year €600 million Eurobond at a fixed coupon of 2.125% which will mature in September 2022. The bond refinanced the 12 month bridge loan facility of €500 million used for the purchase of Talpa Media in April 2015.

Note vi Managing market risks: derivative financial instruments

What is the value of our derivative financial instruments?

	Assets 2016	Liabilities 2016
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	7	(7)
Foreign exchange forward contracts and swaps – fair value through profit or loss	3	(3)
Non-current		
Cross currency interest swaps – cash flow hedges	–	(6)
Foreign exchange forward contracts and swaps – cash flow hedges	4	(3)
	14	(19)

	Assets 2015	Liabilities 2015
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	3	(4)
Foreign exchange forward contracts and swaps – fair value through profit or loss	3	(2)
Non-current		
Interest Rate Swaps – fair value through profit or loss	9	(6)
	15	(12)

The Company mainly employs three types of derivative financial instruments when managing its currency and interest rate risk:

- Foreign exchange swap contracts are derivative instruments used to hedge income statement translation risk arising from short-term intercompany loans denominated in a foreign currency.
- Forward foreign exchange contracts are derivative instruments used to hedge transaction risk so they enable the sale or purchase of foreign currency at a known fixed rate on an agreed future date.
- Interest rate swaps are derivative instruments that exchange a fixed rate of interest for a floating rate or vice-versa or one type of floating interest rate for another and are used to manage interest rate risk.
- 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.

Cash flow hedges

The Group applies hedge accounting for certain foreign currency firm commitments and highly probably cash flows where the underlying cash flows are payable within the next two to seven years. In order to fix the sterling cash inflows and outflows associated with the commitments and interest payments – which are mainly denominated in AUD or euros – the Group has taken out forward foreign exchange contracts and cross currency interest swaps for the same foreign currency amount and maturity date as the expected foreign currency outflow.

On issuing the 2023 Eurobond, the Group entered into a portfolio of cross-currency interest rate swaps, which swapped the euro principal and fixed rate coupons into sterling. In result the Group makes sterling interest payments at a fixed rate.

The amount recognised in other comprehensive income during the period all relates to the effective portion of the revaluation loss associated with these contracts. There was less than £1 million (2015: £1 million) ineffectiveness taken to the income statement and £2 million cumulative gain (2015: £6 million loss) recycled to the income statement in the year.

Interest rate swaps

On issuing the 2017 Eurobond, the Company entered into a portfolio of fixed to floating interest rate swaps and then subsequently overlaid a portfolio of floating to fixed interest rate swaps with the result that interest was 100% fixed on these borrowings. The timing of entering into these swaps locked in an interest benefit for the Company, resulting in a net mark-to-market gain on the portfolio.

Undiscounted financial liabilities

The Company is required to disclose the expected timings of cash outflows for each of its derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the amounts disclosed on the statement of financial position.

At 31 December 2016	Carrying value £m	Total Contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-current and current						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	11	393	237	156	–	–
Outflow	(10)	(392)	(237)	(155)	–	–
Cross currency swaps – cash flow hedges						
Inflow	–	497	10	10	30	447
Outflow	(6)	(542)	(17)	(17)	(51)	(457)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	412	412	402	10	–	–
Outflow	(412)	(412)	(402)	(10)	–	–
Interest Rate Swaps – fair value through profit or loss						
Inflow	–	13	13	–	–	–
Outflow	–	(6)	(6)	–	–	–
	(5)	(37)	–	(6)	(21)	(10)

At 31 December 2015	Carrying value £m	Total Contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-current and current						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	3	136	102	34	–	–
Outflow	(4)	(136)	(102)	(34)	–	–
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	3	253	248	5	–	–
Outflow	(2)	(252)	(247)	(5)	–	–
Interest Rate Swaps – fair value through profit or loss						
Inflow	9	22	9	13	–	–
Outflow	(6)	(12)	(6)	(6)	–	–
	3	11	4	7	–	–

Notes to the ITV plc Company Financial Statements
continued

Note vii
Share capital

		Authorised 2016 & 2015 £m	Allotted, issued and fully paid 2016 & 2015 £m
Authorised ordinary shares of 10 pence each	8,000,000,000	800	
Allotted, issued and fully paid ordinary shares of 10 pence each	4,025,409,194		403
Total		**800**	**403**

The Company's ordinary shares give shareholders equal rights to vote, receive dividends and to the repayment of capital.

Note viii
Equity and dividends

Keeping it simple

ITV plc is a non-trading investment holding company and derives its profits from dividends paid by subsidiary companies.

The Directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results and do so in the context of its ability to continue as a going concern, to execute the strategy and to 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 on pages 38 to 46 that could have a negative impact on the performance of the Group.

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, 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 statements),
- Future cash commitments and investment plans, in line with Group's strategic plan.

Equity
The retained earnings reserve includes profit after tax for the year of £1,475 million (2015: £671 million profit) which includes dividends of £1,500 million from subsidiaries in 2016 (2015: £700 million). Other reserves of £28 million (2015: £36 million) relate to share-buy backs in prior periods and foreign currency translation net of cashflow hedging.

Dividends
The Directors of the Company propose a final dividend of 7.2p per share and a special dividend of 5p per share.

Distributable reserves
The distributable reserves of ITV plc approximate to the balance of the retained earnings reserve of £1,702 million as at 31 December 2016.

Note ix
Contingent liabilities

Keeping it simple

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty may exist regarding the outcome of future events.

Under a Group registration, the Company is jointly and severally liable for VAT at 31 December 2016 of £47 million (31 December 2015: £59 million). The Company has guaranteed certain finance and operating lease obligations of subsidiary undertakings.

There are contingent liabilities in respect of certain litigation and guarantees, broadcasting issues, and in respect of warranties given in connection with certain disposals of businesses. None of these items are expected to have a material effect on the Company's results or financial position.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Note x Capital and other commitments

There are no capital commitments at 31 December 2016 (2015: none).

Note xi Related party transactions

Keeping it simple

The related parties identified by the Directors include solely key management, as ITV plc is a holding company with no commercial activity.

To enable the users of the financial statements 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 key management personnel

Key management consists of ITV plc Executive Directors.

Key management personnel compensation, on an accounting basis, is as follows:

	2016 £m	2015 £m
Short-term employee benefits	3	3
Share-based compensation	2	3
	5	6

Total emoluments and gains on share options received by key management personnel in the year were:

	2016 £m	2015 £m
Emoluments	3	3
Gains on exercise of share options	2	3
Gains on release of restricted share awards	2	3
	7	9

Note xii Subsequent events

Keeping it simple

Where the Group receives information in the period between 31 December 2016 and the date of this report about conditions related to certain events that existed at 31 December 2016, we update our disclosures that relate to those conditions in light of the new information. Such events can be categorised as adjusting or non-adjusting depending on whether the condition existed at 31 December 2016. If non-adjusting events are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, for each material category of non-adjusting event after the reporting period we disclose in this section the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

On 5 January 2017 the £161 Eurobond matured and the Group repaid the capital amount. The related interest rate swap contracts were settled at the same time. The bond was refinanced earlier in December 2016.