ITV set for continued growth after another strong year

Full year results for the year ended 31 December 2014

Another year of strong revenue growth in all parts of the business

- Total external revenue up 8% to £2,590 million (2013: £2,389 million)
- 6% growth in Net Advertising Revenue to £1,629 million (2013: £1,542 million)
- Online, Pay & Interactive revenue up 30% to £153 million (2013: £118 million)
- ITV Studios revenue up 9% to £933 million (2013: £857 million)

Fifth consecutive year of double digit profit growth

- EBITA before exceptional items up 18%, to £730 million (2013: £620 million)
- Broadcast & Online EBITA up 17% to £568 million (2013: £487 million)
- ITV Studios EBITA up 22% to £162 million (2013: £133 million)
- Adjusted PBT up 23% to £712 million (2013: £581 million)
- Adjusted EPS up 23% to 13.8p (2013: 11.2p)

Delivering value from investment in quality content — ITV Studios, on screen and online

- Non-NAR revenue up £116m, or 10%, to £1,327 million (2013: £1,211 million) – now 45% of total revenue
- ITV Studios is now a global player of scale with 3 further international acquisitions in 2014
- Online, Pay & Interactive revenue is a growing and profitable part of the business
- Broadcast launched our first new channels in almost a decade
- ITV Family SOV was down 5%, after 4% growth 2013, and this remains a key area of focus for 2015
- Continued strong growth in video on demand, up 26%

Confident in delivering further strong growth in 2015

- Expect another strong performance in 2015 with continued revenue growth in all parts of the business
- NAR expected to be up 11% in Q1 and up 4-7% in April and we expect to outperform the market again over the full year
- Online, Pay & Interactive revenue will continue to grow strongly
- ITV Studios again expected to deliver around £100 million revenue growth on a constant currency basis in 2015 with a return to good organic growth

Clear opportunities for further investment while increasing shareholder returns

- Reflecting our confidence in the ongoing growth and cash generation of the business, the Board is proposing a final dividend of 3.3p per share, giving a full year dividend of 4.7p per share, up 34%
- The Board is proposing a £250m special dividend of 6.25p per share

Adam Crozier, ITV Chief Executive, said:

ITV delivered another strong performance in 2014 as we continue to rebalance the business, drive new revenue streams and invest in our future growth. All parts of the business are progressing well with Group external revenue up 8% to £2.6 billion, and for the fifth year in a row we achieved double digit profit growth, up 18% to £730 million. Across ITV we maintained our emphasis on cash generation, cost control and improving margins as we continued to strengthen ITV creatively, commercially and financially.

Non advertising revenue rose 10% to £1.3 billion, driven by a 30% increase in Online, Pay & Interactive, and by our continuing investment in quality content and creative talent in ITV Studios globally.

ITV Studios performed well, with revenue up 9% to £933 million, primarily from our acquisitions, and profit up 22% to £162 million. ITV Studios is now well established as a global business, with international production revenue up 24% and almost half its total revenue coming from outside the UK. It is the largest unscripted independent production company in the US following the acquisition during the year of Leftfield Entertainment and DiGa Vision, which join our expanding family of production companies. Both in the UK and the US we remain fully focused on growing our capability in high quality drama and we're beginning to build a presence in digital content through investments in Indigenous Media, Believe Entertainment and Zealot Networks.

Our Broadcast business had a strong year with profit up 17% to £568 million and advertising revenue up 6% to £1,629 million, well ahead of the TV advertising market and our strongest outperformance of the market for five years. We launched our first new channels in almost a decade - ITV Encore, our first pay only channel, and ITVBe, a free-to-air channel focusing on a young female audience.

While our share of viewing on linear TV was down in 2014, we are firmly focused on improving viewing this year. Up and coming new dramas include Jekyll & Hyde, Home Fires, Arthur & George, The Trials of Jimmy Rose, The Forgotten and Safe House as well as the return of Doc Martin, Prey, Downton Abbey and Vera. Thunderbirds Are Go is back on our screens this spring – and we have the exclusive rights to the Rugby World Cup which takes place in the UK this autumn.

An increasingly important, profitable and high margin part of our business is Online, Pay & Interactive. In 2014 our video on demand viewing was up 26% as we further improved the quality and distribution of ITV Player, which is available on more platforms than ever before, most recently Windows Phone 8 and Amazon Kindle Fire. ITV is well placed to take advantage of the growth in viewing on connected TVs, including through our investments in YouView, Freeview Play and Freesat.

For 2015 we're confident of further good revenue growth in all parts of ITV. In ITV Studios we'll again see upside from our acquired businesses as well as a return to good organic growth as we continue to invest in creative talent and content. In our Broadcast business, Online, Pay & Interactive will deliver another strong performance and we expect again to outperform the TV advertising market.

Reflecting our confidence in the ongoing growth and cash generation of the business, the Board has committed to grow the full year ordinary dividend by at least 20% per annum for three years to 2016, by when we will achieve a dividend cover of between 2.0 and 2.5 times adjusted earnings per share. In line with this policy, the Board is proposing a final dividend for 2014 of 3.3p, which equates to a full year dividend of 4.7p (2013: 3.5p), up 34%.

ITV is now a more balanced business with strong underlying cash flows. As we enter the next phase of our strategy we continue to see investment opportunities to grow the business and enhance shareholder value but at the same time the Board recognises the importance of maintaining capital discipline and balance sheet efficiency. Therefore it is appropriate over time to increase our balance sheet leverage gradually while retaining the flexibility to continue to invest.

In line with this approach, the Board is proposing a £250 million return to shareholders by way of a special dividend of 6.25p.

ITV is now a high growth business with increasing emphasis on international content creation and distribution, and is demonstrably much stronger, both creatively and financially, than when we set out on our five year plan. We remain firmly focused on our strategy and look forward to this year and beyond with enthusiasm and confidence.

Full year results

Twelve months ended 31 December (£ million)	2014	2013	Change £m	Change %
Broadcast & Online revenue	2,023	1,896	127	7
ITV Studios revenue	933	857	76	9
Total revenue	**2,956**	**2,753**	**203**	**7**
Internal supply	(366)	(364)	(2)	1
Group external revenue	**2,590**	**2,389**	**201**	**8**
Broadcast & Online EBITA	568	487	81	17
ITV Studios EBITA	162	133	29	22
EBITA before exceptional items	**730**	**620**	**110**	**18**
EBITA margin	**28%**	**26%**		
Adjusted profit before tax	**712**	**581**	**131**	**23**
Adjusted profit after tax	**561**	**445**	**116**	**26**
Adjusted earning per share (EPS)	**13.8p**	**11.2p**	**2.6p**	**23**
Dividend per share	**4.7p**	**3.5p**	**1.2p**	**34**

Adjusted profit before tax and adjusted EPS remove the effect of exceptional items. These include acquisition related costs, impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments, restructuring costs and other tax adjustments.

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

Twelve months ended 31 December (£ million)	2014	2013	Change £m	Change %
Profit before tax	**605**	435	170	39
EPS	**11.6p**	8.3p	3.3p	40
Diluted EPS	**11.5p**	8.1p	3.4p	42

Financial performance

We have delivered another strong performance in 2014, with revenue growth in all parts of the business. Together with our relentless focus on cash and costs, we are reporting our fifth consecutive year of double digit profit growth and end the year with a strong balance sheet providing the flexibility to invest for further growth in 2015 and beyond.

Total ITV revenue increased 7% in 2014 to £2,956 million (2013: £2,753 million), with external revenue up 8% at £2,590 million (2013: £2,389 million). This reflects 6% growth in net advertising revenue (NAR) and another year of double digit growth in non-NAR, up 10% to £1,327 million (2013: £1,211 million) as we further rebalanced the business. Non-NAR now accounts for 45% (2013: 44%) of total revenue.

Together with our higher margin new revenue streams and disciplined cost control we delivered 18% growth in EBITA to £730 million (2013: £620 million), corresponding to an improved EBITA margin of 28% (2013: 26%). Overall, adjusted EPS was up 23% to 13.8p (2013: 11.2p).

Broadcast & Online

Broadcast & Online delivered another strong performance with revenue up £127 million to £2,023 million (2013: £1,896 million) driven by 6% growth in NAR and continued strong growth in Online, Pay & Interactive revenue.

The advertising market showed continued improvement in 2014 with good growth across the major advertising categories. We increased our share of broadcast to 45.9% (2013: 45.4%) and delivered our strongest outperformance of the UK advertising market in five years, based on our estimate of the pure spot market. Advertising growth was geared towards the second quarter with increased spend around the World Cup and, while we expect to outperform the advertising market again in 2015 there will be fluctuations across the year driven by major events such as the Rugby World Cup and the timing of Easter.

ITV Family SOV declined 5% in 2014, following a strong year in 2013 when we were up 4%. This largely reflects a 4% decline in the ITV main channel SOV. Although benefitting from the World Cup in June, the main channel delivered a lower audience share against strong competition from the BBC. ITV2 also contributed to the decline, partly as a result of more competition from new UK digital channels in the year, but also due to our repositioning of the channel to provide more targeted audiences for our advertisers through the launch of ITVBe. We remain focused on improving viewing performance, both on screen and online.

Online, Pay & Interactive revenue increased 30% in 2014 to £153 million (2013: £118 million) as we further improved the quality, reliability and distribution of ITV Player, now available on over 20 platforms. We also continued to develop our pay services, renewing a number of deals in 2014, as well as launching our first pay only channel, ITV Encore.

Schedule costs were up £35 million year on year to £1,018 million (2013: £983 million) as a result of the World Cup and also increased programming spend relating to our new channels. Other Broadcast & Online costs increased modestly, up 2% year on year to £437 million (2013: £426 million), due to marketing costs around our new channels as well as online investment. We continue to manage our overheads tightly to mitigate inflationary pressures and to fund continued investment in the business.

Overall, reflecting the strong growth in higher margin Online and Pay revenue, as well as good growth in our highly geared advertising revenue, Broadcast & Online EBITA was up 17% at £568 million (2013: £487 million) while the Broadcast & Online EBITA margin increased 2% to 28%.

ITV Studios

In 2014 we again delivered strong revenue growth in ITV Studios as we continue to build scale in attractive content markets. Total revenue increased 9% to £933 million (2013: £857 million) reflecting our purchase of Leftfield Entertainment and growth in international production and distribution as we become a more global business. Excluding our current and prior year acquisitions as well as foreign exchange movements, organic revenue was up 1%. A decline in the UK, due to the proportion of the ITV Broadcast programme budget allocated to the World Cup reducing the available spend on other programme genres including drama and entertainment, was offset by growth from our international production companies and Global Entertainment.

We completed three acquisitions in 2014, further growing our portfolio of global production companies. In February 2014 we acquired 100% of United Production, a Danish producer of entertainment and reality programmes, and a 51% controlling interest in DiGa, a US independent producer of reality and scripted programming. There is a put and call option to buy the remainder of DiGa over three to six years, with the total amount payable linked to the performance of the company over that period. In May 2014 we made the acquisition of Leftfield Entertainment, a high margin US production company. We made an initial cash payment of $360 million for 80% of Leftfield, with further potential payments dependent upon Leftfield's continued delivery of significant profit growth. There are put and call options in place to buy the remaining 20% of Leftfield over three to five years. This acquisition, our largest to date, represents a major step forward in our strategy as we grow an international content business of scale.

Overall ITV Studios EBITA increased 22% to £162 million (2013: £133 million) and its EBITA margin increased by 1% to 17%, benefitting from a higher margin revenue mix as a result of our acquisitions, as well as production efficiencies in the year.

Adjusted EPS

Adjusted profit before tax, after financing costs, was up 23% at £712 million (2013: £581 million). Adjusted financing costs reduced £18 million in the year to £7 million (2013: £25 million) benefitting from the redemption of the 2016 convertible bond outstanding in 2013 and the repurchase of the remaining tranche of the 2019 bilateral loan in January 2014.

The total tax charge for 2014 was £132 million (2013: £105 million), corresponding to an effective tax rate on adjusted profit before tax of £712 million of 21% (2013: 23%), which is broadly in line with the standard corporation tax rate of 21.5% (2013: 23.3%).

Overall, adjusted profit after tax was up 26% at £561 million (2013: £445 million). After non-controlling interests of £7 million (2013: £4 million), adjusted EPS was 13.8p (2013: 11.2p), up 23%. The weighted average number of shares increased 2% to 4,002 million (2013: 3,929 million) largely due to the issue of shares following the convertible bond redemption in 2013. Diluted adjusted EPS in 2014 was 13.7p (2013: 10.8p) reflecting a weighted average diluted number of shares of 4,040 million (2013: 4,111 million).

Basic EPS

After adjustments for exceptional items including acquisition related costs, impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments and other tax adjustments, basic EPS increased 40% to 11.6p (2013: 8.3p).

Balance sheet and cash flow

ITV maintained its strong cash generation and tight management of working capital balances in the year, generating £665 million (2013: £604 million) of operational cash from £730 million (2013: £620 million) of EBITA before exceptional items. This equates to a strong profit to cash ratio of 91%. Our underlying cash generation after payments for interest paid, cash tax and pension funding also remained strong in the year. Free cash flow was up 10% at £478 million (2013: £433 million), slightly lower than the profit growth in the year as a result of our investments in scripted drama.

Overall, after dividends, acquisitions and debt repayments we ended the year with net cash of £41 million, compared to net debt of £201 million at 30 June 2014 and £164 million net cash at 31 December 2013. Our cash generation was weighted towards the second half of 2014 due to the timing of our pension funding contribution, debt buybacks and acquisition of Leftfield, all of which took place in the first half.

We also look at an adjusted measure of net debt, taking into consideration all of our financial commitments. At 31 December 2014, adjusted net debt was broadly in line with the prior year at £765 million (31 December 2013: £792 million) reflecting a reduction in the pension deficit under IAS 19 and lower undiscounted operating lease commitments which mainly relate to broadcast transmission contracts and property.

In 2014 we again bought back debt to improve our balance sheet efficiency further, repurchasing the remaining tranche of the 2019 bilateral loan.

We also entered into a number of new financing facilities. We obtained a committed £525 million Revolving Credit Facility provided by a number of core relationship banks in the year and also entered into a new £175 million bilateral financing facility and agreed a new £75 million invoice discounting facility, both free of financial covenants. As at 31 December 2014 all three facilities were undrawn.

As we enter the next phase of our strategy this financial flexibility and our continued strong free cash flow will enable us to invest in opportunities to grow the business and enhance shareholder value.

Going forward our objective is to run an efficient balance sheet, and to balance investment for further growth with attractive returns to shareholders. Therefore we will, over time, look to increase our balance sheet leverage. We believe that maintaining leverage below 1.5× net debt to EBITDA (before exceptionals) will optimise our cost of capital, allow us to sustain our progressive dividend policy and enable us to retain flexibility to continue to invest for further growth.

Pension

The aggregate IAS 19 deficit of the defined benefit schemes at 31 December 2014 was £346 million (31 December 2013: £445 million) reflecting pension funding contributions in March and April of £91 million. An increase in the pension liabilities, as a result of a fall in the discount rate used to measure liabilities, was offset by asset outperformance, primarily gilts and swaps.

2015 planning assumptions

- Total network programme budget is expected to be around £1,040 million reflecting our two new channels
- Adjusted interest is expected to be at the same level as 2014 as a result of the impact of debt buybacks
- Effective tax rate is expected to be 21%, consistent with 2014
- Capex is expected to remain around £40–£45 million annually
- Profit to cash conversion is expected to be around 85% due to investment in scripted content
- Pension deficit funding will not exceed contributions made in 2014

Outlook for 2015

We expect to deliver another strong performance in 2015 with continued revenue growth across all parts of the business.

The television advertising outlook remains positive. ITV Family NAR is expected to be up 11% in in Q1 and 4-7% in April and we expect to outperform our estimate of the television advertising market again over the full year. We remain focused on improving SOV and we are increasing investment in our programme schedule in 2015 to support a full year of our new channels as well as overall viewing performance.

Online, Pay & Interactive revenue will continue to grow strongly as we further improve the distribution of our content, capitalising on the growing demand for VOD. We will continue to invest in ITV Player and look to grow the level of interaction and engagement with our viewers through competitions, voting and social media while at the same time exploring new pay services, such as ITV Encore.

In 2015 we expect ITV Studios again to deliver around £100 million of revenue growth on a constant currency basis, with a return to good organic growth supported by a full year of the acquisitions we completed in 2014. We will start to see the benefit of our investment in scripted content and we will look to continue to develop our creative pipeline through further investment in creative talent and content.

Notes to editors

1. Unless otherwise stated, all financial figures refer to the twelve month period ended 31 December 2014, with growth compared to the same period in 2013.

2. Group external revenue

Twelve months ended 31 December (£ million)	**2014**	2013	Change £m	Change %
ITV Family NAR	**1,629**	1,542	87	6
Non-NAR	**1,327**	1,211	116	10
Internal supply	**(366)**	(364)	(2)	1
Group external revenue	**2,590**	2,389	201	8

3. ITV Family NAR was up 14% in January and up 13% in February. We expect it to be up 8% in March, with Q1 up 11% and April to be up 4-7%. This revenue is pure NAR, excluding the benefit of sponsorship revenue and video on demand.

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

4. Broadcast & Online performance indicators

Twelve months ended 31 December	**2014**	2013	%
ITV Family SOV	**22.0%**	23.1%	(5)
ITV SOV	**15.6%**	16.2%	(4)
ITV Family SOCI	**36.2%**	38.3%	(5)
ITV SOCI	**25.0%**	26.5%	(6)
ITV adult impacts	**220bn**	240bn	(8)
Total long form video requests (all platforms)	**726m**	577m	26

   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. Total long form video requests across all platforms are based on data from ComScore Digital Analytix, Virgin, BT, iTunes, Amazon Prime Instant Video, Netflix, Sky, 3UK and Hospedia and include simulcast.

5. ITV Studios revenue summary

Twelve months ended 31 December (£ million)	**2014**	2013	Change	Change %	Organic* %
Studios UK	**459**	456	3	1	(4)
Studios US	**235**	175	60	34	5
Studios RoW	**95**	91	4	4	7
Global Entertainment	**144**	135	9	7	10
Total Studios revenue	**933**	857	76	9	1

   * At constant currencies and excluding revenue from 2013 and 2014 acquisitions

6. As we grow our international business, foreign exchange movements increasingly impact our reported performance. Total ITV Studios revenue, including acquisitions, would have been £22 million higher and EBITA £5 million higher on a constant currency basis. Our definition of constant currency assumes exchange rates remain consistent with 2013.

7. The final dividend and special dividend for 2014 will be paid on 29 May 2015. The ex dividend date is 30 April 2015 and the record date is 1 May 2015.

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

   Undue reliance should not be placed on forward looking statements which speak only as of the date of this document. The Group accepts no obligation to 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.

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Chief Executive's Review

ITV delivered another strong performance in 2014 building on the significant progress we have made rebalancing, strengthening and growing the business. We have recorded double digit profit growth for the fifth consecutive year reflecting growth across all areas of the business.

It's been five years since we launched our strategy for growth and, despite challenging economic conditions and the rapidly changing media landscape, performance has improved in every part of the business. Since 2009, ITV external revenue has increased 38%, EBITA before exceptional items is up over 250% to £730 million and we have increased adjusted EPS over 650% and basic EPS by over 400%. Our cash position has also significantly improved, enabling us to deliver attractive shareholder returns, with over £650 million cash returned over five years, while continuing to invest for further growth.

ITV today is a much stronger business, creatively, commercially and financially and we've made good progress on revenue diversification as we have rebalanced the business away from our dependence on UK spot advertising. Our international content business, ITV Studios, is now a global player of scale, with almost half its revenue generated outside the UK, and we will continue to grow the business both organically and through targeted acquisitions in key creative markets. Our Broadcast business remains robust and continues to deliver unrivalled audience reach for advertisers, while Online, Pay & Interactive revenue is growing strongly and is now a material and profitable part of the business.

As we continue to execute our strategy, we remain focused on our original vision of ITV as an owner and producer of world-class content. We will continue to rebalance the business and grow new revenue streams and there will be increasing emphasis on international content creation and distribution. Our renewed strategic priorities are therefore a natural evolution of our current strategy, focusing on the areas where we can achieve most growth:

1. **Maximise audience and revenue share from free-to-air broadcast and VOD business**
2. **Grow international content business**
3. **Build a global pay and distribution business**

We are confident that by maximising our value as an integrated producer broadcaster and making our content famous on our multiple platforms before distributing it around the world, we will continue to deliver strong growth in the UK and internationally.

Delivering value from investment in quality content

In 2014 we grew external revenue by 8% to £2,590 million, reflecting 6% growth in NAR to £1,629 million (2013: £1,542 million) and over £100 million growth in non-NAR to £1,327 million (2013: £1,211 million), up 10%. We have remained disciplined in our cost control, with the result that Group EBITA before exceptional items increased 18% to £730 million (2013: £620 million), corresponding to an improved EBITA margin of 28% (2013: 26%). Overall we have delivered another strong performance, with adjusted EPS up 23% to 13.8p (2013: 11.2p), and basic EPS up 40% to 11.6p (2013: 8.3p).

Broadcast & Online revenue was up by £127 million or 7% to £2,023 million (2013: £1,896 million), with EBITA before exceptional items increasing 17% to £568 million (2013: £487 million). The advertising market showed continued improvement in 2014 with good growth across the major categories. NAR was up 6% over the full year, reflecting our best outperformance of the UK advertising market for five years.

Over the year we also strengthened the ITV Family with the launch of our first new channels in almost a decade. ITV Encore, a new pay channel, has been on screen since June, while ITVBe, a free-to-air channel targeted at a young female demographic, launched in October.

ITV Family SOV declined 5% in 2014, following a strong year in 2013 when we were up 4%. This largely reflects a 4% decline in the ITV main channel SOV. Although benefitting from the World Cup in June, the main channel delivered a lower audience share against strong competition from the BBC. ITV2 also contributed to the decline, partly as a result of more competition from new UK digital channels in the year, but also due to our repositioning of the channel to provide more targeted audiences for our advertisers through the launch of ITVBe. We remain focused on improving viewing performance, both on screen and online.

Significant further progress in rebalancing the business and driving new revenue streams

Online, Pay & Interactive is an increasingly important, profitable and high margin part of the business. Revenue increased 30% in 2014 driven by growth in Online as we further improved the quality, reliability and distribution of ITV Player, as well as strong growth in Pay as we develop new revenue streams.

ITV Studios also continues to perform well as we build scale in attractive content markets. Total revenue increased 9% in 2014 to £933 million (2013: £857 million) reflecting our purchase of Leftfield Entertainment (Leftfield) as well as growth in international production and distribution. Following this acquisition, ITV is now the largest unscripted independent production company in the US and an increasingly international business with almost half of ITV Studios revenue generated outside the UK. In 2014 we delivered a 22% increase in ITV Studios EBITA before exceptional items to £162 million (2013: £133 million).

Clear opportunities for further investment while increasing shareholder returns

Over the last five years we have considerably improved ITV's balance sheet efficiency and in 2014 we continued to demonstrate strong profit to cash conversion, generating £478 million free cash (2013: £433 million) before investment and capital returns to end the year with net cash of £41 million (31 December 2013: £164 million).

Reflecting our confidence in the ongoing growth and cash generation of the business, the Board has committed to growing the full year ordinary dividend by at least 20% per annum for three years to 2016, by when we will achieve a dividend cover of between 2.0 and 2.5 times adjusted earnings per share. In line with this policy, the Board is proposing a final dividend for 2014 of 3.3p, which equates to a full year dividend of 4.7p (2013: 3.5p), up 34%.

ITV is now a more balanced business with strong underlying cash flows. As we enter the next phase of our strategy we continue to see investment opportunities to grow the business and enhance shareholder value but at the same time the Board recognises the importance of maintaining capital discipline and balance sheet efficiency. Therefore it is appropriate over time to increase our balance sheet leverage gradually while retaining the flexibility to continue to invest.

In line with this approach, the Board is proposing a £250 million return to shareholders by way of a special dividend of 6.25p.

Remaining responsive to a changing media environment

While the market environment in which we operate is constantly changing, it is clear that there continues to be a strong global demand for high quality content. ITV is capitalising on this demand as we further diversify our revenue streams through our investment in creative talent and production and through our unique ability to distribute content across multiple platforms, both free and pay.

We are also aware that viewers, especially the younger generation, are increasingly changing the way they consume content. The digital revolution has dramatically increased the number of devices and platforms on which content is viewed, and Online is now one of the fastest growing businesses within ITV. In response, we continue to invest in the quality and accessibility of ITV Player, available on over 20 platforms, as well as seeking new ways to monetise and distribute our content.

At the same time, although VOD is growing rapidly, viewing of broadcaster and other VOD still only accounts for around 5% of total viewing of long form content. On average viewers still spend 221 minutes per day watching television, the same as in 2004 (2004: 222 minutes), with the majority of content still watched live. Unlike any other medium, television has the power to bring audiences together and live television in particular has demonstrated resilience and a growing relevance as viewers increasingly connect through social media.

Television also remains the most efficient and effective way for brands to achieve mass simultaneous reach. ITV is the biggest marketing platform in the UK, reaching around 80% of the television owning population every week and providing access to 99% of all commercial audiences over five million. As a result our family of channels continues to be in high demand from advertisers, and the significant profit and cash generated from our advertising revenue means that our Broadcast business remains central to our strategy.

In our view, technological advances in the availability and delivery of content will serve to support overall viewing time growth as we provide our viewers with access to a wider range of sought after content. ITV is well positioned to benefit from our commercial scale, the growing demand for high quality content, and the way we are able to maximise our revenue from the delivery and distribution of that content.

Confident in delivering further strong growth in 2015 and beyond

We expect to deliver another strong performance in 2015 with continued revenue growth across all parts of the business.

The television advertising outlook remains positive with the economic recovery driving advertising growth. ITV Family NAR is expected to be up 11% in the first quarter of 2015 and up 4-7% in April and, based on our estimates, we expect to outperform the television advertising market again over the full year. We remain focused on improving SOV and we will continue to invest in our programme schedule in 2015 to support a full year of our new channels as well as overall viewing performance on screen and online.

New dramas in 2015 include Jekyll and Hyde, Home Fires, Arthur and George and we'll also have the return of Doc Martin, Downton Abbey and Vera as well as the launch of Thunderbirds Are Go. Although we are disappointed that we will no longer hold the live rights for the Champions League from autumn, we still have a strong sporting schedule in 2015 including exclusive rights to the Rugby World Cup.

Online, Pay & Interactive revenue will continue to grow strongly as we further improve the distribution of our content, capitalising on the growing demand for VOD. We will continue to invest in ITV Player and look to grow the level of interaction and engagement with our viewers while at the same time exploring new pay services, such as ITV Encore.

In 2015 we expect ITV Studios again to deliver around £100 million of revenue growth on a constant currency basis, with a return to good organic growth supported by a full year of the acquisitions we completed in 2014. We will start to see the benefit of our investment in scripted content and we will look to continue to develop our pipeline through further investment in creative talent and content.

Overall, we see clear opportunities for further investment across the business and, benefitting from our strong financial position and cash conversion, we are confident in delivering continued growth while improving shareholder returns. The media landscape is changing rapidly and we increasingly expect growth to come from international content creation and our online, pay and distribution operations.

To ensure we maximise the value of our investment in high quality content, in the medium term we will continue to drive the debate around the implementation of retransmission fees in the UK, in particular the repeal of legislation that currently prevents us from having a normal commercial negotiation with the pay television platforms.

We are confident that ITV's financial strength and its strategic advantages including the scale of our UK channels, our unrivalled commercial audience reach, our growing global network in the development, production and distribution of content, as well as the quality of our people, places us in a strong position to continue to develop and grow the business.

Performance Dashboard

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

Milestones achieved

- ITV NAR growth of 6%, our best outperformance of the UK advertising market in five years
- Share of broadcast up to 45.9% in 2014 (2013: 45.4%)
- Innovative sponsorship and brand extension partnerships with advertisers
- Launched new free-to-air channel ITVBe providing a more targeted female demographic for our advertisers
- ITV2 and ITV3 largest digital channels
- Long form video requests up 26%
- Further improved quality and reach of ITV Player
- 8.0m registered users of ITV Player, up 129% in 2014

Focus for 2015

- Economic recovery driving advertising growth
- Improve on screen viewing in key demographics
- Strengthen our content, channels and brand to maintain our unique scale
- Grow our share of total television and VOD advertising
- Continue to drive new revenue streams through sponsorship, interactivity and brand extensions
- Support platforms that make ITV content prominent
- Further invest in the quality and distribution of ITV Player

Key Performance Indicators

- ITV Family SOV
- ITV Family SOCI
- ITV Family share of broadcast
- Total long form video requests

2 Grow international content business

Milestones achieved

- ITV Studios' share of ITV main channel output increased to 60%
- 13% growth in off-ITV production revenue in the UK
- Continued investment in creative pipeline with 5,700 hours of original content produced and delivered
- Completed three acquisitions including Leftfield, our biggest acquisition to date
- Now the largest unscripted independent producer in the US
- Almost half of ITV Studios revenue generated outside the UK with 24% growth in international production revenue
- Three US scripted series in production

Focus for 2015

- Continue to develop IP in key creative markets to exploit growing worldwide demand
- Maximise the use of our strong cash flows to finance the production of high profile dramas that return and travel
- Over time build a portfolio with six to ten new scripted series per annum
- Develop more 16 to 24 focused content
- Attract and retain key creative talent
- Continue to look at acquisitions

Key Performance Indicators

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

3 Build a global pay and distribution business

Milestones achieved

- Grew pay revenue by 63%
- Launched ITV Encore, our first pay only channel which was profitable from day one
- Announced new deal with Sky and extended Virgin deal for another year
- Continuing to trial direct to consumer pay opportunities
- Invested in three digital content businesses: Believe, Indigenous and Zealot
- Invested in Cirkus, a subscription VOD service for the Nordics
- Launched 12 YouTube channels focusing on short form content
- A leading European distributor of content with Mr Selfridge, Lewis and Hell's Kitchen US sold to over 150 countries
- 12 formats sold to three or more countries

Focus for 2015

- Explore new models for content creation
- Develop new pay services and channels to take advantage of demand in the UK and internationally
- Consider wider partnerships with OTT / VOD players
- Secure retransmission fees in the medium term
- Scale international distribution business
- Invest in developing third party distribution deals
- Package and sell our content to maximise its value

Key Performance Indicators

- Number of new commissions for ITV Studios

Key Performance Indicators across all three priorities

Our Key Performance Indicators (KPIs) align our performance and accountability to our strategy of continuing to develop a creative, commercial and global organisation. Five KPIs measure the Group's operational and financial performance across all three priorities:

EBITA before exceptional items

Adjusted EPS

Profit to cash conversion

Non-NAR revenue

Employee Engagement

Strategic Priority 1

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

ITV has unique scale, delivering 99% of all commercial audiences over five million. We invest over £1 billion annually in our programming, significantly more than our commercial competitors, and have an unrivalled ability to deliver mass audiences across all demographics for our advertisers. This scale and the strength of our brand underpin the success of our free-to-air and on demand platforms.

Robust broadcast business remains central to our strategy

While the media environment is changing rapidly, our broadcast business has performed consistently well over the last few years and has generated significant profit and cash, supported by our strong programme schedule, tight cost control and a sustained recovery in the UK advertising market. Since 2009 we have maintained our market leading position as the only commercial broadcaster consistently able to deliver mass audiences to our advertisers, and over this period we have grown our share of broadcast from 44.7% to 45.9% in 2014.

During this time, traditional linear television viewing has remained resilient, despite significant changes in the availability and delivery of content. Average television viewing is the same as it was ten years ago, at 221 minutes per person per day compared to 222 minutes in 2004, and the majority of viewing is still live. The viewer experience has been improved by a greater choice of channels and greater flexibility in delivery, fuelling demand for high quality content that has the power to engage and bring audiences together.

Television remains the most efficient and effective way for brands to achieve mass simultaneous reach and ITV, as the biggest marketing platform in the UK, continues to be in high demand from advertisers. In 2014, ITV Family NAR grew by 6% with growth across the major categories, supporting our best outperformance of the advertising market for five years.

In addition to the ITV main channel delivering mass audiences we also deliver targeted audiences to our advertisers through our digital channels. ITV4 had a strong year in 2014 attracting male audiences, which are hard to reach, with live sport and movies. ITV2 and ITV3 remain the largest digital channels in the UK and our ambition is to have the most watched, most loved and most talked about family of channels for every household and every advertiser in the UK.

Our portfolio was further strengthened in the year by the launch of ITVBe in October, targeted at a young female audience and now the home to The Only Way Is Essex. This enabled us to reposition ITV2 for a more targeted younger audience who remain an important part of our commercial proposition as we look to grow our viewing and revenue share across all demographics.

Ongoing focus on improving viewing performance

Our family of channels provides an important platform to make ITV content famous before exploiting it internationally. We therefore remain very focused on improving on screen performance to ensure we continue to deliver mass audiences through standout content that underpins our brand.

ITV Family SOV declined 5% in 2014, following a strong year in 2013 when we were up 4%. This largely reflects a 4% decline in the ITV main channel SOV. Although benefitting from the World Cup in June, the main channel delivered a lower audience share against strong competition from the BBC. ITV2 also contributed to the decline, partly as a result of more competition from new digital channels in the year, but also due to our repositioning of the channel to provide more targeted audiences for our advertisers through the launch of ITVBe. ITV Family SOCI was down 5%, with the ITV main channel down 6%.

Despite this, we still enjoyed some real successes this year, airing the most watched programme of 2014 with the England vs Uruguay World Cup match, as well as the most watched entertainment show with Britain's Got Talent, the most watched comedy with Birds of a Feather and the most watched new drama with Cilla.

Other notable successes have included The X Factor, I'm A Celebrity... Get Me Out Of Here!, Ant and Dec's Saturday Night Takeaway, Grantchester, Prey, Vera and Downton Abbey.

Our core schedule, which underpins the ITV brand, also continues to perform well. Coronation Street was again the most watched soap of the year, averaging 8.4 million viewers in 2014. Overall, ITV continues to gain strong recognition for the quality of our programming and calibre of our talent. In 2014 we won 101 awards including eight BAFTAs.

As we look ahead to 2015 we remain focused on improving SOV. While still drawing strong audiences, some of our most successful shows are maturing. We will therefore continue to rejuvenate our schedule, creatively and commercially, increasing our investment in high quality content and seeking new ways to maximise the value of our airtime.

Capitalising on the growing demand for VOD

Changes in technology and the growing base of connected devices are supporting a rapid growth in audiences' appetite for VOD, which in turn is fuelling demand from new and existing platforms for high quality content and from advertisers for VOD inventory. ITV, as the creator and owner of content, particularly highly sought after long form drama content, is well placed to exploit this growing customer base.

Our Online business has grown strongly over the last few years, with growth in online viewing driving revenue up 21% in 2014. ITV Player, through which audiences can access ITV on different devices, is now contributing meaningful revenue to the Group.

Since launch, there have been over 16.5 million downloads of the ITV Player app and in 2014 we improved its interface, enhancing the user experience by making the most popular content more prominent. We also relaunched our Android and iOS apps in the year to improve the delivery of live streaming content.

There was continued strong growth in long form video requests in 2014, up 26%. We have been working to increase the distribution and reach of our content and ITV Player is now available on over 20 platforms having launched on a number of new platforms in 2014, including Windows Phone 8, Sky Go, Now TV, Roku and Amazon Kindle Fire.

Additionally, with eight million users of ITV Player now registered, up 129% year-on-year, we continue to explore how we can maximise the value of our digital data. Not only will this enable us to understand and communicate with our audiences better but we are also looking at integrating targeting into the advertising server to enable more addressable online advertising.

Maximising the value of our airtime

We are continually working to maximise the value of the 30 second advertising spot and drive new revenue streams through sponsorship, interactivity and brand extensions. We helped a number of brands implement successful sponsorship campaigns and off-air endorsements in 2014 including Littlewoods with I'm a Celebrity... Get Me Out Of Here!, Dolmio with saturday nights on ITV, Pets At Home with Paul O'Grady For The Love Of Dogs and Morrisons with Britain's Got Talent and Saturday Night Takeaway.

Along with our unique commercial partnerships, ITV exclusively broadcast the premiere of Sainsbury's Christmas advertising campaign as well as broadcasting an entire advertising break recreating existing television adverts in LEGO in partnership with Warner Bros. We are also offering advertisers the opportunity to extend campaigns beyond the television spot as the first broadcaster to partner with Twitter Amplify.

We continue to seek new ways to build more value from our brands through various initiatives to increase consumer engagement. Over 40 million votes were cast for The X Factor in 2014, with the new free app driving significantly higher engagement. We are also continuing to extend our brands into off-air experiences, selling over 750,000 tickets in the year for live events such as Ant & Dec's Takeaway On Tour, The Big Reunion Boyband tour and the successful Coronation Street set tour. In addition, in 2014 there were over 900,000 combined downloads of our Tipping Point and The Chase mobile apps.

2015 and beyond

As the viewing and advertising landscape continues to fragment, the scale of audience delivered by our biggest shows on the ITV family of channels becomes increasingly valuable.

Our priority for 2015 is therefore to improve our on screen performance, strengthening our content, channels and brand to maintain ITV's unique scale. As a result, we have invested in our programme schedule for the year across the premium genres of drama, entertainment and sport as well as special events around our 60th anniversary.

New dramas in 2015 will include Arthur and George, The Forgotten, Safe House and Jekyll and Hyde, while we have a number of new and returning entertainment shows including Newzoids, Eternal Glory and Saturday Night Takeaway. Additionally, Thunderbirds Are Go, our children's drama, merchandising and licensing initiative, will be broadcast in spring 2015.

Although we are disappointed that we will no longer hold the live rights for the Champions League from the autumn, we still have a strong sporting schedule in 2015 with exclusive rights to the Rugby World Cup, England qualifiers and friendlies, the French Open and Tour de France in the year.

Overall, despite our viewing performance being down in 2014, strong advertising momentum has continued into the start of 2015 and the television advertising outlook remains positive. ITV Family NAR is expected to be up 11% in Q1 and up 4-7% in April. Our Broadcast business will benefit from a full year of our new channels and online revenue will continue to grow strongly as we further improve the quality and distribution of ITV Player.

Strategic Priority 2

Grow international content business

Growing a strong international content business is 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.

Building scale in attractive markets

The strong global demand for high quality content from broadcasters and platform owners provides a significant opportunity for ITV Studios. Our strategy is to capitalise on this demand by growing our international production presence, building scale in attractive production markets and developing IP in creative markets that has the ability to travel the world.

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 three years, ITV has built significant scale in both markets on the back of organic growth and 11 acquisitions. We are building real momentum as we continue to invest in a strong and healthy creative pipeline, focusing specifically on genres that return and travel, namely drama, entertainment and factual entertainment.

As a result, we have cemented our position as the number one commercial producer in the UK. We are already the largest unscripted independent producer in the US as well as a top indie in Germany and a growing player in the Nordics.

Expanding our creative production pipeline

Our focus in the next phase of our growth strategy is on leveraging the scale we have in our current markets to grow our market share and expand the number of global networks and OTT players we work with, especially in the US.

ITV now has a strong portfolio of successful series and formats that are returning year after year and can be distributed globally. We are looking to expand our portfolio across a more diverse range of programming genres, particularly long-running scripted series that appeal to the international market. In addition to formats produced in-house we are growing our portfolio by partnering with new creative talent who are attracted to our independent status outside of the UK, our distribution capability and strong network relationships, and we are also acquiring and investing in third party IP.

Benefitting from the Group's strong financial position, cash generation and global distribution we are also retaining more IP by producing drama straight to series in the UK and US. Although more expensive than producing a pilot, this helps attract high profile talent to a production and raises the profile of the series to support its distribution. The production cost is partly funded by pre-selling the series to a network, while the remainder, the 'deficit', is covered by revenue from the international distribution of the finished product. As our portfolio grows, we will have a number of shows at different stages of the production cycle thereby balancing our financial exposure at any one point in time.

Investing to build an international business

Our acquisitions to date have been focused on factual and scripted reality producers in the US and UK, the two key markets with a track record for creating and owning IP. We are looking for companies with a solid financial and creative track record as well as a strong pipeline. By maintaining this strict acquisition criteria, ITV has become a top global player in non-scripted production.

In 2014 we made three acquisitions as we look to continue to diversify our revenue streams and increase our reach. In February we acquired a 51% controlling interest in DiGa Vision (DiGa), a US independent producer of reality and scripted programming, and 100% of United Production (United), a Danish producer of factual and entertainment programmes.

In May we made our largest acquisition to date, purchasing 80% of Leftfield Entertainment, a high margin US producer of reality programmes, for an initial cash payment of $360 million. Leftfield also owns Sirens Media and has established two joint ventures, Loud Television and Outpost Entertainment. Together the group produces more than 300 hours of unscripted programming for over 30 US networks with a portfolio that includes Pawn Stars, American Restoration and The Real Housewives of New Jersey.

These businesses add to our growing portfolio of production companies acquired over the last three years which have included Gurney Productions, High Noon Entertainment and Thinkfactory Media in the US, The Garden Productions, Big Talk Productions and So TV in the UK, as well as Tarinatalo and Mediacircus in the Nordics.

We are also looking to develop joint ventures with key creative talent, such as our scripted drama and comedy partnership with Marty Adelstein which launched Tomorrow ITV Studios in 2014. More recently, we announced a new entertainment label within ITV Studios, Possessed Television, in partnership with Glenn Hugill.

Number one commercial producer in the UK

Local content in the UK continues to drive the largest audiences and, as an integrated producer broadcaster, ITV is well placed to benefit from this demand. 60% of the total spend on original commissions on the ITV main channel is now with ITV Studios, up from 50% in 2009.

In 2014, ITV Studios total UK revenue was up 1% to £459 million (2013: £456 million) with growth impacted by the proportion of the ITV Broadcast programme budget allocated to the FIFA World Cup. This reduced the available spend on internal drama and entertainment shows in the year. However, during the year we continued to grow the number of shows that return and travel with 2014 recommissions for ITV including Mr Selfridge, Saturday Night Takeaway and Big Star's Little Star.

Off-ITV we delivered new series of The Graham Norton Show and In It To Win It for the BBC, and Come Dine With Me and 24 hours in A&E for Channel 4.

We continue to receive strong recognition for the quality of our programming and calibre of our talent and won five BAFTAs for our content in 2014.

Top international indie producer

Our international production business is growing strongly, with revenue up 24% to £330 million (2013: £266 million) in 2014.

We are now the largest unscripted independent producer in the US, generating 141 programmes and 884 hours of content in 2014 in partnership with 45 networks. US revenue increased 34% to £235 million in 2014 (2013: £175 million) reflecting the acquisition of Leftfield and the longevity and international appeal of our successful returning series. In response to network demand, we have built a strong portfolio of high volume formats and shows that return year after year. Examples delivered in 2014 included Hell's Kitchen USA, Pawn Stars and Duck Dynasty.

Our other international bases in Germany, France, Australia and the Nordics produce their own original formats alongside UK formats. International revenue increased 4% in 2014 to £95 million (2013: £91 million) driven by good organic growth in Germany and France. Germany benefitted from commissions in the year which included Quizduell, series eight of Ich Bin Ein Star (the German version of I'm a Celebrity... Get Me Out Of Here!), Hell's Kitchen and Mini Beiz, Dini Beiz while France benefitted from Four Weddings and Party Wars. Other international successes delivered during the year included The Chase in Norway, Keeping the Nation Alive in Norway and Denmark, and Big Star's Little Star in Finland.

2015 and beyond

We look ahead to 2015 with confidence as the production lead times give us good visibility of our upcoming deliveries. We expect ITV Studios again to deliver around £100 million revenue growth on a constant currency basis reflecting a return to good organic growth, helped by our investment in global scripted content and supported by a full year of our 2014 acquisitions. As ever, ITV's revenue growth will not be spread evenly throughout the year because of the phasing of the delivery schedule required by our network and cable customers.

New commissions to be delivered in 2015 will include dramas Jekyll and Hyde, Home Fires and the relaunch of Thunderbirds Are Go in the UK, I'm a Celebrity... Get Me Out Of Here! in Australia and Saturday Night Takeaway in the US. While our drama production has historically been focused on the UK market, we are growing our scripted presence in the US and have three large scale dramas, Aquarius, Texas Rising and The Good Witch that will go straight to series in 2015.

Longer term, leveraging our network relationships and global scale in production and distribution, our strategy is to have an ongoing portfolio with six to ten international scripted series in production per annum. We will also look to accelerate growth through further acquisitions while working to attract and retain key creative talent to ensure our creative pipeline remains strong.

Strategic Priority 3

Build a global pay and distribution business

As digital media and consumer viewing behaviour continue to evolve, our ability to create and distribute high value content in new and efficient ways is of increasing significance. ITV is continually exploring, experimenting and developing our pay services with broadcasters and platform owners while also seeking new opportunities to extend the reach of our content for the consumer.

Exploring new models for content creation

As the way in which our viewers consume content changes, especially amongst the younger generation, we are growing our exposure to new types of content including short form and younger-focused long form programming. In 2014 we agreed a deal with YouTube to launch a number of short form channels including I'm A Celebrity... Get Me Out Of Here!, The Chase and our soaps.

We are also building a presence in international digital production. Our acquisition of US producer DiGa in the first half of 2014 gave ITV exposure to digital formats.

Following this, in 2014 we have made three further investments in the digital arena as we look to develop greater expertise in monetising online audiences. In September 2014 we made small investments in Indigenous Media, a producer of scripted digital content, and Believe Entertainment Group, a producer of digital-branded short form entertainment. Most recently, in December 2014 ITV made an investment in Zealot, a digital content multi-platform network founded by Danny Zappin, former CEO of YouTube multi-channel network Maker Studios.

Generating new sources of pay revenue

ITV earns revenue from pay television through licensing our channels and content. In 2014 Pay revenue grew by 63% as we negotiated and renewed a number of deals.

Most significantly, in January 2014 we announced a new four-year deal with Sky, which makes ITV content available through Sky's range of connected platforms including Sky+HD, Sky Go, Now TV and Sky Store. This deal included our first ever pay only channel, ITV Encore, which we launched in June. Additionally in 2014, we extended our deal with Virgin for another year covering HD versions of ITV2, ITV3 and ITV4 as well as our new FTA channel ITVBe, and signed several other deals including new deals with BT and TalkTalk.

We are also looking to develop wider partnerships with on demand players as consumer demand for VOD continues to grow. For example, in the year we made an investment in Cirkus, a UK-based subscription VOD service that offers the 'best of British' television content to pay television platforms and their customers across the Nordic region.

There remains scope to grow our UK pay revenue further through extensions of our existing propositions as we experiment with new ways of monetising our content. Past initiatives have included: trialling pay opportunities on ITV Player for episode premieres of programmes; our ad-free subscription ITV Player app on iOS which has been well received; and, most recently we made the first series of the comedy Cockroaches available exclusively online one week ahead of its broadcast, intended to enhance viewer awareness and engagement with the show's young audience. We will continue to trial new sources of pay revenue as we further develop our pay strategy.

A leading European distributor of television content

ITV Studios, through Global Entertainment, has a substantial archive of over 40,000 hours of television and film that we distribute to broadcasters around the world. This is predominantly ITV produced programming, with 2014 successes including Hell's Kitchen US, Mr Selfridge and Lewis which have all been sold to over 150 countries.

We are benefitting from the growth in our UK and international production businesses as well as deeper network relationships as we build scale. In 2014 Global Entertainment increased revenue by 7% to £144 million (2013: £135 million).

In addition to distributing ITV's own content, we are adding to our catalogue through the distribution of third party content. In 2014 we acquired the third party distribution rights to a number of international dramas including Schitt's Creek from Canada, Jordskott from Sweden and Poldark from Mammoth in the UK.

Global Entertainment also continues to license ITV and third party formats successfully. The number of UK formats sold internationally to three or more countries has increased from eight in 2013 to 12 in 2014 including I'm A Celebrity... Get Me Out Of Here!, Saturday Night Takeaway, The Chase and Tricked.

However, while Global Entertainment has a stable core of long-running series for international distribution, it takes time for the creative pipeline of production to reach its full value potential. The business's available inventory naturally expands as we produce and acquire new content and in 2015 we expect to see good growth in our distribution revenue from our strong creative pipeline, our investment in scripted content, and further third party distribution agreements.

2015 and beyond

Overall, looking ahead we expect continued good growth in pay revenue as we develop further new ways to package and sell our content to take advantage of demand in the UK and internationally. We will benefit from a full year of ITV Encore and we will continue to explore new pay services and channels while growing our exposure to new types of content, including digital.

Global Entertainment remains well positioned for growth as we expand our inventory in 2015. In addition to our existing programme and format archives, we will have new content available for distribution including our three new US dramas as well as the benefit of Thunderbirds Are Go which has already sold to countries including the UK, Australia, New Zealand and Israel.

Lastly, to ensure we maximise the value of our investment in high quality content, we will continue to drive the debate around the implementation of retransmission fees in the UK. In 2015 we will continue efforts to change the terms of UK and EU policy debate around the issue and support our argument with strong evidence, such as the Nera report we commissioned on the USA's retransmission consent scheme. We will build on existing support in both the House of Commons and the House of Lords in the next Parliament and continue our conversations with the regulator, Ofcom, to make the case that we should be fairly compensated by the major pay TV platforms in return for access to the content on the ITV main channel.

Financial and Performance Review

We have delivered another strong performance in 2014, with revenue growth in all parts of the business. Together with our relentless focus on cash and costs, we are reporting our fifth consecutive year of double digit profit growth and end the year with a strong balance sheet providing the flexibility to invest for further growth in 2015 and beyond.

Twelve months to 31 December	**2014 £m**	2013 £m	Change £m	Change %
NAR	**1,629**	1,542	87	6
Total non-NAR	**1,327**	1,211	116	10
Total revenue	**2,956**	2,753	203	7
Internal supply	**(366)**	(364)	(2)	1
Total external supply	**2,590**	2,389	201	8
EBITA before exceptionals	**730**	620	110	18
Group EBITA margin	**28%**	26%		
Adjusted EPS	**13.8p**	11.2p	2.6p	23
Adjusted diluted EPS	**13.7p**	10.8p	2.9p	27
Dividend per share	**4.70p**	3.50p	1.20p	34
Special dividend	**6.25p**	4.00p	2.25p	56
Year end net cash	**41**	164	(123)	(75)

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

Twelve months to 31 December	**2014 £m**	2013 £m	Change £m	Change %
Profit before tax	**605**	435	170	39
EPS	**11.6p**	8.3p	3.3p	40
Diluted EPS	**11.5p**	8.1p	3.4p	42

Total ITV revenue increased 7% in 2014 to £2,956 million (2013: £2,753 million), with external revenue up 8% at £2,590 million (2013: £2,389 million). This reflects 6% growth in NAR and another year of strong growth in non-NAR, up 10% to £1,327 million (2013: £1,211 million) as we further rebalanced the business. Non-NAR now accounts for 45% (2013: 44%) of total revenue.

Together with our higher margin new revenue streams and disciplined cost control we delivered 18% growth in EBITA before exceptionals to £730 million (2013: £620 million), corresponding to an improved EBITA margin of 28% (2013: 26%). Overall, adjusted EPS was up 23% to 13.8p.

Through our ongoing focus on cost control and working capital management, we delivered £15 million of cost savings while remaining strongly cash generative. Our profit to cash conversion ratio remained strong at 91%, despite significant investment in scripted programming. We also continued to take steps to improve balance sheet efficiency, and bought back a further £62 million of debt in the year to reduce our financing costs. Even after three acquisitions, increased dividend payments and our pension deficit contributions, we ended 2014 with net cash of £41 million (2013: £164 million).

The Financial and Performance Review focuses on the adjusted results which, in management's view, 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 adjusted results are reconciled to the reported results in the EPS section that follows.

Adjusted profit before tax and EPS remove the effect of items including acquisition related costs, impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments, restructuring costs and other tax adjustments.

Broadcast & Online

Twelve months to 31 December	**2014 £m**	2013 £m	Change £m	Change %
NAR	**1,629**	1,542	87	6
SDN external revenue	**71**	71	–	–
Online, Pay & Interactive	**153**	118	35	30
Other commercial income	**170**	165	5	3
Broadcast & Online non-NAR revenue	**394**	354	40	11
Total Broadcast & Online revenue	**2,023**	1,896	127	7
Total schedule costs	**(1,018)**	(983)	(35)	4
Other costs	**(437)**	(426)	(11)	2
Total Broadcast & Online EBITA before exceptional items	**568**	487	81	17
EBITA margin	**28%**	26%		

Broadcast & Online delivered another strong performance with revenue up £127 million to £2,023 million (2013: £1,896 million) driven by 6% growth in NAR and continued strong growth in Online, Pay & Interactive revenue.

The advertising market showed continued improvement in 2014 with good growth across the major advertising categories. Retail sales were again strong, driven by increased competition in the food retail sector as well as growth in furniture and department stores. Entertainment & Leisure also performed well, with increased advertising and promotions around the World Cup. Within Food there was good growth in the drinks, beverages and cooking product categories, while within Airlines, Travel & Holiday there was growth from online travel agents. Telecommunications remained down in the year due to lower new product launches following a strong year in 2013.

Overall, we increased our share of broadcast to 45.9% (2013: 45.4%) and delivered our strongest outperformance of the UK advertising market in five years, based on our estimate of the pure spot market. ITV NAR increased 6% compared to 5% growth in the market, although it is increasingly difficult to measure the market as all broadcasters use different definitions, which may include additional sources of revenue as well as pure spot advertising. Advertising growth was geared towards the second quarter with increased spend around the World Cup and, while we expect to outperform the advertising market again in 2015 there will be fluctuations across the year driven by major events such as the Rugby World Cup and the timing of Easter.

ITV Family SOV declined 5% in 2014, following a strong year in 2013 when we were up 4%. This largely reflects a 4% decline in the ITV main channel SOV. Although benefitting from the World Cup in June, the main channel delivered a lower audience share against strong competition from the BBC. ITV2 also contributed to the decline, partly as a result of more competition from new UK digital channels in the year, but also due to our repositioning of the channel to provide more targeted audiences for our advertisers through the launch of ITVBe. We remain focused on improving viewing performance, both on screen and online.

Online, Pay & Interactive revenue increased 30% to £153 million (2013: £118 million), driven by £11 million growth in Online and £20 million growth in Pay. In 2014 we further improved the quality, reliability and distribution of ITV Player, now available on over 20 platforms, which supported continued strong growth in long form video requests, up 26%. We also continued to develop our pay services, renewing a number of deals in 2014 as well as launching ITV Encore, our first pay only channel. Interactive revenue was up £4 million due to higher income from competitions.

SDN external revenue, which is generated from licence sales for DTT Multiplex A, was in line with 2013 at £71 million. In 2014 the full year benefit of the 13th video stream, which launched in 2013, was offset by lower renewal fees on existing video streams, a trend likely to continue.

Other commercial income increased 3% to £170 million (2013: £165 million), reflecting growth in sponsorship and brand extensions as we build more value from our airtime for both advertisers and for ITV. For example, in 2014 we sold over 750,000 tickets for events including the Coronation Street set tour and the Saturday Night Takeaway live tour.

Financial and Performance Review

Other commercial income also includes revenue from media sales, which relates to commission earned by ITV on sales of airtime for the non-consolidated licensees, as well as minority revenue from these licensees for ITV content. Both delivered revenue in line with last year.

Schedule costs were up £35 million year on year to £1,018 million (2013: £983 million) as a result of the World Cup and also increased programming spend relating to our new channels. In 2015 we will continue to focus on our schedule to improve viewing share, investing in high quality content for our existing channels as well as a full year of programming for our new channels.

Other costs increased modestly, up 2% year on year, due to marketing costs around our new channels as well as online investment. We continue to manage our overheads tightly to mitigate inflationary pressures and fund continued investment in the business.

Overall, reflecting the strong growth in higher margin Online, Pay & Interactive revenue, as well as good growth in our highly geared advertising revenue, Broadcast & Online EBITA before exceptional items was up 17% at £568 million (2013: £487 million) while the EBITA margin increased 2% to 28%.

ITV Studios

Twelve months to 31 December	**2014 £m**	2013 £m	Change £m	Change %
Studios UK	**459**	456	3	1
Studios US	**235**	175	60	34
Studios RoW	**95**	91	4	4
Global Entertainment	**144**	135	9	7
Total Studios revenue	**933**	857	76	9
Total Studios costs	**(771)**	(724)	(47)	6
Total Studios EBITA before exceptional items	**162**	133	29	22
Studios EBITA margin	**17%**	16%		

Twelve months to 31 December	**2014 £m**	2013 £m	Change £m	Change %
Sales from ITV Studios to Broadcasting & Online	**366**	364	2	1
External revenue	**567**	493	74	15
Total Studios revenue	**933**	857	76	9

In 2014 we again delivered strong revenue growth in ITV Studios as we continue to build scale in attractive content markets. Total revenue increased 9% to £933 million (2013: £857 million) reflecting our purchase of Leftfield and growth in international production and distribution as we become a more global business. Total organic revenue, which excludes our current and prior year acquisitions as well as foreign exchange movements, was up 1%. A decline in Studios UK was offset by organic growth from international productions and Global Entertainment.

Almost half of Studios revenue is now generated outside of the UK and, as well as being the number one commercial producer in the UK, we are also now the largest unscripted independent producer in the US and a leading European distributor of television content.

Studios UK revenue was up 1% in the year and within this, internal revenue was also up 1%. However, organic revenue was down 4% as growth in factual and daytime was more than offset by a reduction in drama, due to the proportion of the ITV Broadcast programme budget allocated to the World Cup.

In the year we successfully delivered further recommissions as we continue to grow the number of shows in our portfolio that return and travel. On-ITV deliveries in 2014 included Mr Selfridge, Saturday Night Takeaway, Judge Rinder and The Chase. Off-ITV deliveries included The Graham Norton Show and Our Zoo for the BBC, and Come Dine With Me and 24 Hours in A&E for Channel 4. In 2015 we also expect a return to good organic growth from our upcoming new UK dramas, including Jekyll and Hyde, Home Fires, The Trials of Jimmy Rose and Beowulf as well as Thunderbirds Are Go.

Studios US revenue was up 34% in 2014 to £235 million (2013: £175 million), reflecting our acquisition of Leftfield. Organic revenue was up 5% in the year and we expect good organic growth to continue in 2015. We now have a strong portfolio of successful series and formats that are returning year after year including The Real Housewives of New Jersey, Pawn Stars and Duck Dynasty, and we will start to see the benefit of our investment in US drama in 2015, with three large-scale dramas, Aquarius, Texas Rising and The Good Witch, all due for delivery in the year.

Revenue from Studios RoW increased 4% to £95 million (2013: £91 million), reflecting our acquisition of United Productions in Denmark as well as good organic growth, up 7% at constant currencies. In Germany programme deliveries included Hell's Kitchen, Quizduell and Mini Beiz, Dini Beiz, and in France programme deliveries included Party Wars, Four Weddings and Saturday Night Takeaway. Other international successes delivered across our global production network included The Chase in Norway and Big Star's Little Star in Finland.

Global Entertainment revenue was up 7% to £144 million (2013: £135 million) in 2014. We continue to benefit from the growth in our UK, US and RoW businesses as well as deeper network relationships as we build scale.

Successes in the year included Hell's Kitchen US, Lewis and Mr Selfridge, which have all sold to over 150 countries. Additionally, 12 of our formats are now produced in three or more countries including I'm A Celebrity... Get Me Out Of Here!, The Chase, Keeping The Nation Alive, Surprise Surprise and Saturday Night Takeaway.

While Global Entertainment has a stable core of long-running series, its available inventory naturally expands as we produce and acquire new content. In 2015 we expect to see good growth in our distribution revenue from new programmes including our US scripted dramas and Thunderbirds Are Go, which has already pre-sold to countries including Australia, New Zealand and Israel.

Overall ITV Studios' EBITA before exceptional items increased 22% to £162 million (2013: £133 million) and the EBITA margin increased by 1% to 17% as we benefitted from a higher margin revenue mix as a result of our acquisitions as well as production efficiencies in the year.

As we grow our international business, foreign exchange movements increasingly impact our reported performance. On a constant currency basis, which assumes exchange rates remained consistent with 2013, ITV Studios revenue in 2014 would have been £22 million higher, and EBITA would have been £5 million higher.

Overall, ITV Studios' revenue is again expected to be up around £100 million in 2015 on a constant currency basis. We are increasing our investment in programming, and have produced three high profile US dramas straight to series. Aquarius, Texas Rising and The Good Witch have been pre-sold to US networks, recovering part of our production investment, while the remainder, the 'deficit', will be recovered as we earn revenue from distributing the finished series globally. This increase in drama deliveries, which are lower margin, may impact the EBITA margin in 2015. Longer term, our strategy is to have an ongoing portfolio with six to ten international scripted series in production per annum.

Acquisitions

In 2012, 2013 and 2014 we acquired a number of content businesses with a focus on factual and scripted reality producers in the US and UK, the two key markets with a track record for creating and owning IP. These have been made against strict strategic and financial criteria. Financially, we look at ownership of IP, return on capital employed and discounted cash flow. Strategically, we look at the talent, creative pipeline and type of content to ensure it has the potential to return and travel.

In 2012 we acquired Gurney Productions in the US, So TV in the UK, Mediacircus in Norway and Tarinatalo in Finland. In 2013 we acquired The Garden and Big Talk Productions in the UK along with 60% of High Noon Entertainment and 65% of Thinkfactory Media in the US. There are put and call arrangements in place to buy the remaining minority stakes.

In February 2014 we acquired 100% of United, a Danish producer of entertainment and reality programmes, and a 51% controlling interest in DiGa, a US independent producer of reality and scripted programming. There is a put and call option to buy the remainder of DiGa over three to six years, with the total amount payable linked to the performance of the company over that period.

In May 2014 we made the acquisition of Leftfield, a high margin US production company. We made an initial cash payment of $360 million for 80% and have put and call options in place to buy the remaining 20% over three to five years.

Financial and Performance Review

The total cash consideration for all acquisitions since 2012 was £328 million. We structure our deals with earnouts or 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.

At 31 December 2014, based on our current view of performance, we expect to pay a further £79 million, giving a total expected amount payable across the portfolio of £407 million. The total maximum consideration for our portfolio of acquisitions is £847 million, reflecting the initial consideration of £328 million and an undiscounted contingent consideration of £519 million, payable only if exceptional compound earnings growth is delivered over the payment period.

Company	Geography	Genre	Initial consideration (£m)	Total expected consideration* (£m)	Total maximum consideration* (£m)	Expected payment period
2014						
United	Denmark	Factual & entertainment	1	4	5	2018
DiGa	US	Reality & scripted	5	10	33	2020
Leftfield	US	Reality	214	233	504	2019
Total for 2014			220	247	542	
Total for 2013			66	93	204	2017–2021
Total for 2012			42	67	101	2016–2018
Total			328	407	847	

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

Net financing costs

Twelve months to 31 December	**2014 £m**	2013 £m
Financing costs directly attributable to loans and bonds	**(8)**	(18)
Cash-related net financing income/ (costs)	**2**	(2)
Cash-related financing costs	**(6)**	(20)
Amortisation of bonds	**(1)**	(5)
Adjusted financing costs	**(7)**	(25)
Mark-to-market on swaps and foreign exchange	**(9)**	(9)
Imputed pension interest	**(17)**	(20)
Losses on buybacks	**(30)**	(61)
Other net financial income	**12**	–
Net financing costs	**(51)**	(115)

Adjusted financing costs reduced by £18 million in the year to £7 million (2013: £25 million), benefitting from the redemption of the 2016 convertible bond outstanding in 2013 and the repurchase of the remaining tranche of the 2019 bilateral loan in January 2014.

Net financing costs were £64 million lower at £51 million (2013: £115 million) in 2014. The £30 million of losses on buybacks relate to the exceptional loss on the 2019 debt we repurchased in January 2014, saving £44 million of future adjusted financing costs. We also recorded net financial income of £12 million (2013: £nil) in the year, principally reflecting a reduction in the expected amount payable on our acquisition portfolio.

Profit before tax

Twelve months to 31 December	**2014 £m**	2013 £m
Profit before tax	**605**	435
Exceptional items (net)	**7**	2
Amortisation and impairment of intangible assets*	**56**	54
Adjustments to net financing costs	**44**	90
Adjusted profit before tax	**712**	581

* In respect of intangible assets arising from business combinations.

Adjusted profit before tax, after financing costs, was up 23% at £712 million (2013: £581 million). The total tax charge for 2014 was £132 million (2013: £105 million), corresponding to an effective tax rate on adjusted profit before tax of 21.2% (2013: 23.4%), which is broadly in line with the standard corporation tax rate of 21.5% (2013: 23.3%).

Tax

Twelve months to 31 December	**2014 £m**	2013 £m
Tax charge	**(132)**	(105)
Charge for exceptional items	**(2)**	(1)
Charge in respect of amortisation of intangible assets*	**(12)**	(12)
Charge in respect of adjustments to net financing costs	**(10)**	(21)
Other tax adjustments	**5**	3
Adjusted tax charge	**(151)**	(136)
Effective tax rate on adjusted profits	**21%**	23%

* In respect of intangible assets arising from business combinations.

Cash tax paid in the year was £85 million (2013: £67 million). This is lower than the total tax charge for 2014 due to timing differences arising from quarterly tax payments, the use of losses offsetting profit and the tax treatment of allowable pension contributions. The majority of cash tax is paid in the UK.

EPS

Overall, adjusted profit after tax was up 26% at £561 million (2013: £445 million). After non-controlling interests of £7 million (2013: £4 million), adjusted earnings per share was 13.8p (2013: 11.2p), up 23%. The weighted average number of shares increased 2% to 4,002 million (2013: 3,929 million) largely due to the issue of shares following the convertible bond redemption in 2013. Diluted adjusted EPS in 2014 was 13.7p (2013: 10.8p) reflecting a weighted average diluted number of shares of 4,040 million (2013: 4,111 million). Basic EPS increased 40% to 11.6p (2013: 8.3p).

Basic 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. Adjustments include: acquisition-related costs such as professional fees, primarily due diligence, and performance-based employment-linked contingent payments; impairment of intangible assets; amortisation of intangible assets acquired through business combinations including customer contracts and relationships; net financing cost adjustments; and other tax adjustments. Amortisation of intangible assets that are required to run our business, including software licences, is not adjusted for. The table below reconciles basic to adjusted EPS.

Financial and Performance Review

Twelve months to 31 December 2014	Reported £m	Adjustments £m	Adjusted £m
EBITA before exceptional items	730		730
Exceptional items (operating)	(12)	12	–
Amortisation and impairment of intangible assets	(67)	56	(11)
Net financing costs	(51)	44	(7)
Gain on sale of non-current assets and subsidiaries (non-operating exceptional items)	5	(5)	–
Profit before tax	605	107	712
Tax	(132)	(19)	(151)
Profit after tax	473	88	561
Non-controlling interests	(7)	–	(7)
Earnings	466		554
Shares (million), weighted average	4,002		4,002
EPS	11.6p		13.8p

Dividend per share

Reflecting our confidence in the ongoing growth and cash generation of the business, the Board has committed to growing the full year ordinary dividend by at least 20% per annum for three years to 2016, by when we will achieve a dividend cover of between 2.0 and 2.5 times adjusted earnings per share. In line with this policy, the Board is proposing a final dividend for 2014 of 3.3p, which equates to a full year dividend of 4.7p (2013: 3.5p), up 34%.

ITV is now a more balanced business with strong underlying cash flows. As we enter the next phase of our strategy we continue to see investment opportunities to grow the business and enhance shareholder value but at the same time the Board recognises the importance of maintaining capital discipline and balance sheet efficiency. Therefore it is appropriate over time to increase our balance sheet leverage gradually while retaining the flexibility to continue to invest.

In line with this approach, the Board is proposing a £250 million return to shareholders by way of a special dividend of 6.25p.

Cash generation

Profit to cash conversion

Twelve months to 31 December	**2014 £m**	2013 £m
EBITA before exceptional items	**730**	620
(Increase) in programme rights and other inventory distribution rights	**(39)**	(42)
Decrease/(increase) in receivables	**18**	(15)
(Decrease)/increase in payables	**(48)**	42
Working capital movement	**(69)**	(15)
Depreciation	**27**	24
Share-based compensation and pension service costs	**14**	20
Cash flow generated from operations before exceptional items	**702**	649
Acquisition of property, plant and equipment and intangible assets	**(37)**	(45)
Adjusted cash flow	**665**	604
Profit to cash ratio	**91%**	97%

ITV maintained its strong cash generation and tight management of working capital balances in the year, generating £665 million (2013: £604 million) of operational cash from £730 million (2013: £620 million) of EBITA before exceptional items. This equates to a strong profit to cash ratio of 91%. The ratio has declined from 97% in 2013 as a result of increased investment in scripted content.

Free cash flow

Twelve months to 31 December	**2014 £m**	2013 £m
Adjusted cash flow	**665**	604
Net interest paid	**(11)**	(24)
Cash tax	**(85)**	(67)
Pension funding	**(91)**	(80)
Free cash flow	**478**	433

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

Our underlying cash generation after payments for interest paid, cash tax and pension funding, also remained strong in the year. Free cash flow was up 10% at £478 million (2013: £433 million).

Overall, after dividends, acquisitions and debt repayments we ended the year with net cash of £41 million, compared to net debt of £201 million at 30 June 2014 and £164 million net cash at 31 December 2013. Our cash generation was weighted towards the second half of 2014 due to the timing of our pension funding contribution, debt buybacks and the significant acquisition of Leftfield, all of which took place in the first half.

Funding and liquidity

Debt structure and liquidity

In 2014 we again bought back debt to improve our balance sheet efficiency further, repurchasing the remaining tranche of the 2019 bilateral loan.

We also entered into a number of new financing facilities. We obtained a committed £525 million Revolving Credit Facility provided by a number of core relationship banks, and also entered into a new £175 million bilateral financing facility and agreed a new £75m invoice discounting facility, both of which are free of financial covenants. All three facilities were undrawn as at the year end.

As we enter the next phase of our strategy this financial flexibility and our continued strong free cash flow will enable us to invest in opportunities to grow the business and enhance shareholder value.

Leverage

Twelve months to 31 December	**2014 £m**	2013 £m
Net cash	**41**	164
Expected contingent payments on acquisitions	**(79)**	(97)
Pension deficit (IAS 19R)	**(346)**	(445)
Operating leases	**(381)**	(414)
Adjusted net debt	**(765)**	(792)
Adjusted net debt to EBITDA	**1.0×**	1.2×

Going forward our objective is to run an efficient balance sheet, and to balance investment for further growth with attractive returns to shareholders. Therefore we will, over time, look to increase our balance sheet leverage. We believe that maintaining leverage below 1.5× net debt to EBITDA (before exceptionals) will optimise our cost of capital, allow us to sustain our progressive dividend policy and enable us to retain flexibility to continue to invest for further growth.

We also look at an adjusted measure of net debt, taking into consideration all of our financial commitments. At 31 December 2014, adjusted net debt was broadly in line with the prior year at £765 million (31 December 2013: £792 million) reflecting a reduction in the pension deficit under IAS 19 and lower undiscounted operating lease commitments which mainly relate to broadcast transmission contracts and property.

This adjusted measure, by taking into consideration all of our financial commitments, reflects how credit rating agencies could look at our balance sheet.

Financial and Performance Review

Financing

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

Amount repayable	£m	Maturity
£78 million Eurobond	78	Oct 2015
£161 million Eurobond	161	Jan 2017
Finance leases	17	Various
Total debt repayable on maturity	256	

Ratings

We are rated investment grade by two ratings agencies: BBB- by Standard and Poor's and Baa3 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.

Pensions

IAS 19

The aggregate IAS 19 deficit of the defined benefit schemes at 31 December 2014 was £346 million (31 December 2013: £445 million) reflecting pension funding contributions in March and April of £91 million. An increase in the pension liabilities, as a result of a fall in the discount rate used to measure liabilities, was offset by asset outperformance, primarily gilts and swaps.

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

Actuarial valuation

The last actuarial valuation was undertaken in 2011. On the bases adopted by the Trustee, the combined deficits as at 1 January 2011 amounted to £587 million.

The Trustee is in the process of undertaking full actuarial valuations of all three sections of the Scheme as at 1 January 2014. The Group's deficit funding contributions will be reviewed following the result of the valuation, expected in Q2 2015.

Deficit funding contributions

In 2014 the group made deficit funding contributions of £91 million (2013: £80 million). We do not expect our 2015 deficit funding contributions to exceed those made in 2014.

Ian Griffiths
Group Finance Director

Introduction and Table of Contents

In this section . . .

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

Keeping it simple . . .

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

Contents

Consolidated Income Statement

For the year ended 31 December	Note	**2014 £m**	2013 £m
Revenue	2.1	**2,590**	2,389
Operating costs		**(1,939)**	(1,843)
Operating profit		**651**	546
Presented as:			
Earnings before interest, tax, amortisation (EBITA) before exceptional items	2.1	**730**	620
Operating exceptional items	2.2	**(12)**	(8)
Amortisation of intangible assets	3.3	**(67)**	(66)
Operating profit		**651**	546
Financing income	4.4	**22**	10
Financing costs	4.4	**(73)**	(125)
Net financing costs	4.4	**(51)**	(115)
Share of losses of joint ventures and associated undertakings	2.1	**–**	(2)
Gain on sale of non-current assets (exceptional items)	2.2	**4**	–
Gain on sale of subsidiaries and investments (exceptional items)	2.2	**1**	6
Profit before tax		**605**	435
Taxation	2.3	**(132)**	(105)
Profit for the year		**473**	330
Profit attributable to:			
Owners of the Company		**466**	326
Non-controlling interests		**7**	4
Profit for the year		**473**	330
Earnings per share			
Basic earnings per share	2.4	**11.6p**	8.3p
Diluted earnings per share	2.4	**11.5p**	8.1p

Consolidated Statement of Comprehensive Income

For the year ended 31 December	Note	2014 £m	2013 £m
Profit for the year		**473**	330
Other comprehensive income:			
Items that are or may be reclassified to profit or loss			
Revaluation of available for sale financial assets	4.6.4	**3**	(3)
Net loss on cash flow hedges	4.3/ 4.6.3	**(4)**	–
Exchange differences on translation of foreign operations	4.6.3	**22**	(6)
Items that will never be reclassified to profit or loss			
Remeasurement gains on defined benefit pension schemes	3.7	**24**	48
Income tax charge on items that will never be reclassified	2.3	**(3)**	(13)
Other comprehensive income/(cost) for the year, net of income tax		**21**	26
Total comprehensive income for the year		**515**	356
Total comprehensive income attributable to:			
Owners of the Company		**508**	352
Non-controlling interests		**7**	4
Total comprehensive income for the year		**515**	356

Consolidated Statement of Financial Position

As at 31 December	Note	2014 £m	2013 £m
Non-current assets			
Property, plant and equipment	3.2	**248**	259
Intangible assets	3.3	**1,129**	954
Investments in joint ventures, associates and equity investments	3.5	**14**	4
Derivative financial instruments	4.3	**16**	41
Distribution rights	3.1.1	**13**	10
Net deferred tax asset	2.3	**43**	52
		1,463	1,320
Current assets			
Programme rights and other inventory	3.1.2	**367**	322
Trade and other receivables due within one year	3.1.4	**385**	388
Trade and other receivables due after more than one year	3.1.4	**24**	14
Trade and other receivables		**409**	402
Derivative financial instruments	4.3	**11**	32
Cash and cash equivalents	4.1	**297**	518
		1,084	1,274
Current liabilities			
Borrowings	4.2	**(85)**	(62)
Derivative financial instruments	4.3	**(12)**	(6)
Trade and other payables due within one year	3.1.5	**(699)**	(702)
Trade payables due after more than one year	3.1.6	**(27)**	(42)
Trade and other payables		**(726)**	(744)
Current tax liabilities		**(72)**	(36)
Provisions	3.6	**(17)**	(19)
		(912)	(867)
Net current assets		**172**	407
Non-current liabilities			
Borrowings	4.2	**(171)**	(318)
Derivative financial instruments	4.3	**(12)**	(27)
Defined benefit pension deficit	3.7	**(346)**	(445)
Other payables		**(38)**	(40)
Provisions	3.6	**(4)**	(8)
		(571)	(838)
Net assets		**1,064**	889
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	**228**	248
Translation reserve		**25**	7
Available for sale reserve		**7**	4
Retained earnings		**177**	22
Total equity attributable to equity shareholders of the parent company		**1,014**	858
Non-controlling interests		**50**	31
Total equity		**1,064**	889

The accounts were approved by the Board of Directors on •• February 2015 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								
					Items that may be reclassified to profit or loss					
	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 2014		**403**	**174**	**248**	**7**	**4**	**22**	**858**	**31**	**889**
Total comprehensive income for the year										
Profit		**–**	**–**	**–**	**–**	**–**	**466**	**466**	**7**	**473**
Other comprehensive income/(cost)										
Revaluation of available for sale financial assets		**–**	**–**	**–**	**–**	**3**	**–**	**3**	**–**	**3**
Net loss on cash flow hedges		**–**	**–**	**–**	**(4)**	**–**	**–**	**(4)**	**–**	**(4)**
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**22**	**–**	**–**	**22**	**–**	**22**
Remeasurement gains on defined benefit pension schemes	3.7	**–**	**–**	**–**	**–**	**–**	**24**	**24**	**–**	**24**
Income tax charge on other comprehensive income	2.3	**–**	**–**	**–**	**–**	**–**	**(3)**	**(3)**	**–**	**(3)**
Total other comprehensive income		**–**	**–**	**–**	**18**	**3**	**21**	**42**	**–**	**42**
Total comprehensive income for the year		**–**	**–**	**–**	**18**	**3**	**487**	**508**	**7**	**515**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		**–**	**–**	**–**	**–**	**–**	**(313)**	**(313)**	**(8)**	**(321)**
Movements due to share-based compensation	4.7	**–**	**–**	**–**	**–**	**–**	**14**	**14**	**–**	**14**
Purchase of own shares via employees' benefit trust	4.7	**–**	**–**	**–**	**–**	**–**	**(33)**	**(33)**	**–**	**(33)**
Total contributions by and distributions to owners		**–**	**–**	**–**	**–**	**–**	**(332)**	**(332)**	**(8)**	**(340)**
Total transactions with owners		**–**	**–**	**–**	**–**	**–**	**(332)**	**(332)**	**(8)**	**(340)**
Changes in non-controlling interests[(a)]	3.4	**–**	**–**	**(20)**	**–**	**–**	**–**	**(20)**	**20**	**–**
Balance at 31 December 2014	4.6	**403**	**174**	**228**	**25**	**7**	**177**	**1,014**	**50**	**1,064**

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

Consolidated Statement of Changes in Equity

	Note	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available for sale reserve £m	Retained earnings (restated) £m	Total £m	Non-controlling interests £m	Total equity £m
		Attributable to equity shareholders of the parent company			Items that may be reclassified to profit or loss					
Balance at 1 January 2013		**391**	**122**	**283**	**13**	**7**	**1**	**817**	**15**	**832**
Total comprehensive income for the year										
Profit		–	–	–	–	–	326	326	4	**330**
Other comprehensive income/(cost)										
Revaluation of available for sale financial assets		–	–	–	–	(3)	–	(3)	–	**(3)**
Exchange differences on translation of foreign operations		–	–	–	(6)	–	–	(6)	–	**(6)**
Remeasurement losses on defined benefit pension schemes	3.7	–	–	–	–	–	48	48	–	**48**
Income tax on other comprehensive income	2.3	–	–	–	–	–	(13)	(13)	–	**(13)**
Total other comprehensive cost		–	–	–	(6)	(3)	35	26	–	**26**
Total comprehensive income for the year		**–**	**–**	**–**	**(6)**	**(3)**	**361**	**352**	**4**	**356**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	(271)	(271)	(1)	**(272)**
Equity portion of the convertible bond	4.1	10	52	(22)	–	–	(70)	(30)	–	**(30)**
Movements due to share-based compensation	4.7	–	–	–	–	–	14	14	–	**14**
Purchase of own shares via employees' benefit trust	4.7	–	–	–	–	–	(13)	(13)	–	**(13)**
Issue of new shares	4.6.1	2	–	–	–	–	–	2	–	**2**
Total contributions by and distributions to owners		12	52	(22)	–	–	(340)	(298)	(1)	**(299)**
Total transactions with owners		**12**	**52**	**(22)**	**–**	**–**	**(340)**	**(298)**	**(1)**	**(299)**
Changes in non-controlling interests[a]	3.4	–	–	(13)	–	–	–	(13)	13	**–**
Balance at 31 December 2013	4.6	**403**	**174**	**248**	**7**	**4**	**22**	**858**	**31**	**889**

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

Consolidated Statement of Cash Flows

For the year ended 31 December	Note	**£m**	**2014 £m**	£m	2013 £m
Cash flows from operating activities					
Cash generated from operations before exceptional items:	2.1		**702**		649
Cash flow relating to operating exceptional items:					
Net operating loss	2.2	**(10)**		(5)	
Increase/(decrease) in payables and provisions		**3**		(6)	
Cash outflow from exceptional items			**(7)**		(11)
Cash generated from operations			**695**		638
Defined benefit pension deficit funding		**(91)**		(80)	
Interest received		**41**		38	
Interest paid on bank and other loans		**(51)**		(60)	
Interest paid on finance leases		**(1)**		(2)	
Net taxation paid		**(85)**		(67)	
			(187)		(171)
Net cash inflow from operating activities			**508**		467
Cash flows from investing activities					
Redemption of gilts	4.1	**–**		165	
Acquisition of subsidiary undertakings	3.4	**(220)**		(66)	
Cash balances of subsidiaries acquired in period	3.4	**6**		10	
Proceeds from sale of property, plant and equipment		**15**		4	
Acquisition of property, plant and equipment		**(27)**		(101)	
Acquisition of intangible assets		**(10)**		(2)	
Acquisition of investments		**(7)**		–	
Loans granted to associates and joint ventures		**(3)**		(4)	
Proceeds from sale of subsidiaries, joint ventures and available for sale investments		**1**		8	
Net cash inflow/(outflow) from investing activities			**(245)**		14
Cash flows from financing activities					
Bank and other loans – amounts repaid		**(110)**		(365)	
Capital element of finance lease payments		**(21)**		(8)	
Issue of share capital		**–**		2	
Equity dividends paid		**(313)**		(271)	
Dividend paid to minority interest		**(8)**		(1)	
Purchase of own shares via employees' benefit trust		**(33)**		(13)	
Net cash outflow from financing activities			**(485)**		(656)
Net decrease in cash and cash equivalents			**(222)**		(175)
Cash and cash equivalents at 1 January	4.1		**518**		690
Effects of exchange rate changes and fair value movements			**1**		3
Cash and cash equivalents at 31 December	4.1		**297**		518

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 2014 or later years. We explain how these changes are expected to impact the financial position and performance of the Group.

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

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

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

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

Going concern

As at the year end the Group was in a positive net cash position, and its continued generation of significant free cash flows has enabled further acquisitions and the payment of a special dividend. The Group has also sought to gain further efficiencies in the balance sheet by repurchasing debt where it is economically beneficial to do so, and has established flexible financing through new, longer term revolving credit facility arrangements (see section 4 for details on capital structure and financing).

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

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

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

Subsidiaries, joint ventures, associates and special purpose entities

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

A joint venture is 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.

For investments where the Group has concluded it does not have significant influence, then the asset is held at cost in non-current assets.

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

SPEs are used in limited circumstances by the Group. The only significant SPEs are the pension funding partnerships that were established in 2010 and March 2014 between the Group and the Trustee of the ITV Pension Scheme as a way of establishing payment streams to the pension scheme. The partnerships, both Scottish Limited Partnerships, are controlled and consolidated by the Group.

Current/non-current distinction

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

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

Classification of financial instruments

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

- 'Loans and receivables' – separately disclosed as cash and cash equivalents (excluding gilts over which unfunded pension commitments have a charge) and trade and other receivables;
- 'Available for sale financial assets' – measured at fair value through other comprehensive income. Includes gilts over which unfunded pension commitments have a charge;
- 'Financial assets/liabilities at fair value through profit or loss' – separately disclosed as derivative financial instruments in assets/liabilities and included in non-current other payables (contingent consideration); and
- 'Financial liabilities measured at amortised cost' – separately disclosed as borrowings and trade and other payables.

Judgement is required when determining the appropriate classification of the Group's financial instruments. Details on the accounting policies for measurement of the above instruments are set out in the relevant note.

Recognition and derecognition of financial assets and liabilities

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits with a maturity of less than or equal to three months from the date of acquisition, cash held to meet certain finance lease commitments and gilts in respect of which a charging deed was executed on the unfunded pension commitments of four former Granada executives. The carrying value of cash and cash equivalents is considered to approximate fair value.

Foreign currencies

The primary economic environment in which the Group operates is the UK and therefore the consolidated financial statements are presented in pounds sterling ('£').

Notes to the Financial Statements
Section 1: Basis of Preparation

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.

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

Accounting judgements and estimates

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

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

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

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

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

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

New or amended EU endorsed accounting standards

The table below represents new or amended EU endorsed accounting standards relevant to the Group's results that are effective in 2014:

Accounting Standard	Requirement	Impact on financial statements
IAS 32 Financial Instruments	The amendments clarify the offsetting criteria, such as when an entity has a legal right to offset and when gross settlement is equivalent to net settlement.	The amendments have not had any impact on the net asset position of the Group.
IAS 36 Impairment of Assets	The amendments modify some of the disclosure requirements regarding measurement of the recoverable amount of impaired assets.	The amendments have not had any impact on the assets currently held by the Group.
IAS 39 Financial Instruments: Recognition and Measurement	The amendments remove the need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.	The amendments have not had any impact on the hedging contracts held by the Group within the year.
IFRS 10	IFRS 10 replaces a portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27.	A review of the Group's investments was carried out in the context of IFRS 10–12 in order to ensure that their classification and accounting treatment remains appropriate. There is no impact on the accounting treatment of investments currently held within the Group and appropriate disclosures have been made in notes 3.4 and 3.5 to the financial statements.
IFRS 11	IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.	
IFRS 12	IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.	

The Directors also considered the impact on the Group of other new and revised accounting standards, interpretations or amendments on the Group that are currently endorsed but not yet effective. There are none that are effective for periods beginning on or after 1 January 2015 that are expected to have a significant impact on the Group's results.

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.

Keeping it simple . . .

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

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

2.1 Profit before tax

Accounting policies

Revenue recognition

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

Applicable segment	Class of revenue	Recognition criteria
Broadcast & Online	Advertising (NAR), Video on Demand (VOD)	in month of transmission
Broadcast & Online	Sponsorship	across period of transmission of the sponsored programme or series
Broadcast & Online	Pay	an estimate is accrued in the month and trued up on receipt of third party reports showing revenue share calculation (showing subscribers or number of downloads)
Broadcast & Online	Participation (interactive & brand extensions)	as the service is provided or event occurs
Studios	Programme production	on delivery of episode and acceptance by the customer
Studios	Programme distribution rights	when the contract is signed and content is available for exploitation
Studios	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:

	2014 £m	2013 £m
Broadcast & Online		
NAR	**1,629**	1,542
Non-NAR	**394**	354
ITV Studios		
Productions	**789**	722
Distribution	**144**	135
Total revenue	**2,956**	2,753

Segmental information

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

The Board of Directors considers the business primarily from a product or activity perspective. The reportable segments for the years ended 31 December 2014 and 31 December 2013 are therefore 'Broadcast & Online' and 'ITV Studios', the results of which are outlined in the following tables:

	Broadcast & Online 2014 £m	ITV Studios* 2014 £m	Consolidated 2014 £m
Total segment revenue	**2,023**	**933**	**2,956**
Intersegment revenue	**–**	**(366)**	**(366)**
Revenue from external customers	**2,023**	**567**	**2,590**
EBITA before exceptional items	**568**	**162**	**730**
Share of losses of joint ventures and associated undertakings	**–**	**–**	**–**

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

* Revenue of £255 million (2013: £199 million) was generated in the US during the year, and represented £297 million (2013: £83 million) of non-current assets at year end.

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

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.

Broadcast & Online

The Group operates the largest commercial family of channels in the UK and delivers content through traditional television broadcasting. In addition to linear broadcast, the Group delivers its content either through ITV Player, which is available on multiple platforms including ITV's website and pay platforms, or through direct content deals. The content, which is 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.

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

Other sources of revenue are from: online advertising, revenue from pay platforms such as Sky, SDN revenue (which generates licence sales for DTT Multiplex A), and participation revenue (which includes interactive sales from competitions).

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 60% of ITV network spend. Programming is also sold to other UK broadcasters such as the BBC, Channel 4 and Sky.

ITV Studios America is the largest 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 four other international locations being Australia, Germany, France 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 the UK.

Global Entertainment, ITV's distribution business, licenses 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.

EBITA before exceptional items

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

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

	2014 £m	2013 £m
EBITA before exceptional items	**730**	620
Operating exceptional items	**(12)**	(8)
Amortisation of intangible assets	**(67)**	(66)
Net financing costs	**(51)**	(115)
Share of losses of joint ventures and associated undertakings	**–**	(2)
Gain on sale of non-current assets (exceptional items)	**4**	–
Gain on sale of subsidiaries and investments (exceptional items)	**1**	6
Profit before tax	**605**	435

The Group's principal operations are in the United Kingdom. Its revenue from external customers in the United Kingdom is £2,123 million (2013: £1,982 million), and total revenue from external customers in other countries is £467 million (2013: £407 million).

There are two media buying agencies (2013: three) acting on behalf of a number of customers that represent the Group's major customers. These agencies are the only customers which individually represent over 10% of the Group's revenue. Revenue of approximately £571 million (2013: £527 million) and £312 million (2013: £235 million) was derived from these customers. This revenue is attributable to the 'Broadcast & Online' segment.

Cash generated from operations

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

	2014 £m	2013 £m
Cash flows from operating activities		
Profit before tax	**605**	435
Gain on sale of subsidiaries and investments (exceptional items)	**(1)**	(6)
Gain on sale of non-current assets (exceptional items)	**(4)**	–
Share of losses of joint ventures and associated undertakings	**–**	2
Net financing costs	**51**	115
Operating exceptional items	**12**	8
Depreciation of property, plant and equipment	**27**	24
Amortisation of intangible assets	**67**	66
Share-based compensation and pension service costs	**14**	20
Increase in programme rights and other inventory, and distribution rights	**(39)**	(42)
Decrease/(increase) in receivables	**18**	(15)
(Decrease)/increase in payables	**(48)**	42
Movement in working capital	**(69)**	(15)
Cash generated from operations before exceptional items	**702**	649

Included in the increase in inventory is the investment by ITV Studios in high end drama, which is discussed in the Financial and Performance Review.

Operating costs

Staff costs

Staff costs before exceptional items can be analysed as follows:

	2014 £m	2013 £m
Wages and salaries	**293**	255
Social security and other costs	**45**	42
Share-based compensation (see note 4.7)	**14**	14
Pension costs	**22**	19
Total staff costs	**374**	330
Less: staff costs allocated to productions	**(136)**	(103)
FTEE staff costs (non-production)	**238**	227

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

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:

	2014	2013
Broadcast & Online	**2,042**	2,049
ITV Studios	**2,517**	2,208
	4,559	4,257

The increase in full-time equivalent employees in ITV Studios is primarily driven by the acquisitions completed in 2014.

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 2014 are set out in the ITV plc entity financial statements.

Depreciation

Depreciation in the year was £27 million (2013: £24 million), of which £15 million (2013: £12 million) relates to 'Broadcast & Online' and £12 million (2013: £12 million) to 'ITV Studios'.

Operating leases

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

2014	**Transponders**	**Property**	**Total**
Within one year	**38**	**13**	**51**
Later than one year and not later than five years	**123**	**33**	**156**
Later than five years	**158**	**16**	**174**
	319	**62**	**381**

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

The Group's operating leases relate to transponder assets and office and studio properties. The Group holds transmission supply agreements that require the use of specific transponder assets for a period of up to 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 typically run for a period of up to eight years and may have an option to renew after that date (options to renew are not included in the commitments table). Lease payments are generally subject to market review every five years to reflect market rentals, but because of the uncertainty over the amount of any future changes, such changes have not been reflected in the table above. None of the lease agreements include contingent rentals.

The total future minimum sublease payments expected to be received under non-cancellable subleases at the year end are £2 million (2013: £2 million).

The total operating lease expenditure recognised during the year was £49 million (2013: £45 million) and total sublease payments received were £1 million (2013: £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.

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

	2014 £m	2013 £m
For the audit of the Group's annual accounts	**0.6**	0.7
For the audit of subsidiaries of the Group	**0.2**	0.2
Audit-related assurance services	**0.2**	0.1
Total audit and audit-related assurance services	**1.0**	1.0
Taxation compliance services	**0.2**	0.1
Taxation advisory services	**0.2**	0.2
Other assurance services	**0.2**	0.2
Total non-audit Services	**0.6**	0.5
Total fees paid to KPMG	**1.6**	1.5

There were no fees payable in 2014 or 2013 to KPMG and associates for the auditing of accounts of any associate of the Group, internal audit services, services relating to corporate finance transactions entered into or proposed to be entered into, by or on behalf of the Group or any of its associates.

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

2.2 Exceptional items

Keeping it simple . . .

Exceptional items are material and are excluded from management's assessment of profit because by their nature they could distort the Group's underlying quality of earnings. They are typically gains or losses arising from events that are not considered part of the core operations of the business (e.g. costs relating to capital transactions, such as professional fees on acquisitions). These items are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis.

Accounting policies

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

Subsequent revisions of estimates for items initially recognised as exceptional 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.

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

Exceptional items

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

(Charge)/credit	Ref.	2014 £m	2013 £m
Operating exceptional items:			
Reorganisation and restructuring costs	A	**(6)**	–
Acquisition-related expenses	B	**(6)**	(8)
Total net operating exceptional items		**(12)**	(8)
Non-operating exceptional items:			
Gain on sale of non-current assets	C	**4**	–
Gain on sale and impairment of subsidiaries and investments	D	**1**	6
Total non-operating exceptional items		**5**	6
Total exceptional items before tax		**(7)**	(2)
Total exceptional items net of tax		**(5)**	(1)

A – Reorganisation and restructuring costs

In 2014 £6 million of non-recurring costs were incurred as a result of an ITV Studios restructuring initiative with the aim of driving commerciality and efficiencies within the UK production business.

B – Acquisition-related expenses

Acquisition-related expenses of £6 million include professional fees (mainly financial and legal due diligence) incurred on the acquisitions completed during the year of £3 million (2013: £5 million; see also note 3.4), and expenses in the period with respect to performance-based, employment linked contingent costs accrued to former owners of £3 million (2013: £3 million).

C – Gain on sale of non-current assets

In 2014 a £4 million gain on sale of non-current assets arose primarily as a result of the sale of a freehold property in Cardiff.

D – Gain on sale and impairment of subsidiaries and investments

The gain of £1 million in 2014 relates to a historical disposal. In 2013 the credit principally related to the gain of £6 million recognised on disposal of STV shares.

2.3 Taxation

Keeping it simple . . .

This section lays out the tax accounting policies, the current and deferred tax charges or credits in the year (which together make up the total tax charge or credit in the income statement), a reconciliation of what the tax charge on profits would be at the standard UK rate to the actual charge recorded and the movements in deferred tax assets and liabilities.

Accounting policies

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment in respect of previous years. The current tax charge is based on tax rates that are enacted or substantively enacted at the year end.

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

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for taxation purposes. The following temporary differences are not provided for:

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

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. A deferred tax asset is recognised only to the extent that it is probable that sufficient taxable profit will be available to utilise the temporary difference.

Recognition of deferred tax assets, therefore, involves judgement regarding the timing and level of future taxable income. Deferred tax assets and liabilities are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set-off.

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

	2014 £m	2013 £m
Current tax:		
Current tax charge before exceptional items	**(118)**	(78)
Current tax charge on exceptional items	**(2)**	(2)
	(120)	(80)
Adjustments for prior periods	**(6)**	3
	(126)	(77)
Deferred tax:		
Origination and reversal of temporary differences	**(9)**	(25)
Adjustments for prior periods	**3**	(3)
	(6)	(28)
Total taxation charge in the income statement	**(132)**	(105)

Adjustments for prior periods primarily arise where an outcome is obtained on certain tax matters which differs from expectations held when the related provision was made. Where the outcome is more favourable than the provision made, the difference is released, lowering the current year tax charge. Where the outcome is less favourable than our provision, an additional charge to current year tax will occur.

In order to understand how, in the income statement, a tax charge of £132 million (2013: £105 million) arises on a profit before tax of £605 million (2013: £435 million), the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

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

	2014 £m	2013 £m
Profit before tax	**605**	435
Taxation charge at UK corporation tax rate of 21.5% (2013: 23.25%)	**(130)**	(101)
Non-taxable income/non-deductible expenses	**1**	1
Adjustments for prior periods	**(3)**	–
Impact of changes in tax rate	**–**	(4)
Other	**–**	(1)
Total taxation charge in the income statement	**(132)**	(105)

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

The effective tax rate is the tax charge on the face of the income statement expressed as a percentage of the profit before tax. In the years ended 31 December 2014 and 31 December 2013, the effective tax rate is comparable to the standard rate of UK corporation tax. As explained in the Financial and Performance Review, the Group uses an adjusted tax rate to show the cash tax impact on its adjusted earnings.

Taxation – Other comprehensive income
Within other comprehensive income a tax charge totalling £3 million (2013: charge of £13 million) has been recognised representing deferred tax as analysed in the table below.

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 2014 £m	Recognised in the income statement £m	Recognised in OCI £m	At 31 December 2014 £m
Property, plant and equipment	(6)	5	–	**(1)**
Intangible assets	(19)	11	–	**(8)**
Programme rights	1	–	–	**1**
Pension scheme deficits	56	(16)	(4)	**36**
UK tax losses	1	(1)	–	**–**
Share-based compensation	13	–	1	**14**
Overseas	10	(6)	–	**4**
Other	(4)	1	–	**(3)**
	52	(6)	(3)	**43**

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

At 31 December 2014, total deferred tax assets are £55 million (2013: £81 million) and total deferred tax liabilities are £12 million (2013: £29 million).

The deferred tax balance relates to:

- property, plant and equipment temporary differences arising on assets qualifying for capital allowances;
- temporary differences on intangible assets arising on business combinations;
- temporary differences on intercompany profits on programme rights;
- pension scheme deficit temporary differences on the IAS 19 pension deficit and additional contributions resulting from funding through the SDN and LTVC pension partnerships (not recognised as contributions under IAS 19);
- UK tax loss temporary differences in receiving the benefit of the Group's tax losses;
- share-based compensation temporary differences on share schemes;
- overseas temporary differences on intangible assets and net operating losses arising in the US; and
- other temporary differences on miscellaneous items.

Deferred tax is provided at 20% (2013: 20%), which is the rate that was substantively enacted to apply from 2 July 2013. The impact of the change in the tax rate in 2013 from 23% to 20% was £6 million.

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 £103 million, including deficit contributions of £91 million, to the Group's defined benefit pension scheme. The adjustment in equity to the deferred tax balance primarily relates to the actuarial gains recognised in the period.

A deferred tax asset of £444 million (2013: £446 million) in respect of capital losses of £2,221 million (2013: £2,230 million) has not been recognised due to uncertainties as to the amount and whether a capital gain will arise in the appropriate form and relevant territory against which such losses could be utilised. For the same reasons, deferred tax assets in respect of overseas losses of £14 million (2013: £14 million) that time expire between 2017 and 2026 have not been recognised.

2.4 Earnings per share

Keeping it simple . . .

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

Basic EPS is calculated on the Group profit for the year attributable to equity shareholders of £466 million (2013: £326 million) divided by 4,002 million (2013: 3,929 million) being the weighted average number of shares in issue during the year.

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

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

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

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

Earnings per share 2014

	Ref.	Basic £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc		**466**	**466**
Weighted average number of ordinary shares in issue – million		**4,002**	**4,002**
Dilution due to share options	A	**–**	**38**
Total weighted average number of ordinary shares in issue – million		**4,002**	**4,040**
Earnings per ordinary share		**11.6**	**11.5**

Adjusted earnings per share 2014

	Ref.	Adjusted £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc		**466**	**466**
Exceptional items	B	**5**	**5**
Profit for the year before exceptional items		**471**	**471**
Amortisation and impairment of acquired intangible assets	C	**44**	**44**
Adjustments to net financing costs	D	**34**	**34**
Other tax adjustments	E	**5**	**5**
Adjusted profit	F	**554**	**554**
Total weighted average number of ordinary shares in issue – million		**4,002**	**4,040**
Adjusted earnings per ordinary share		**13.8**	**13.7**

Earnings per share 2013

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

Adjusted earnings per share 2013

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

Details of the adjustments to earnings are as follows:

A. The Group dilutes EPS for the impact of any share options and convertible instruments outstanding during the year. In the prior year the Group had a convertible Eurobond that contributed 136 million shares on a weighted average basis when determining diluted EPS. In October 2013 the Group repurchased 55% of the 2016 convertible Eurobond and settled the remainder for equity. This resulted in an additional 95 million new shares being issued.

B. Both operating and non-operating exceptional items (detailed in note 2.2) are adjusted to reflect profit for the year before exceptional items. A net tax credit of £2 million (2013: £1 million credit) is recognised on the total exceptional items charge of £7 million (2013: £2 million charge).

C. Amortisation and impairment of acquired intangible assets of £44 million (2013: £42 million) is calculated as total amortisation and impairment of £67 million (2013: £66 million), less amortisation of software licences and development of £11 million (2013: £12 million). A related tax credit of £12 million (2013: £12 million) is then recognised on the net amount.

D. Gross adjustments of £44 million (2013: £90 million) have been made to net financing costs and relate to mark-to-market movements on derivative instruments, losses on buybacks and imputed pension interest charges (see note 4.4 for details). This is reduced by a tax credit of £10 million (2013: £21 million) to give a net adjustment of £34 million (2013: £69 million).

E. Other tax adjustments primarily reflect the cash tax benefit received on goodwill arising from the US acquisitions, which for tax purposes is amortised over a 15 year period (2013: the adjustment reflects the impact on the deferred tax charge resulting from a decrease in the statutory tax rate from 23% to 20%).

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

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

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

3.1 Working capital

Keeping it simple . . .

Working capital represents the assets and liabilities the Group generates through its trading activity. The Group therefore defines working capital as distribution rights, programme rights and 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, a key performance indicator for the Group. The Group's target 'profit to cash' ratio on a rolling three year basis is at least 90%.

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

3.1.1 Distribution rights

Accounting policies

'Distribution rights' are programme rights the Group buys from producers to derive future 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 maximum five-year period that is dependent on either cumulative sales and programme genre, or based on forecast future sales. 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 are as follows:

	2014 £m	2013 £m
Distribution rights	**13**	10

The movement during the year comprises additions of £21 million (2013: £16 million) and amounts charged to the income statement of £18 million (2013: £23 million).

3.1.2 Programme rights and other inventory

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 written off are included in the statement of financial position at the lower of cost and net realisable value.

Broadcast programme rights

Acquired programme rights (which include films), and sports rights, are purchased for the primary purpose of broadcasting on the ITV network. 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, incremental costs are included in operating costs

Where a repeat of a programme is broadcast, the Group recognises the incremental costs associated with the broadcast 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.

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 production cost as incurred and are recognised in operating costs on delivery of episodes.

Also included here are dramas that have been commissioned straight to series. Although more expensive than producing a pilot, this method attracts high profile talent to the production and raises the profile of the series to support its distribution. The production cost is partly funded by network pre-sales, while the remainder, the “deficit”, is carried internally and covered by future sales.

In assessing net realisable value for programmes in production, judgement is required when considering the contracted sales price and estimated costs to complete.

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

	2014 £m	2013 £m
Acquired programme rights	**101**	110
Commissions	**57**	46
Sports rights	**40**	57
Production costs	**169**	109
	367	322

Programme rights and other inventory written down in the year were £1 million (2013: £1 million).

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

3.1.3 Programme commitments

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

	2014 £m	2013 £m
Within one year	**464**	444
Later than one year and not more than five years	**462**	431
More than five years	**58**	3
	984	878

3.1.4 Trade and other receivables

Accounting policies

Trade receivables are recognised initially at the value of the invoice sent to the customer and subsequently at the amounts considered recoverable (amortised cost). Where payments are not due for more than one year, they are shown in the financial statements at their net present value to reflect the economic cost of delayed payment. The Group provides goods and services to substantially all its customers on credit terms.

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

The carrying value of trade receivables is considered to approximate fair value.

Trade and other receivables can be analysed as follows:

	2014 £m	2013 £m
Due within one year:		
Trade receivables	**271**	295
Other receivables	**27**	40
Prepayments and accrued income	**87**	53
	385	388
Due after more than one year:		
Trade receivables	**7**	11
Other receivables	**17**	3
Total trade and other receivables	**409**	402

Other receivables due after more than one year include £11 million (2013: £nil) relating to 2014 acquisitions (see note 3.4 for details).

£278 million (2013: £306 million) of total trade receivables that are not impaired are aged as follows:

	2014 £m	2013 £m
Current	**263**	296
Up to 30 days overdue	**7**	8
Between 30 and 90 days overdue	**4**	2
Over 90 days overdue	**4**	–
	278	306

The balance above is stated net of a provision of £7 million (2013: £7 million) for impairment of trade receivables. Of the provision total, £3 million relates to balances overdue by more than 90 days (2013: £3 million) and £4 million relates to current balances (2013: £4 million).

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

	2014 £m	2013 £m
At 1 January	**7**	7
Charged during the year	**2**	1
Receivables written off during the year as uncollectable (utilisation of provision)	**–**	(1)
Unused amounts reversed	**(2)**	–
At 31 December	**7**	7

3.1.5 Trade and other payables due within one year

Accounting policies

Trade payables are recognised at the value of the invoice received from a supplier.

The carrying value of trade payables is considered to approximate fair value.

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

	2014 £m	2013 £m
Trade payables	**49**	43
VAT and social security	**68**	67
Other payables	**159**	156
Accruals and deferred income	**423**	436
	699	702

3.1.6 Trade payables due after more than one year

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

	2014 £m	2013 £m
Trade payables	**27**	42

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

3.1.7 Working capital management

Cash and working capital management continues to be a key focus. During the year the cash outflow from working capital was £69 million (2013: outflow of £15 million) derived as follows:

	2014 £m	2013 £m
Increase in programme rights and other inventory and distribution rights	**(39)**	(42)
Decrease/ (increase) in receivables	**18**	(15)
(Decrease)/increase in payables	**(48)**	42
Working capital outflow	**(69)**	(15)

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

The outflow is largely driven by the increase in production inventory as a result of increased investment in scripted content, predominantly in the US.

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

3.2 Property, plant and equipment

Keeping it simple . . .

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

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

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

Accounting policies

Property, plant and equipment

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

Leases

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

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

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

All other leases are operating leases, the rentals on which are charged to the income statement on a straight-line basis over the lease term (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[1]	3 to 20 years

1. Equipment includes studio production and technology assets.

Impairment of assets

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

Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	Freehold land and buildings	Improvements to leasehold land and buildings		Vehicles, equipment and fittings		Total
		Long	Short	Owned	Finance leases	
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2013	14	76	16	203	16	325
Additions	58	24	1	23	–	106
Reclassification of acquired property	32	(32)	–	–	–	–
Reclassification from assets held for sale	33	1	–	8	–	42
Disposals and retirements	–	–	–	(13)	–	(13)
At 31 December 2013	**137**	**69**	**17**	**221**	**16**	**460**
Additions	–	–	–	26	–	26
Reclassification of property fittings	–	(2)	–	2	–	–
Disposals and retirements	(17)	–	–	(12)	–	(29)
At 31 December 2014	**120**	**67**	**17**	**237**	**16**	**457**
Depreciation						
At 1 January 2013	3	16	15	121	14	169
Charge for the year	1	1	–	22	–	24
Reclassification of acquired property	7	(7)	–	–	–	–
Reclassification from assets held for sale	12	1	–	8	–	21
Disposals and retirements	–	–	–	(13)	–	(13)
At 31 December 2013	**23**	**11**	**15**	**138**	**14**	**201**
Charge for the year	1	2	–	24	–	27
Disposals and retirements	(7)	–	–	(12)	–	(19)
At 31 December 2014	**17**	**13**	**15**	**150**	**14**	**209**
Net book value						
At 31 December 2014	**103**	**54**	**2**	**87**	**2**	**248**
At 31 December 2013	114	58	2	83	2	259

There are additions of £5 million in 2014 relating to acquisitions made in the year (2013: £nil).

Included within property, plant and equipment are assets in the course of construction of £10 million (2013: £66 million). In 2013 this included construction costs in relation to the new Coronation Street set, which was completed in early 2014.

During the year, the Group sold a freehold property in Cardiff for proceeds of £15 million, representing a gain on sale of £5 million.

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

Capital commitments
There are £2 million of capital commitments at 31 December 2014 (2013: £3 million).

3.3 Intangible assets

Keeping it simple . . .

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

These assets include 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 call option and the put option liability is recognised within finance income or cost.

Subsequent adjustments to the fair value of net assets acquired can only be made within 12 months of the acquisition date, and only if fair values were determined provisionally at an earlier reporting date. These adjustments are accounted for from the date of acquisition.

Acquisitions of non-controlling interests are accounted for as transactions with owners and therefore no goodwill is recognised as a result of such transactions. Transaction costs incurred in connection with those business combinations, such as legal fees, due diligence fees and other professional fees, are expensed as incurred.

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

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

Other intangible assets

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

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

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

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

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

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

Class of intangible asset	Valuation method	Amortisation method	Estimated useful life
Brands	Applying a royalty rate to the expected future revenue over the life of the brand.	Straight-line	up to 14 years
Customer contracts and relationships	Expected future cash flows from those contracts and relationships existing at the date of acquisition are estimated. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value.	Straight-line or reducing balance as appropriate	up to 6 years for customer contracts 5 to 10 years for customer relationships
Contractual arrangements	Expected future cash flows from those contracts existing at the date of acquisition are estimated. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value.	Straight-line	up to 10 years depending on the contract terms
Licences	Start-up basis of expected future cash flows existing at the date of acquisition. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value.	Straight-line	11 to 17 years depending on term of licence
Libraries and other	Initially at cost and subsequently at cost less accumulated amortisation.	Sum of digits or straight line as appropriate	up to 20 years
Software licences and development	Initially at cost and subsequently at cost less accumulated amortisation.	Straight-line	1 to 5 years

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

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

Amortisation

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

Impairment

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

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

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

An impairment test is performed by assessing the recoverable amount of each asset, or for goodwill, the cash-generating unit (or group of cash-generating units) related to the goodwill. Total assets (which includes 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.

The Group applies cautious assumptions for impairment testing. Estimates are used in deriving these cash flows and the discount rate. Such estimates reflect current market assessments of the risks specific to the asset and the time value of money. The estimation process is complex due to the inherent risks and uncertainties. If different estimates of the projected future cash flows or a different selection of an appropriate discount rate or long-term growth rate were made, these changes could materially alter the projected value of the cash flows of the asset, and as a consequence materially different amounts would be reported in the financial statements.

Impairment losses in respect of goodwill are not reversed. In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Intangible assets

Intangible assets can be analysed as follows:

	Goodwill £m	Brands £m	Customer contracts and relationships £m	Contractual arrangements £m	Licences £m	Libraries and other £m	Software licences and development £m	Total £m
Cost								
At 1 January 2013	3,411	175	332	10	121	79	78	4,206
Additions	58	4	20	–	–	2	–	84
Foreign exchange	(2)	–	–	–	–	–	–	(2)
At 31 December 2013	**3,467**	**179**	**352**	**10**	**121**	**81**	**78**	**4,288**
Additions	146	21	30	–	–	16	11	224
Foreign exchange	14	1	3	–	–	–	–	18
At 31 December 2014	**3,627**	**201**	**385**	**10**	**121**	**97**	**89**	**4,530**
Amortisation and impairment								
At 1 January 2013	2,654	143	306	–	74	43	48	3,268
Charge for the year	–	16	20	2	9	7	12	66
At 31 December 2013	**2,654**	**159**	**326**	**2**	**83**	**50**	**60**	**3,334**
Charge for the year	–	18	21	3	7	7	11	67
At 31 December 2014	**2,654**	**177**	**347**	**5**	**90**	**57**	**71**	**3,401**
Net book value								
At 31 December 2014	**973**	**24**	**38**	**5**	**31**	**40**	**18**	**1,129**
At 31 December 2013	813	20	26	8	38	31	18	954

All intangible asset additions in the year, excluding software, are due to the acquisition of three production companies, as detailed in note 3.4 (2013: four production companies acquired).

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

Goodwill impairment tests
The following CGUs represent the carrying amounts of goodwill:

	2014 £m	2013 £m
Broadcast & Online	**342**	342
SDN	**76**	76
ITV Studios	**555**	395
	973	813

There has been no impairment charge for the year (2013: £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% (2013: 2%). The growth rate used is consistent with the long-term average growth rates for both the industry and the country 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.

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.

No impairment charge arose in the Broadcast & Online CGU during the course of 2014 (2013: £nil).

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

The key assumption in assessing the recoverable amount of Broadcast & Online goodwill is the size of the television advertising market. In forming its assumptions about the television advertising market, the Group has used a combination of long-term trends, industry forecasts and in-house estimates, which place greater emphasis on recent experience. The latest range of forecasts for the advertising market is 2-5% for 2015. No impairment was identified. Also as part of the review, a sensitivity of up to -10% was applied to 2015 for the purposes of the impairment test, again with no impairment identified.

A pre-tax market discount rate of 10.6% (2013: 11.3%) has been used in discounting the projected cash flows.

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

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

No impairment charge arose on the SDN goodwill during the course of 2014 (2013: £nil).

The main assumptions on which the forecast cash flows are based are: income to be earned from medium-term contracts; the market price of available multiplex video streams in the period up to and beyond digital switchover; and the pre-tax market discount rate. These assumptions have been determined by using a combination of current contract terms, recent market transactions and in-house estimates of video stream availability and pricing.

A pre-tax market discount rate of 12.6% (2013: 13.1%) has been used in discounting the projected cash flows.

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

ITV Studios

The goodwill for ITV Studios 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 in 2012 to 2014, with the largest addition being Leftfield in 2014.

No impairment charge arose in the ITV Studios CGU during the course of 2014 (2013: £nil).

The key assumptions on which the forecast cash flows were based include revenue (including international revenue and the ITV Studios share of ITV output, growth in commissions and hours produced), margin growth and the pre-tax market discount rate. These assumptions have been determined by using a combination of extrapolation of historical trends within the business, industry estimates and in-house estimates of growth rates in all markets.

A pre-tax market discount rate of 11.7% (2013: 12.2%) has been used in discounting the projected cash flows.

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

Following the acquisitions made by ITV Studios in 2014, the Directors considered how assets and resources are shared across the Studios division and the level of integration within the management structure for the purposes of reporting and strategic decision-making. They concluded that a single Studios CGU continues to remain appropriate.

3.4 Acquisitions

Keeping it simple . . .

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

All of the deals are structured so that a large part of the payment made to the sellers is determined based on future performance ('consideration'). 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 are therefore excluded from adjusted profit.

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

Acquisitions

During 2014 the Group completed three acquisitions, all of which have been included in the results of the Studios operating segment. Each of the businesses fit with the strategy of growing the Group's international content business and to work with other parts of the Studios segment to exploit that content globally. The following sections provide a summary of each.

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Leftfield Entertainment Group
On 7 May the Group acquired 80% of the membership interests in New York-based producer Leftfield Entertainment Group ('Leftfield'). Leftfield owns Sirens Media and has established two start-up operations: Loud Television and Outpost Entertainment. Together these businesses produce unscripted programming for over 30 US networks.

The acquisition of Leftfield makes ITV the largest unscripted independent producer in the US and represents a significant contribution to the Group's strategy of building a strong international content business, particularly in the US. Its New York base gives ITV Studios a significant presence on both the east and west coasts and strengthens and complements our existing creative capability.

Key terms
Cash consideration of £214 million ($360 million) was paid at acquisition and the maximum total consideration for 100% of the business, including the initial payment, is £496 million ($800 million, undiscounted). The remaining consideration of up to £282 million ($440 million) will be assessed at two stages in the next five years, and the full amount will only be due should Leftfield deliver exceptional earnings growth.

There is a two way adjustment mechanism used at the first stage which will result in a payment or receivable in 2016 and is based on average performance across 2014 and 2015 against stretching growth earnings targets. Up to £69 million ($107 million, undiscounted maximum) would be payable to the seller where the business outperforms the performance target. If the minimum threshold performance targets are not met, the Group would be entitled to receive a performance adjustment of up to £30 million ($50 million, undiscounted). The adjustment is accounted for as contingent consideration.

The second stage payment comes in the form of a call and put option that has been granted over the remaining 20% non-controlling interest. The call option is first exercisable in the first half of 2017 and then again following expiry of the vendors' put option, which is exercisable in 2019. The maximum amount that the Group could pay for the remaining 20% equity interest is the residual of the £282 million less any amounts paid in 2016 ($440 million in total, undiscounted). Final payment will be entirely dependent on future performance of the business, which would need to be exceptional for the maximum to be achieved.

There are also call and put options over the non-controlling interests of Leftfield's two start-up operations that are exercisable in 2019. The final payout is dependent on future performance over the next five years and is linked to ongoing employment. The maximum consideration payable by the Group is £8 million ($13 million, undiscounted).

Acquisition accounting
The Group consolidates all of the earnings of the business and the vendors' remaining interest is recognised as a non-controlling interest in equity.

Intangibles — being the value placed on brands, customer contracts, non-compete arrangements and libraries — of £65 million ($109 million) were identified. Other fair value adjustments have been made to the opening balance sheet, though none of them are individually significant.

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

Based on the Group's projections at acquisition, which were adjusted as part of the finalisation of the acquisition accounting, a revision of £41 million was made to goodwill and reflects the performance adjustment and fair value of the non-controlling interest. The expected value of the put option at the date of acquisition was £18 million ($30 million, discounted).

At the year end, the Group has shown the gross put option liability of £21 million, net of the performance adjustment receivable of £32 million, on the Statement of Financial Position.

Any future changes in the fair value of the put option liability or performance adjustment arising from a reassessment of projections will be reported within financing costs on the income statement, and excluded from adjusted profit.

Other acquisitions
The Group made an initial payment of £6 million for two smaller acquisitions in the period with a view that these acquisitions will strengthen and complement ITV's existing position as a producer for major television networks in both the US and the Nordics.

On 14 February 2014, the Group acquired 51% of the membership interest in DiGa Vision, a US-based producer that specialises in reality and scripted programming. The Group consolidates all the earnings of this business and the vendors' remaining interest will be recognised as a non-controlling interest in equity. A call and put option has been granted over the 49% non-controlling interest, with the put and call options both being exercisable over three to six years. The maximum additional consideration that the Group could pay for the remaining interest is £28 million ($42 million, undiscounted).

On 27 February 2014, the Group then acquired 100% of United Productions, a company based in Denmark specialising in factual, entertainment and reality programmes. Contingent consideration includes a performance-based payment of £1 million (maximum £3 million, undiscounted) due to be paid in 2018 and an earnout payment capped at £1 million (undiscounted).

Key contractual arrangements of £2 million were identified across the two acquisitions and goodwill, which represents the value placed on the opportunity to grow the content produced by the Group, has been provisionally valued at £7 million. The goodwill amortisation attributable to DiGa is expected to be deductible for US tax purposes.

Acquisitions in 2013
In 2013 the Group made four acquisitions. Two were US producers High Noon and Thinkfactory, where total initial consideration (net of £4 million of cash acquired) of £31 million was paid for 60% and 65% membership interests respectively. Call and put options were granted over the non-controlling interest and the discounted put option liability at the acquisition date totalled £13 million. The maximum consideration which the Group could pay for the remaining interest across both businesses is £93 million ($144 million, undiscounted). Final payment will be entirely dependent on future performance of the business.

A 100% equity interest was acquired in UK-based producers The Garden and Big Talk, for total initial consideration (net of £6 million of cash acquired) of £25 million. The maximum additional amount payable is £45 million (undiscounted), and is being accounted for as an earnout payment.

Intangibles of £26 million were identified, largely reflecting the value placed on brands, customer contracts and contractual arrangements.

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

Effect of acquisition

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

£m	Leftfield	Other	**2014 Total**	2013 Total
Consideration transferred:				
Initial consideration (net of cash acquired) (Note A)	209	5	**214**	56
Contingent consideration (Note B)	(30)	1	**(29)**	6
Total consideration	179	6	**185**	62
Fair value of net assets acquired:				
Property, plant and equipment	5	–	**5**	–
Intangible assets	65	2	**67**	26
Trade and other receivables	30	2	**32**	32
Trade and other payables	(42)	(3)	**(45)**	(41)
Fair value of net assets	58	1	**59**	17
Non-controlling interest measured at fair value (Note C)	18	2	**20**	13
Goodwill	139	7	**146**	58
Other information:				
Present value at acquisition of the liability on options	18	2	**20**	13
Present value at acquisition of the earnout payment	2	2	**4**	15
Contributions to the Group's performance:				
Revenue – acquisition to date	57	5	**62**	61
Profit after tax – acquisition to date	14	–	**14**	3
Revenue – January to December	83	5	**88**	96
Profit after tax – January to December	20	–	**20**	6

Note A: Cash of £5 million was acquired with Leftfield and £1 million with DiGa.
Note B: At year end the Leftfield contingent consideration was valued at £32 million due to currency translation (see note 4.5)
Note C: Non-controlling interest arises where the Group acquires less than 100% of the equity interest in a business, but obtains control.

3.5 Investments

Keeping it simple . . .

The Group holds minority 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 fixed asset 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 a fixed asset 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. For fixed asset investments no share of profits or losses are recognised.

The carrying value of all investments are shown as non-current assets on the Statement of Financial Position. The £10 million increase in the year comprises £7 million in relation to the acquisition of associates and fixed asset investments and £3 million of funding to existing joint ventures.

Principal investments
The Company indirectly held at 31 December 2014 the following holdings in significant joint ventures, associates and investments:

Name	**Interest in ordinary share capital 2014 %**	Interest in ordinary share capital 2013 %	Principal activity
Joint ventures			
Freesat (UK) Limited	**50.0**	50.0	Provision of a standard and high definition enabled digital satellite proposition
Digital 3 & 4 Limited	**50.0**	50.0	Operates the Channel 3 & 4 digital terrestrial multiplex
Associates			
Independent Television News (ITN) Limited	**40.0**	40.0	Supply of news services to broadcasters in the UK and elsewhere
Mammoth Screen Limited	**25.0**	25.0	Production of scripted content
Tomorrow ITV Studios [1]	**–**	–	Production of scripted content
Indigenous Media [2]	**–**	–	Production of content for digital distribution
Fixed asset investments			
Believe Entertainment [3]	**–**	–	Production of content for digital distribution
Zealot Networks [4]	**–**	–	Digital-first media company

1. 25% preferred interest.
2. 14.7% preferred interest.
3. 5.2% preferred interest
4. 6% preferred interest.

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.

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

Provisions

The movements in provisions during the year are as follows:

	Contract provisions £m	Restructuring provisions £m	Property provisions £m	Other provisions £m	Total £m
At 1 January 2014	7	1	4	15	27
Utilised	(4)	(1)	(1)	–	(6)
At 31 December 2014	**3**	**–**	**3**	**15**	**21**

Provisions of £17 million are classified as current liabilities (2013: £19 million). Unwind of the discount is £nil in 2014 and 2013.

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

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

Other provisions of £15 million primarily relate to potential liabilities that may arise as a result of Boxclever having been placed into administrative receivership, most of which relate to pension arrangements. In 2011 the Determinations Panel of The Pensions Regulator determined that Financial Support Directions ('FSDs') should be issued against certain companies within the Group in relation to the Boxclever pension scheme. The Group immediately referred this decision to the Upper Tribunal (thereby effectively appealing it). An FSD would require the Company to put in place financial support for the Boxclever scheme; however, it cannot be issued during the period of the reference. The reference process is ongoing and aside from procedural issues there were no substantive case developments in the period. The Directors have obtained leading counsel's opinion and extensive legal advice in connection with the proceedings and continue to believe that the provision held is appropriate.

3.7 Pensions

Keeping it simple . . .

Historically, the Group offered its employees the opportunity to participate in a number of defined benefit schemes, but these (collectively referred to as 'the Scheme') closed to new members in 2006. Since then a defined contribution pension scheme has been made available to all new employees and, where taken up, the Group makes fixed payments into a separate fund on their behalf, and has no further obligation. 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.

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

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 2014, total contributions expensed were £14 million (2013: £8 million).

Defined benefit scheme

The Group's obligation in respect of the Scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of scheme assets is then deducted. The discount rate used is the yield at the valuation date on high quality corporate bonds of a similar duration to the timing of the future expected benefit payments.

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. These calculations are performed by a qualified actuary.

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

Defined benefit schemes

Keeping it simple . . .

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 manages the necessary investment, mortality and inflation risks in order to meet these obligations. In the event of poor returns the Group needs to address this through a combination of increased levels of contribution or by making adjustments to the 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.

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.

The level of retirement benefit for the Scheme is principally based on pensionable salary at retirement. The latest triennial valuation of the Scheme was undertaken as at 1 January 2011 by an independent actuary appointed by the Trustee of the Scheme and agreed in 2012. The next triennial valuation will be as at 1 January 2014 and is expected to be agreed in 2015. This will drive subsequent contribution rates.

An unfunded scheme in relation to previous Directors is accounted for under IAS 19 and the Group is responsible for meeting the pension obligations as they fall due. It is securitised by assets held outside of the ITV Pension Scheme in the form of gilts and included within cash and cash equivalents (see note 4.1).

The defined benefit pension deficit

The net pension deficit at 31 December 2014 was £346 million (2013: £445 million).

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

	2014 £m	2013 £m
Total defined benefit scheme obligations	**(3,687)**	(3,315)
Total defined benefit scheme assets	**3,341**	2,870
Net pension deficit	**(346)**	(445)

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.

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Section 3: Operating Assets and Liabilities

Total defined benefit scheme obligations

Keeping it simple . . .

The section below describes the key areas that impact the defined benefit obligation (the pension scheme liabilities) position at the year end. Each area can be defined as:

- Current service cost – the cost to the Group of future benefits earned by members which are attributable to the members' service in the current period. This is charged to operating costs in the income statement.
- Interest cost – future pension obligations are stated in present value, and therefore a discount factor is used to state the current worth of a future cost. This interest cost is the unwinding of the discount on the present value of the obligation. Broadly, it is determined by multiplying the discount rate at the beginning of the period by the present value of the obligation during the period. This is recognised through net financing costs in the income statement (see note 4.4).
- Actuarial gains or losses – arise from differences between the actual and expected outcome in the valuation of the obligation. These can be experience adjustments, which are differences between the assumptions made and what actually occurred, or they can result from changes in assumptions, such as movements in high quality corporate bond rates. Actuarial gains or losses are recognised through other comprehensive income.
- Benefits paid – any cash benefits paid out by the Scheme will reduce the obligation.

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

	2014 £m	2013 £m
At 1 January	**3,315**	3,244
Current service cost	**7**	8
Interest cost	**144**	133
Actuarial loss	**366**	70
Benefits paid	**(145)**	(140)
At 31 December	**3,687**	3,315

Of the above total defined benefit obligation at 31 December 2014, £48 million relates to unfunded schemes (2013: £44 million). See note 4.1 for details.

Assumptions

Keeping it simple . . .

Assumptions used to calculate the best estimate of future cash flows to be paid out by the Scheme include: 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 and ultimately the discount rate used to estimate the present day fair value of these obligations.

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 discount rate has therefore been obtained using the yields available on AA rated corporate bonds over a term of 15 years (2013: 15 years), which is the Group's estimate of the weighted average term of the liabilities.

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

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

	2014	2013
Discount rate for:		
Past service liabilities	**3.50%**	4.45%
Future service liabilities	**3.70%**	4.60%
Inflation assumption for:		
Past service liabilities	**3.00%**	3.35%
Future service liabilities	**3.05%**	3.40%
Rate of pensionable salary increases	**0.9%**	0.9%
Rate of increase in pension payment (LPI[1] 5% pension increases)	**2.90%**	3.25%
Rate of increase to deferred pensions (CPI)	**2.00%**	2.35%

1. Limited Price Index

Both the discount rate and the inflation assumption have been selected by reference to yield curves with terms and cash flow weightings consistent with the pension obligations.

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:

	2014	**2014**	2013	2013
Retiring today at age	**60**	**65**	60	65
Males	**27.9**	**23.1**	27.8	23.0
Females	**30.5**	**25.6**	30.4	25.5
Retiring in 20 years at age	**60**	**65**	60	65
Males	**29.9**	**24.9**	29.8	24.8
Females	**32.5**	**27.5**	32.4	27.4

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

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

Assumption	Change in assumption	Impact on defined benefit obligation
Discount rate	Increase/decrease by 0.5%	Decrease/increase by £270 million / £310 million
Rate of inflation (Retail Price Index)	Increase/decrease by 0.5%	Increase/decrease by £100 million / £90 million
Rate of inflation (Consumer Price Index)	Increase/decrease by 0.5%	Increase/decrease by £50 million / £40 million
Life expectations	Increase by one year	Increase by £100 million

The sensitivities above consider the impact of the single change shown with the other assumptions unchanged. The inflation sensitivities allow for the consequential impact on the relevant pension increase assumptions. The sensitivity analyses have been determined by extrapolating the impact on the defined benefit obligation of reasonable changes in key assumptions occurring at the end of the reporting period.

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

The sensitivity for life expectations excludes the longevity swap (see the following 'Keeping it Simple' box for the definition). It is estimated that a £75 million benefit would arise on the value of the longevity swap from a one year increase in the market-based assumption of mortality.

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. 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 pension deficit.

One such instrument is the longevity swap which the Scheme transacted in 2011 to obtain protection against the effect of increases in the life 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 has a nil valuation at inception and, using market-based assumptions, is subsequently adjusted for changes in the market life expectancy and market discount rates.

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:

	2014 £m	2013 £m
Fair value of Scheme assets at 1 January	**2,870**	2,693
Interest income on Scheme assets	**128**	113
Return on assets, excluding interest income	**390**	118
Employer contributions	**103**	91
Benefits paid	**(145)**	(140)
Administrative expenses paid	**(5)**	(5)
Fair value of Scheme assets at 31 December	**3,341**	2,870

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 2014 was an increase of £518 million (2013: increase of £231 million).

At 31 December 2014 the Scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. The fair value of the Scheme's assets are shown in the following table by major category.

	Market value 2014 £m	Market value 2013 £m
Quoted equities	**654**	747
Quoted bonds *	**2,329**	1,711
Total quoted assets	**2,983**	2,458
Property	**51**	49
Infrastructure	**77**	65
Hedge funds/alternatives	**183**	165
Insurance policies	**42**	38
Cash and cash equivalents	**50**	110
Other	**22**	8
Longevity swap fair value	**(67)**	(23)
Total unquoted assets	**358**	412
Total Scheme assets	**3,341**	2,870

* Quoted bonds include interest rate and inflation swaps.

Included in the above are overseas assets of £1,218 million (2013: £872 million), comprised of equities of £569 million (2013: £576 million) and bonds of £649 million (2013: £296 million).

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.

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

Amounts recognised through the income statement

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

	2014 £m	2013 £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	**(16)**	(20)
Total charged in the consolidated income statement	**(28)**	(33)

Amounts recognised through the consolidated statement of comprehensive income

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

	2014 £m	2013 £m
Remeasurement gains and (losses):		
Return on scheme assets excluding interest income	**390**	118
Actuarial losses on liabilities arising from change in:		
— demographic assumptions	**–**	(66)
— financial assumptions	**(402)**	(4)
— updated valuation data	**36**	–
	(366)	(70)
Total recognised in the consolidated statement of comprehensive income	**24**	48

The £366 million actuarial loss on the Scheme's liabilities was principally due to a material fall in bond yields over the year, which has resulted in a large increase in the liabilities. The £390 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.

Addressing the net 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, setting out the annual deficit payments to be made by the Group. A recovery plan setting out the steps that would 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 2015 for current service are expected to be in the region of £11 million (2014: £10 million) assuming current contribution rates continue as agreed with the Trustee.

The Group's deficit funding contributions to Sections A, B and C will be reviewed following the result of the 2014 triennial valuation, expected in Q2 2015. The 2015 deficit payments are not expected to exceed those made in 2014.

Under the SDN pension partnership, set up in 2010, the Group has agreed to make deficit payments of £11 million for 12 years from 2011. The LTVC partnership, established in March 2014, commits the Group to an annual deficit payment of £2 million in 2015, increasing by 5% per annum until 2038.

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 repurchase of the bilateral loan 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.

In 2014, a Tax and Treasury committee was established, acting under delegated authority from the Board, in order to approve certain financial transactions and to monitor compliance with the Group's tax and treasury policies.

4.1 Net cash

Keeping it simple . . .

Net cash is the Group's key measure used to evaluate total cash resources net of the current outstanding debt.

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 expected contingent payments on acquisitions, our IAS 19 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.

In defining total outstanding debt the Directors consider it appropriate to include the currency impact of swaps held against specific debt instruments.

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

	1 January 2014 £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	**31 December 2014 £m**
Cash	438	(199)	(5)	**234**
Cash equivalents	80	(17)	–	**63**
Total cash and cash equivalents	518	(216)	(5)	**297**
Loans and facilities due within one year	(41)	41	(78)	**(78)**
Finance leases due within one year	(21)	21	(7)	**(7)**
Loans and facilities due after one year	(301)	62	78	**(161)**
Finance leases due after one year	(17)	–	7	**(10)**
Total debt	(380)	124	–	**(256)**
Currency component of swaps held against euro denominated bonds	26	(26)	–	**–**
Net cash	164	(118)	(5)	**41**

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

Cash and cash equivalents

Included within cash equivalents is £16 million (2013: £36 million), the use of which is restricted to meeting finance lease commitments under programme sale and leasebacks (see note 4.2), and gilts of £39 million (2013: £36 million) in respect of which a charging deed was executed on the unfunded pension commitments of four former Granada executives. Legal action has commenced to try and remove the charge.

The Group 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.

Loans and facilities due within one year

The unsecured £78 million Eurobond, which has a coupon of 5.375% and a maturity of October 2015 was reclassified to current borrowings.

In June 2014 the unsecured £41 million (€50 million) Eurobond matured, resulting in a net payment by the Group of £15 million, after settlement of the Group's related outstanding cross-currency interest rate swaps.

Loans and loan notes due after one year

The Group has one loan that is repayable between two and five years as at 31 December 2014. The unsecured £161 million Eurobond matures in January 2017 and has a coupon of 6.125%.

In January 2014 the Group repurchased the remaining principal of £62 million on the 2019 bilateral loan for a cash cost of £95 million. The repurchase is expected to result in future cash savings of £44 million. The loss arising on settlement of £30 million has been included in net financing costs (note 4.4) but excluded from adjusted profit for the year.

In 2013 £138 million of the 2019 bilateral loan was repaid from cash and the held to maturity gilts secured against the loan. The Group also settled a £135 million convertible bond, through a combination of repurchase and redemption. The settlements resulted in a combined loss of £61 million in net financing costs, and a net loss attributable to the equity component of the bond of £74 million.

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs

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. Here, fair value is the amount the Group would pay 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 4.6.

Accounting policies

Borrowings

Borrowings are recognised initially at fair value less directly attributable transaction costs, with subsequent measurement at amortised cost using the effective interest rate method. Under the amortised cost method the difference between the amount initially recognised and the redemption value is recorded in the income statement over the period of the borrowing on an effective interest basis.

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 3.1.4), 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.

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 up to £50 million which are longer than 12 months require the approval of the Tax and Treasury Committee, while greater amounts require 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. The cost of existing borrowing remains fixed, except for the revolving credit facility which has floating rate conditions.

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 bank facilities. 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 £775 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 possible future credit ratings and headroom and takes into account the accessibility of cash and cash equivalents. In April 2014 the Group signed a new Revolving Credit Facility ('RCF') with a group of relationship banks, replacing the previous RCF disclosed at 31 December 2013. The new RCF is a £525 million committed facility with leverage and interest cover financial covenants, and matures in 2019. The arrangement fee was determined based on prevailing market rates when the facility was signed. In addition, the Group has arranged £250 million of financial covenant free financing which runs for three to seven years. All of these facilities were undrawn at 31 December 2014 (2013: no drawings).

Fair value versus book value

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

	Maturity	Book value **2014** **£m**	 2013 £m	Fair value **2014** **£m**	 2013 £m
Loans due within one year					
£78 million Eurobond	Oct 2015	**78**	78	**81**	83
Loans due in more than one year					
£161 million Eurobond	Jan 2017	**161**	161	**173**	179
Loans settled or matured in the period					
€50 million Eurobond	June 2014	**–**	41	**–**	43
£62 million loan (previously £200 million loan)	Mar 2019	**–**	62	**–**	95
		239	342	**254**	400

Movements in book values of the 2014 Eurobond and 2019 bilateral loans are the result of buybacks and maturities in the period.

Finance leases

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

	Minimum lease payments £m	**Interest £m**	**2014 Principal £m**	Minimum lease payments £m	Interest £m	2013 Principal £m
In one year or less	**8**	**1**	**7**	22	1	21
In more than one year but not more than five years	**10**	**–**	**10**	18	1	17
	18	**1**	**17**	40	2	38

Finance leases principally comprise programmes under sale and leaseback arrangements. The net book value of tangible assets held under finance leases at 31 December 2014 was £1 million (2013: £1 million).

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs

4.3 Managing market risks: derivative financial instruments

Keeping it simple . . .

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables such as exchange rates or interest rates and is entered into for a fixed period. A hedge is where a derivative is used to manage an underlying exposure.

The Group is exposed to certain market risks, principally to changes in interest rates on its net borrowings and to changes in foreign exchange rates on its foreign currency transactions, profits and net assets. In accordance with Board approved policies, which are detailed in this note, the Group manages these risks by using derivative financial instruments to hedge these underlying exposures.

The key market risks facing the Group are:

- Currency risk arising from:
  - i. translation risk, that is, the risk 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 into sterling ('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 trading cash flows in various currencies.
- Interest rate risk to the Group arises from significant changes in interest rates. Borrowings issued at or swapped to floating rates expose the Group to interest rate risk.

The Group mainly employs three types of derivative financial instruments when managing its currency and interest rate risk:

- Foreign exchange swap contracts are derivative instruments used to hedge income statement translation risk arising from short term intercompany loans denominated in a foreign currency;
- Forward foreign exchange contracts are derivative instruments used to hedge transaction risk so they enable the sale or purchase of foreign currency at a known fixed rate on an agreed future date; and
- 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.

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 within net financing costs, except where derivatives qualify for cash flow hedge accounting. In this case, the effective portion of a cash flow hedge is recognised in OCI 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.

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.

Managing 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 foreign currency denominated costs or revenue at the time of commitment for up to five years forward and to hedge a proportion of highly probable foreign currency denominated costs or revenue on a rolling 18-month basis. From 2014, the Group has started to apply hedge accounting for certain foreign exchange hedge contracts.

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 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 2014 no such hedges were entered into (2013: none).

The following table highlights the Group's sensitivity to a 10% strengthening/weakening in sterling against the US dollar and euro, assuming all other variables are held constant:

	2014 – post-tax profit	**2014 – equity**	2013 – post-tax profit	2013 – equity
US dollar	**£8 million**	**£34 million**	£8 million	£17 million
Euro	**£8 million**	**£29 million**	£7 million	£15 million

Interest rate risk

Between 2011 and 2014 the Group's interest rate policy has been to have 100% of its borrowings at fixed rates in order to lock in low interest rates. This policy was amended in 2014 to allow fixed rate gross debt to vary between 20% and 100% of total gross debt to accommodate floating rate borrowings under the new revolving credit facility. At 31 December 2014 the Group's fixed rate debt represented 100% of total debt.

At 31 December 2014, if interest rates had increased/decreased by 1%, post-tax profit for the year would have been £2 million higher/lower (2013: £4 million).

For financial assets and liabilities classified at fair value through profit or loss, the movements in the year relating to changes in fair value and interest are not separated.

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.

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs

	Assets £m	2014 Liabilities £m
Current		
Interest rate swaps – fair value through profit or loss	**11**	**(9)**
Cash flow hedges	**–**	**(3)**
Non-current		
Interest rate swaps – fair value through profit or loss	**16**	**(11)**
Cash flow hedges	**–**	**(1)**
	27	**(24)**

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

On issuing the 2015 and 2017 Eurobonds, 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 is now 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.

Forward foreign exchange contracts are primarily used to hedge the Group's foreign currency firm commitments and highly probable forecast payments and receipts.

Cash flow hedges

In the year, the Group implemented hedge accounting for certain foreign currency firm commitments, where the relevant cash flows are payable within the next two years. In order to fix the sterling cash outflows associated with the commitments – which are denominated in AUD or euros – the Group has taken out forward foreign exchange contracts for the same foreign currency amount and maturity date as the expected foreign currency outflow. The amount recognised in OCI during the period all relates to the effective portion of the revaluation loss associated with these contracts. There was no ineffective portion taken to the income statement, nor were there any cumulative gains or losses recycled to the income statement in the year (nil in 2013).

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 2014	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	**(357)**	**(100)**	**(16)**	**(175)**	**(66)**
Trade and other payables	**(726)**	**(699)**	**(23)**	**(4)**	**–**
Other payables – non-current	**(4)**	**–**	**(3)**	**(1)**	**–**
Other payables – commitments on acquisitions	**(96)**	**–**	**(9)**	**(81)**	**(6)**
Derivative financial instruments					
Interest rate swaps	**20**	**10**	**3**	**7**	**–**
Foreign exchange forward contracts	**(4)**	**(2)**	**(2)**	**–**	**–**
	(1,167)	**(791)**	**(50)**	**(254)**	**(72)**

At 31 December 2013	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-derivative financial liabilities					
Borrowings	(483)	(92)	(108)	(216)	(67)
Trade and other payables	(744)	(702)	(31)	(10)	(1)
Other payables – non-current	(1)	–	–	(1)	–
Other payables – commitments on acquisitions	(97)	–	(4)	(75)	(18)
Derivative financial instruments					
Interest rate swaps	55	37	9	9	–
	(1,270)	(757)	(134)	(293)	(86)

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs

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 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.

Read more on our rationale for adjustments made to financing costs 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:

	2014 £m	2013 £m
Financing income:		
Interest income	**4**	7
Change in fair value of instruments classified at fair value through profit or loss	**–**	3
Foreign exchange gain	**1**	–
Other finance income	**17**	–
	22	10
Financing costs:		
Interest expense on financial liabilities measured at amortised cost	**(19)**	(29)
Net pension interest (see note 3.7)	**(17)**	(20)
Losses on early settlement	**(30)**	(61)
Foreign exchange loss	**–**	(1)
Other finance expense	**(7)**	(14)
	(73)	(125)
Net financing costs	**(51)**	(115)

As detailed in note 4.1, losses on early settlement of £30 million (2013: £61 million) were incurred as a result of the remaining repurchase of the £62 million 2019 bilateral loan.

Interest on financial liabilities relates to the interest incurred on the Group's borrowings in the year.

Other finance income primarily relates to acquisition-related contingent liabilities, where estimates of the future performance against stretch targets is reassessed, resulting in adjustments to the related put option liabilities and contingent consideration are required. Other finance expense includes the amortisation of facility commitment and upfront fees.

Read more in the Financial and Performance Review.

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.

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

	Fair value 31 December 2014 £m	Level 1 31 December 2014 £m	Level 2 31 December 2014 £m	Level 3 31 December 2014 £m
Assets measured at fair value				
Available for sale financial instruments				
Available for sale gilts	**39**	**39**	**–**	**–**
Financial assets at fair value through profit or loss				
Contingent consideration	**32**	**–**	**–**	**32**
Interest rate swaps	**27**	**–**	**27**	**–**
	98	**39**	**27**	**32**

	Fair value 31 December 2014 £m	Level 1 31 December 2014 £m	Level 2 31 December 2014 £m	Level 3 31 December 2014 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Interest rate swaps	**(20)**	**–**	**(20)**	**–**
Contingent consideration	**(3)**	**–**	**–**	**(3)**
Financial liabilities at fair value through reserves				
Cash flow hedges	**(4)**	**–**	**(4)**	**–**
	(27)	**–**	**(24)**	**(3)**

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

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

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs

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.

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

The table below summarises the key movement in the contingent consideration during the year.

	Asset 2014 £m	**Liability 2014 £m**	Asset 2013 £m	Liability 2013 £m
At 1 January	**–**	**(7)**	–	(1)
Acquisitions (see note 3.4)	**30**	**(1)**	–	(6)
Changes in estimates (income statement)	**–**	**5**	–	–
Currency translation	**2**	**–**	–	–
At 31 December	**32**	**(3)**	–	(7)
Current	**–**	**–**	–	–
Non-current	**32**	**(3)**	–	(7)
At 31 December	**32**	**(3)**	–	(7)

Changes in estimates, including the unwind of interest and fair value movements, are recognised in net financing costs.

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 2014 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 2014 of £403 million (2013: £403 million) and share premium of £174 million (2013: £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 2014 include the following reserves:

	2014 £m	2013 £m
Merger reserves	**119**	119
Capital reserves	**112**	112
Capital redemption reserves	**36**	36
Revaluation reserves	**6**	6
Put option liabilities arising on acquisition of new subsidiaries	**(45)**	(25)
Total	**228**	248

The £20 million increase in liabilities on the put options for the acquisition of new subsidiaries relates to the non-controlling interests of Leftfield Entertainment and DiGa Vision, as detailed in note 3.4.

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;
- 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.

4.6.5 Retained earnings
The retained earnings reserve comprises profit for the year attributable to owners of the Company of £466 million (2013: £326 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 Directors of ITV plc propose a final dividend of 3.3p per share and a special dividend of 6.25p per share.

4.6.6 Non-controlling interests
The movement for the year comprises:

- the fair value of the non-controlling interests acquired in the year of £20 million (2013: £13 million);
- the share of profits attributable to non-controlling interests on US acquisitions of £7 million (2013: ££4 million); and
- the distributions made to non-controlling interests of £8 million (2013: £1 million).

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs

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 whose amount is 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 policy

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, 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. Based on this number, and the option fair values, their present value is determined. At each reporting date, the Group revises its estimates of the number of options that are expected to vest, including an estimate of forfeitures. It recognises the impact of the revision to original estimates, if any, 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 £14 million in 2014 (2013: £14 million).

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

	2014 Number of options ('000)	**2014 Weighted average exercise price (pence)**	2013 Number of options ('000)	2013 Weighted average exercise price (pence)
Outstanding at 1 January	**67,676**	**14.52**	68,387	11.06
Granted during the year – nil priced	**8,594**	**–**	12,726	–
Granted during the year – other	**5,999**	**162.86**	13,371	126.97
Forfeited during the year	**(1,381)**	**28.67**	(4,900)	7.69
Exercised during the year	**(27,860)**	**9.02**	(21,385)	5.97
Expired during the year	**(1,095)**	**12.94**	(523)	51.51
Outstanding at 31 December	**51,933**	**32.97**	67,676	14.52
Exercisable at 31 December	**1,129**	**14.47**	846	–

For those options exercised in the year, the average share price during 2014 was 198.01 pence (2013: 150.44 pence).

Of the options still outstanding, the range of exercise prices and weighted average remaining contractual life of these options can be analysed as follows:

Range of exercise prices (pence)	**Weighted average exercise price (pence)**	**Number of options ('000)**	**2014 Weighted average remaining contractual life (years)**	Weighted average exercise price (pence)	Number of options ('000)	2013 Weighted average remaining contractual life (years)
Nil	**–**	**36,522**	**1.75**	–	44,439	1.88
20.00 – 49.99	**35.61**	**1,120**	**0.53**	31.09	2,960	1.29
50.00 – 69.99	**67.37**	**5,123**	**1.11**	67.38	5,399	2.11
70.00 – 99.99	**73.58**	**303**	**1.90**	73.58	1,639	1.31
100.00 – 109.99	**102.59**	**1,733**	**2.16**	102.59	1,899	3.16
110.00 – 119.99	**–**	**–**	**–**	–	–	–
120.00 – 149.99	**131.44**	**1,251**	**2.52**	131.44	11,339	3.20
150.00 – 199.99	**163.72**	**5,881**	**2.80**	–	–	–

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	5 April 2013	121.00	102.59	36.00	3.25	2.89	0.31	31.40
5 Year	5 April 2013	121.00	102.59	49.00	5.25	2.89	0.72	46.08
3 Year	10 Sept 2013	183.40	131.44	34.00	3.25	1.91	1.04	62.85
5 Year	10 Sept 2013	183.40	131.44	47.00	5.25	1.91	1.80	84.32
3 Year	3 April 2014	195.50	159.68	32.00	3.25	2.15	1.27	53.78
5 Year	3 April 2014	195.50	159.68	38.00	5.25	2.15	1.94	70.41
3 Year	10 Sept 2014	212.40	165.33	29.00	3.25	1.98	1.30	61.14
5 Year	10 Sept 2014	212.40	165.33	34.00	5.25	1.98	1.81	74.29

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.

Notes to the Financial Statements
Section 4: Capital Structure and Financing Costs

The table below shows the number of ITV plc shares held in the EBT at 31 December 2014 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 2014	21,777,453	2,177,745
DSA releases		(4,309,330)	
PSP releases		(9,954,677)	
SAYE releases		(3,292,458)	
Shares purchased		18,261,759	
	31 December 2014	**22,482,747**	**2,248,275**

The total number of shares held by the EBT at 31 December 2014 represents 0.56% (2013: 0.54%) of ITV's issued share capital. The market value of own shares held at 31 December 2014 is £48 million (2013: £42 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.

Notes to the Financial Statements Section 5: Other Notes

5.1 Related party transactions

Keeping it simple . . .

The related parties identified by the Directors include joint ventures, associated undertakings, fixed asset investments and key management personnel.

To enable users of our financial 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.

Related party transactions

Transactions with joint ventures and associated undertakings

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

	2014 £m	2013 £m
Sales to joint ventures	**7**	10
Sales to associated undertakings	**10**	11
Purchases from joint ventures	**26**	27
Purchases from associated undertakings	**59**	57

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

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

All transactions with associated undertakings and joint ventures arise in the normal course of business on an arm's length basis. None of the balances are secured.

The amounts owed by and to these related parties at the year end were:

	2014 £m	2013 £m
Amounts owed by associated undertakings	**48**	4
Amounts owed by pension scheme	**1**	2
Amounts owed to associated undertakings	**5**	–

Balances owed by associated undertakings largely relate to production funding advanced to Tomorrow ITV Studios and Mammoth Screen Limited.

Amounts paid to the Group's retirement benefit plans are set out in note 3.7.

Transactions with key management personnel

Key management consists of ITV plc Executive and Non-executive Directors and the ITV Management Board. Key management personnel compensation is as follows:

	2014 £m	2013 £m
Short-term employee benefits	**9**	8
Share-based compensation	**5**	5
	14	13

Notes to the Financial Statements
Section 5: Other Notes

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 Subsidiaries exempt from audit

Keeping it simple . . .
Certain subsidiaries of the Group can take an exemption from having an audit. Strict criteria must be met for this exemption to be taken, and it must be agreed to by the Directors of that subsidiary entity.

Listed below are subsidiaries controlled and consolidated by the Group, where the Directors have taken the exemption from having an audit of its financial statements for the year ended 31 December 2014. This exemption is taken in accordance with Companies Act s479A.

Company number	Company name
1891539	Broad Street Films Limited
2285229	Campania Limited
5078683	Carbon Media Limited
4159249	Carlton Content Holdings Limited
1692483	Carlton Finance Limited
3984490	Carlton Food Network Limited
3053908	Carlton Programmes Development Limited
3210452	Carlton Screen Advertising (Holdings) Limited
3307790	Carltonco 103
2625225	Carltonco Forty Investments
3210363	Carltonco Ninety-Six
2852812	Cosgrove Hall Films Limited
3209058	DTV Limited
3106798	Granada Media Limited
5344772	Granada Screen (2005) Limited
0733063	Granada Television Overseas Limited
1127149	ITV Breathless Limited
6914987	ITV (HC) Limited
4159213	ITV International Channels (Asia) Limited
8534385	ITV Lucan Limited
3916436	ITV News Channel Limited
5518785	Juice Music UK Limited
4201477	Morning TV Limited

ITV plc Company Financial Statements

Company Balance Sheet

As at 31 December	Note	2014 £m	2014 £m	2013 £m	2013 £m
Fixed assets					
Investments in subsidiary undertakings	iii		**1,705**		1,648
Derivative financial instruments			**17**		41
			1,722		1,689
Current assets					
Amounts owed by subsidiary undertakings		**1,441**		1,280	
Derivative financial instruments		**14**		32	
Other debtors		**20**		26	
Cash at bank and in hand and short-term deposits		**145**		319	
		1,620		1,657	
Creditors – amounts falling due within one year					
Borrowings	v	**(78)**		(41)	
Amounts owed to subsidiary undertakings		**(1,795)**		(1,342)	
Accruals and deferred income		**(19)**		(22)	
Derivative financial instruments		**(12)**		(5)	
		(1,904)		(1,410)	
Net current assets/(liabilities)			**(284)**		247
Total assets less current liabilities			**1,438**		1,936
Creditors – amounts falling due after more than one year					
Borrowings	v		**(161)**		(301)
Derivative financial instruments			**(12)**		(27)
			(173)		(328)
Net assets			**1,265**		1,608
Capital and reserves					
Called up share capital	vi		**403**		403
Share premium	vii		**174**		174
Other reserves	vii		**36**		36
Profit and loss account	vii		**652**		995
Shareholders' funds – equity			**1,265**		1,608

The accounts were approved by the Board of Directors on •• March 2015 and were signed on its behalf by:

Ian Griffiths
Director

Notes to the ITV plc Company Financial Statements

i Accounting policies

Basis of preparation

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

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

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

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

Subsidiaries

Subsidiaries are entities that are directly or indirectly controlled by the Company. Control exists where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The investment in the Company's subsidiaries is recorded at cost, adjusted for the effect of UITF 41 when it was adopted in prior years. Annual FRS 20 share-based payment compensation costs are recharged to the subsidiaries through the profit and loss account.

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Foreign currency monetary assets and liabilities at the balance sheet date are translated into sterling at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account. Non-monetary assets and liabilities measured at historical cost are translated into sterling at the rate of exchange on the date of the transaction.

Borrowings

Borrowings are recognised initially at fair value including directly attributable transaction costs, with subsequent measurement at amortised cost using the effective interest rate method. The difference between initial fair value and the redemption value is recorded in the profit and loss account over the period of the liability on an effective interest basis.

Derivatives and other financial instruments

The Company uses a limited number of derivative financial instruments to hedge its exposure to fluctuations in interest and other foreign exchange rates. The Company does not hold or issue derivative instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the profit and loss account within net financing costs, 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.

Dividends

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

ii Employees

Two (2013: two) Directors of ITV plc were employees of the Company during the year, both of whom remain at the year end. The costs relating to these Directors are disclosed in the Remuneration Report.

iii Investments in subsidiary undertakings

The principal subsidiary undertakings are listed in note xi. The balance at 31 December 2014 was £1,705 million (2013: £1,648 million). During the year, the Company increased its investment in its direct subsidiary, Carlton Communications Limited, by £57 million.

iv Amounts owed (to)/from subsidiary undertakings

The Group 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.

v Borrowings

Loans repayable in less than one year

Loans repayable within one year as at 31 December 2014 comprise an unsecured £78 million Eurobond which has a coupon of 5.375% maturing in October 2015.

Loans repayable after more than one year

Loans repayable after more than one year as at 31 December 2014 comprise an unsecured £161 million Eurobond which has a coupon of 7.375% maturing in January 2017.

vi Called up share capital

	Authorised 2014 & 2013 £m	Allotted, issued and fully paid 2014 & 2013 £m
Ordinary shares of 10 pence each		
Authorised:		
8,000,000,000	800	
Allotted, issued and fully paid:		
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.

Notes to the ITV plc Company Financial Statements

vii Reconciliation of movements in shareholders' funds

	Share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 January 2013	391	122	58	326	897
Movement for year	12	52	(22)	669	711
At 1 January 2014	**403**	**174**	**36**	**995**	**1,608**
Retained loss for year for equity shareholders	–	–	–	(44)	(44)
Share-based compensation	–	–	–	14	14
External dividend paid	–	–	–	(313)	(313)
At 31 December 2014	**403**	**174**	**36**	**652**	**1,265**

The loss after tax for the year dealt with in the accounts of ITV plc is £44 million (2013: £996 million profit).

The profit and loss account reserves of £652 million at 31 December 2014 are all distributable.

The Company received no dividends from subsidiaries in 2014 (2013: £1,117 million).

The Directors of the Company propose a final dividend of 3.3p per share and a special dividend of 6.25p per share.

viii Contingent liabilities

Under a Group registration, the Company is jointly and severally liable for VAT at 31 December 2014 of £58 million (31 December 2013: £51 million). The Company has guaranteed certain finance and operating lease obligations of subsidiary undertakings.

There are contingent liabilities in respect of certain litigation and guarantees, broadcasting issues, and in respect of warranties given in connection with certain disposals of businesses. None of these items are expected to have a material effect on the Group's results or financial position.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

ix Capital and other commitments

There are no capital commitments at 31 December 2014 (2013: none).

x Related party transactions

Transactions with key management personnel

Key management consists of ITV plc Executive Directors.

Key management personnel compensation, on an accounting basis, is as follows:

	2014 £m	2013 £m
Short-term employee benefits	**3**	3
Share-based compensation	**2**	2
	5	5

Total emoluments and gains on share options received by key management personnel in the year were:

	2014 £m	2013 £m
Emoluments	**3**	3
Gains on exercise of share options	**2**	7
Gains on release of restricted share awards	**3**	–
	8	10

xi Principal subsidiary undertakings and investments

Principal subsidiary undertakings

The principal subsidiary undertakings of the Company at 31 December 2014, all of which are wholly owned (directly or indirectly) and incorporated and registered in England and Wales except where stated, are:

Name	Principal activity
ITV Broadcasting Limited	Broadcast of television programmes
ITV Network Limited	Scheduling and commissioning of television programmes
ITV Rights Limited	Rights ownership
ITV2 Limited	Operation of digital television channels
ITV Digital Channels Limited	Operation of digital television channels
ITV Consumer Limited	Development of platforms, broadband, transactional and mobile services
SDN Limited	Operation of Freeview Multiplex A
ITV Studios Limited	Production of television programmes
ITV Studios, Inc.[1]	Production of television programmes
ITV Global Entertainment Limited	Rights ownership and distribution of television programmes and films
ITV Services Limited	Provision of services for other companies within the Group
Carlton Communications Limited	Holding company
Leftfield Entertainment, Inc.[1,2]	Production of television programmes

1. Incorporated and registered in the USA.
2. 80% owned.

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

Principal joint ventures, associated undertakings and investments

The Company indirectly held at 31 December 2014 the following interests in significant joint ventures, associates and investments:

Name	**Interest in ordinary share capital 2014 %**	Interest in ordinary share capital 2013 %	Principal activity
Joint ventures			
Freesat (UK) Limited	**50.0**	50.0	Provision of a standard and high definition enabled digital satellite proposition
Digital 3 & 4 Limited	**50.0**	50.0	Operates the Channel 3 & 4 digital terrestrial multiplex
Associates			
Independent Television News Limited (ITN)	**40.0**	40.0	Supply of news services to broadcasters in the UK and elsewhere
Mammoth Screen Limited	**25.0**	25.0	Production of scripted content
Tomorrow ITV Studios [1]	**–**	–	Production of scripted content
Indigenous Media [2]	**–**	–	Production of content for digital distribution
Fixed asset investments			
Believe Entertainment [3]	**–**	–	Production of content for digital distribution
Zealot Networks [4]	**–**	–	Digital-first media company

1. 25% preferred interest.
2. 14.7% preferred interest.
3. 15.2% preferred interest.
4. 6% preferred interest.

Financial Record

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Results					
Revenue	**2,590**	2,389	2,196	2,140	2,064
Earnings before interest, tax and amortisation (EBITA) before exceptional items	**730**	620	513	462	408
Amortisation of intangible assets	**(67)**	(66)	(57)	(59)	(63)
Impairment of intangible assets	**–**	–	(3)	–	–
Share of losses of joint ventures and associated undertakings	**–**	(2)	(1)	(2)	(3)
Exceptional items	**(7)**	(2)	(12)	1	19
Profit before interest and tax	**656**	550	440	402	361
Net financing costs	**(51)**	(115)	(106)	(75)	(75)
Profit before tax	**605**	435	334	327	286
Taxation charge	**(132)**	(105)	(77)	(79)	(16)
Profit after tax	**473**	330	257	248	270
Non-controlling interests	**(7)**	(4)	(1)	(1)	(1)
Profit for the financial year	**466**	326	256	247	269
Basic earnings per share	**11.6p**	8.3p	6.6p	6.4p	6.9p
Adjusted earnings per share	**13.8p**	11.2p	9.1p	7.9p	6.4p
Dividend per share	**3.3p**	3.5p	2.6p	1.6p	–
Special dividend per share	**6.25p**	4.0p	4.0p	–	–
Consolidated statement of financial position					
Share capital	**403**	403	391	389	389
Reserves	**611**	455	426	417	272
Total equity attributable to equity shareholders of the parent company	**1,014**	858	817	806	661
Non-controlling interests	**50**	31	15	3	2
Net assets	**1,064**	889	832	809	663
Represented by:					
Property, plant and equipment and intangible assets	**1,377**	1,213	1,094	1,101	1,120
Investments	**14**	4	9	5	5
Distribution rights	**13**	10	17	11	12
Inventory	**367**	322	252	285	284
Trade and other receivables (including assets held for sale and derivative financial instruments)	**436**	449	479	475	511
Deferred tax asset	**43**	52	93	65	73
Total assets	**2,250**	2,050	1,944	1,942	2,005
Net cash/(debt)	**41**	164	206	45	(188)
Deferred tax liability	**–**	–	–	–	–
Other liabilities	**(1,206)**	(1,298)	(1,281)	(1,145)	(1,105)
Provisions	**(21)**	(27)	(37)	(33)	(49)
	1,064	889	832	809	663