

Continued strong operating performance

Full year results for the year ending 31st December 2018

Carolyn McCall, ITV Chief Executive, said:

“ITV’s operational performance across 2018 was strong despite the uncertain economic and political environment, with total external revenue up 3%, including total advertising revenues up 1%. We delivered great viewing figures on air and online with ITV setting a host of new records and achieving an impressive 3% growth in total viewing.

“ITV Studios continued to show good growth producing a range of great shows including The Voice, Bodyguard, Love Island and a host of other hits.

“ITV is making good progress as we invest in our More than TV strategy – repositioning the ITV brand, developing our data and digital capabilities, increasing our ability to offer addressable advertising and expanding our direct to consumer activities. Cost savings, which will partly offset this essential investment are on track.

“We are in the concluding phase of talks with the BBC to establish a strategic partnership to bring BritBox, an exciting new SVOD service, to UK audiences. This will provide an unrivalled collection of British boxsets and original series in one place. We have agreed a joint vision for the service and are now working on a formal agreement. We anticipate that other partners will be added to BritBox and we will both speak to regulators and the wider industry about our proposals.

“We have started 2019 with strong onscreen and online viewing. However, the economic and political headwinds for the UK will have an effect on the advertising market and while ITV is increasingly diversified, we remain sensitive to this. We continue to be very focused on delivering in the areas we can control and actively mitigating the factors outside the company’s control.

“We have a robust balance sheet which enables us to make the right investment decisions to build a growing and sustainable business for the future and to deliver returns to shareholders.”

2018: Resilient in an uncertain economic environment

- Total external revenue up 3% at £3,211 million (2017: £3,130 million), with total non-advertising revenues up 5% at £1,971 million (2017: £1,874 million)
- Total ITV Studios revenue up 6% at £1,670 million (2017: £1,579 million), with 4% growth in organic revenue at constant currency
- ITV total advertising revenue up 1%, with 36% growth in Online more than offsetting the decline in spot advertising
- ITV Studios adjusted EBITA up 5% at £255m (2017: £243 million)
- Broadcast & Online adjusted EBITA down 7% at £555 million (2017: £599 million), due to increased programming spend
- Adjusted EBITA down 4% at £810 million (2017: £842 million)
- Adjusted EPS down 4% at 15.4p (2017: 16.0p)
- Statutory EBITA down 3% at £785 million (2017: £810 million)
- Statutory EPS up 15% at 11.7p (2017: 10.2p)

2018: Strong operating performance

- Strong on-screen and online viewing
 - Total viewing up 3% with total ITV Family impacts up 1% and online viewing up 32%
 - ITV Family SOV up 7% and 98% of all commercial audiences over 5m delivered by ITV
- ITV Studios revenue growth driven by strong growth in ITV Studios Rest of World
- Significant growth in ITV Studios total hours of production to over 8,900 and healthy pipeline of new and returning shows
- 25% growth in Direct to Consumer revenue to £81m
- 265,000 Hub+ subscribers and over 500,000 BritBox US subscribers

Good progress with ITV's More than TV strategy

- Confirmation of ITV and BBC's proposal for BritBox, a new transformational SVOD service.
- ITV's net investment in BritBox will be up to £25 million in 2019, rising to around £40m million in 2020 and declining thereafter
- This is in addition to the previously announced £40 million essential investment for 2019
- The offsetting £15 million cost savings programme is on track to be delivered in full in 2019
- Strong progress on developing a scaled addressable advertising proposition for the ITV Hub
- Strengthened our capabilities in advertising, data and technology
- Brand communication being rolled out for ITV and ITV Hub, targeting light viewers

Robust balance sheet and healthy liquidity

- Strong profit to cash conversion of 88%
- Good access to liquidity
- 1.1x reported net debt to adjusted EBITDA
- Flexibility and capacity to continue to invest across the business
- Reflecting the strong cash flows and the Board's confidence in the business, it has proposed a full year dividend of 8p, up 3%, in line with our stated policy

Outlook for 2019

- We have started the year well with:
 - ITV Family share of viewing up 6% and volume of viewing up 2%
 - Online viewing up 33%
- Economic and political uncertainty continues to impact the demand for advertising as we expected, with total advertising forecast to be down 3% to 4% for the first 4 months
- First half revenues and profits will also be impacted by tough comparatives against the revenues of the Football World Cup, the investments we are making and ITV Studios deliveries being weighted to H2
- Over the full year we are confident that
 - We will continue to execute well on the strategy
 - We will deliver double digit online revenue growth
 - ITV Studios will deliver good organic revenue growth, with £100m more revenue secured at this point than last year, and
 - We will maintain a robust balance sheet and deliver on our full year dividend commitment of at least 8p per share
- We remain focused on delivering in the areas of the business which are under our control whilst actively mitigating the impact of exogenous factors.

Operating and Financial Performance

Twelve months to 31 December – on a continuing basis	2018 £m	2017 £m	Change £m	Change %
Total advertising revenue	1,795	1,781	14	1
Total non-advertising revenue	1,971	1,874	97	5
Total revenue	3,766	3,655	111	3
Internal supply	(555)	(525)	(30)	(6)
Group external revenue	3,211	3,130	81	3
Group adjusted EBITA	810	842	(32)	(4)
Group adjusted EBITA margin	25%	27%		
Statutory EBITA	785	810	(25)	(3)
Adjusted EPS	15.4p	16.0p	(0.6)p	(4)
Statutory EPS	11.7p	10.2p	1.3p	15
Dividend per share	8.0p	7.8p	0.2p	3
Net debt as at 31 December	(927)	(912)	(15)	(2)

ITV has delivered a strong operating performance in an uncertain economic and political environment. In 2018 we launched our new strategy with clear priorities and initiatives which we believe, following investment, will deliver growth in the medium term and strengthen ITV, ensuring it is well positioned to address the opportunities and challenges of an increasingly competitive media landscape.

On-screen, our ITV Family SOV has again grown, increasing for the third consecutive year up 7% to 23.2% with strength across the schedule, and the ITV Hub continues to deliver strong viewing, up 32%. Total advertising revenue grew 1% and ITV Studios total revenue increased 6% driven by Rest of World and Global Entertainment, including the £11 million unfavourable impact of currency. We have a strong creative pipeline of high-quality programmes, particularly drama and entertainment, and we continue to perform well across the key genres that return and travel.

Total ITV revenue increased 3% to £3,766 million (2017: £3,655 million), with external revenue up 3% at £3,211 million (2017: £3,130 million). Total non-advertising revenue grew 5% to £1,971 million (2017: £1,874 million), now accounting for 52% of total revenue.

Adjusted EBITA declined 4% to £810 million (2017: £842 million) and adjusted EPS declined 4% to 15.4p (2017: 16.0p) with the 5% growth in ITV Studios adjusted EBITA offset by the 7% decline in Broadcast & Online adjusted EBITA. Broadcast & Online total revenue grew 1% year-on-year, however, EBITA was impacted by investment in the schedule for the World Cup and the closure of Encore.

Adjusted financing costs remain broadly flat year-on-year at £36 million and our adjusted tax rate remained unchanged at 19%.

Statutory profit before tax grew by 13% to £567 million (2017: £500 million) and statutory EPS increased by 15% to 11.7p (2017: 10.2p) primarily due to a reduction in operating exceptional items as a result of lower acquisition-related costs and lower amortisation and impairment on acquired assets.

Statutory financing costs were £43 million over the period which was down year-on-year (2017: £50 million) and our reported tax rate remains unchanged at 17%.

We have a solid balance sheet, healthy liquidity, and the business continues to be highly cash generative. Our profit to cash conversion remains high at 88% and we ended the year with net debt of £927 million (2017: £912 million) after the effect of dividend payments of £315 million and pension contributions of £82 million. 1.1x net debt to adjusted EBITDA provides headroom against our investment grade rating.

This allows us to continue to invest in creating a more robust business with the implementation of our strategy including the launch of our new SVOD proposition, BritBox, in the UK market, whilst continuing to deliver sustainable returns to our shareholders.

Reflecting the Board's confidence in the business and its strategy, as well as the continued strong cash generation, it has proposed a full year dividend of 8.0p, up 3% year-on-year (2017: 7.8p). This is in line with the Board's intention to pay at least an 8.0p dividend per year in 2018 and 2019. The Board expects that over the medium term the dividend will grow broadly in line with earnings.

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

Broadcast & Online

Financial performance

Broadcast & Online total revenue was up 1% in the year at £2,096 million (2017: £2,076 million). We delivered a 1% growth in total advertising revenue, with VOD revenue up 36%, more than offsetting the decline in net advertising revenues (NAR), which is impacted by political and economic uncertainty with the lack of confidence meaning some corporations are not investing in spot advertising. Direct to Consumer revenue grew 25% to £81 million (2017: £65 million), on track to achieve the targeted £100 million revenue by 2021 as set out in the strategy. Growth was driven by interactive with the success of daytime competitions, an increase in ITV Hub+ subscriptions, and pay per view boxing events.

Spot and VOD advertising categories have shown different trends in spend across the year. On a combined basis advertising categories such as Retail, FMCG, and Airlines, Travel and Holidays continued to see declines in advertising spend due to the uncertain economic and political outlook, leading advertisers to reduce spend in order to maintain margins. Within Retail, we have seen spending decline from both supermarkets and the high street. Entertainment & Leisure was up, particularly around the World Cup, Telecommunication grew with spend around product launches and Government spending increased with both national and regional campaigns. Digital disrupter brands continue to spend heavily on television, up 10% on 2017, to build brand awareness and having witnessed the immediate response from customers to spot advertising.

Total costs were up 4%, around half of this driven by higher schedule costs, up £30 million to £1,055 million, with coverage of the World Cup. Variable costs increased with the significant growth in online impacting bandwidth costs and rights payments, and investment in the ITV Hub, ITV Hub+ and ITV Box Office (our pay per view channel used in 2018 to show boxing matches). Broadcast infrastructure and overhead costs increased with foreign exchange movements on our euro denominated transmission contracts and higher property costs from our new London offices.

Twelve months to 31 December	2018 £m	2017 £m	Change £m	Change %
Total advertising revenue	1,795	1,781	14	1
Direct to Consumer	81	65	16	25
SDN	73	70	3	4
Other revenue	147	160	(13)	(8)
Broadcast non-advertising revenue	301	295	6	2
Total Broadcast & Online revenue*	2,096	2,076	20	1
Network schedule costs	(1,055)	(1,025)	(30)	(3)
Variable costs	(123)	(104)	(19)	(18)
Broadcast infrastructure and overheads	(363)	(348)	(15)	(4)
Total Broadcast & Online adjusted EBITA	555	599	(44)	(7)
Adjusted EBITA margin	26%	29%		

* IFRS 15 'Revenue from Contracts with Customers' was effective from 1 January 2018. 2017 comparatives have been restated.

Viewing

On-screen, we performed strongly with total ITV viewing up 3% to 17.1 billion hours with growth in both linear and online viewing, and SOV up for the third consecutive year.

ITV Family SOV grew 7% to 23.2% with a strong performance across the schedule. This level of growth is the biggest in ITV's recent history and never before has ITV delivered three years of consecutive share growth. Our ITV Family SOV is now the highest it has been for ten years. Main channel SOV grew 9% to 16.9%, showing the most growth of all broadcast channels. The main channel was the biggest channel for 16-34s for the first time since 2004 with SOV for the demographic up 18% year-on- year to 15.7%.

Within digital channels, ITV2 was the most watched digital channel for the 16-34s for the second year in a row, growing 10% to a SOV of 6.0% for the demographic. For the second time ever at year end for 16-34s and 16-24s, ITV2 is ahead of E4. It is also ahead of Channel 4, Channel 5 and BBC Two for 16-24s.

Daytime shows grew their audiences, including The Chase and Good Morning Britain – with its highest share ever. Our soaps, Coronation Street and Emmerdale maintain their position as the UK's two largest soaps. We launched the sixth weekly episode of Coronation Street in September 2017, which has further strengthened its performance. We successfully aired a range of new dramas including Innocent and Trauma; new entertainment shows, including Britain's Brightest Family; and successful factual, including Gino, Gordon and Fred: Road Trip and The Queen's Green Planet.

We continue to drive significant audiences with our returning brands such as Vera – which had its most successful series to date, Unforgotten, Endeavour, Ant & Dec's Saturday Night Takeaway, The Voice UK, The Real Full Monty and I'm a Celebrity... Get Me Out of Here! – with its most watched series ever averaging 11.8 million viewers and 45% share. Our news programming continues to perform well with positive share growth across all programmes. Our sporting schedule had an outstanding year with the Football World Cup, the Six Nations Rugby Championship, the Tour de France, and horse racing. ITV's coverage of England's semi-final against Croatia hit a peak of 26.6 million viewers. While overall our schedule is performing strongly, not all of our programmes performed as we had hoped so some, for example Change Your Tune, Our Shirley Valentine Summer and The Big Audition, will not return.

We continue to target the demographics most highly demanded by advertisers – particularly young and male audiences – through our digital channels and online, and have seen a strong performance in our target demographics on ITV2, ITV4 and the ITV Hub.

On ITV2, Love Island was the most watched programme on any digital channel in 2018 with the best performing series yet with an average of 4.0 million viewers and a share of 17.0%. For 16-34s it averaged 2.0 million viewers with a 46.2% share. Together with Ibiza Weekender, Celebrity Juice, Family Guy, American Dad and I'm a Celebrity... Extra Camp, the performance of Love Island helped ITV2 to achieve a SOV of 6.0% and SOCI of 9.2% for the 16-34s demographic, up 10% and 11% respectively. ITV3's viewing performance improved in the period due to the strong slate of dramas such as Midsomer Murders, Vera, Lewis, Poirot and Endeavour. Following the closure of ITV Encore at the end of April 2018 the content has moved back to ITV3, adding to the strength of the schedule. ABC1 adults SOV and SOCI on ITV3 were both up 10%. Male SOCI on ITV4 was marginally up year-on-year with the continued strength of the sport schedule, including horse racing, the French Open tennis, and the Tour de France.

ITV Hub

The ITV Hub, the online home for all of our channels' content, continues to grow rapidly. This is driven by our viewers' appetite to watch our content whenever and wherever they want, be it catch up or, increasingly, simulcast. The ITV Hub is available on 28 platforms and is pre-installed on over 90% of all connected televisions sold in the UK.

Long-form video requests were up 23% and online viewing, which measures how long viewers are spending online, was up 32% driven by viewing on mobile devices, connected TV and streaming media players. The ITV Hub now has 28 million registered users (2017: 21 million). This growth is driven by the great content, supported and enhanced by a process of continued improvement and investment in the user experience. This includes a revamp of the home pages on website and mobile devices to present a wider variety of content to viewers and the soft introduction of personalised content suggestions to connected TVs and iOS, which will be amplified in 2019.

The ITV Hub helps ITV reach valuable younger audiences – around 88% of the UK's 16-24 year olds are registered. Younger viewers increasingly use the ITV Hub for simulcast viewing, as well as catch up, with programmes such as the World Cup delivering record viewing with 0.9 million simulcast viewers for England's semi-final against Croatia. Love Island achieved an average of 0.3 million viewers via simulcast per episode, which is greater than linear audiences on most digital channels. Simulcast requests were up 34% year-on-year driven by great content and supported by the increasing robustness of the platform.

Direct to Consumer

Direct to Consumer generates revenue directly from the customer, and includes SVOD, competitions, live events and pay per view events. In 2018, total revenue has grown 25% to £81 million (2017: £65 million).

We are in the concluding phase of talks with the BBC to establish a strategic partnership to bring BritBox, an exciting new SVOD service, to UK audiences. This will provide an unrivalled collection of British boxsets and original series. Research has demonstrated there is high demand for British content and ITV is well positioned to deliver this. Research has also shown the willingness to pay for an additional service by those who already subscribe to an SVOD platform. We have agreed a joint vision for the service and are now working on a formal agreement. We anticipate that other partners will be added to BritBox and we will both speak to regulators and the wider industry about our proposals.

Our existing SVOD propositions including ITV Hub+ in the UK, BritBox US in the US and Canada, and Cirkus in the Nordics, Germany, Austria and Switzerland, demonstrate our ability and ambition to compete in this market internationally.

ITV Hub+ offers an ad-free subscription version of the ITV Hub with content download capability and EU portability. While it remains relatively small, the number of subscribers has more than tripled in 2018 to 265,000. Our joint venture with the BBC, BritBox US, provides an ad-free SVOD service offering the most comprehensive collection of British content available in the US and Canada. Subscribers have continued to grow steadily, exceeding 500,000 in 2018.

SDN and Other revenue

SDN generates revenue by licensing multiplex capacity to broadcast channels, radio stations and data providers on digital terrestrial television or Freeview. Currently, the SDN platform utilises the radio spectrum licensed to it to provide capacity for 16 broadcast channels and a number of data and radio services. SDN customers include ITV and third parties, with external revenue (non-ITV) growing 4% in the period. SDN's multiplex licence expires in 2022. We are fully engaged with both Government and Ofcom in relation to the possible renewal or extension of the licence.

Other revenue includes revenue from platforms, such as Sky and Virgin, and third-party commissions, e.g. for services we provide to STV. This is down year-on-year due to the closure of Encore at the end of April 2018.

ITV continues to license its channels and content across multiple platforms, including our HD digital channels and catch up VOD on Sky and Virgin Media set top boxes and all our live channels and catch up VOD across their connected platforms. In 2018 we signed a new deal with Virgin Media providing Virgin TV customers with an enhanced viewing experience across all of ITV's channels and services.

ITV Studios

Financial performance

ITV Studios total revenue grew 6% to £1,670 million (2017: £1,579 million), driven by Studios Rest of World (RoW) and Global Entertainment which more than offset the decline in ITV America. This performance includes an unfavourable currency impact of £11 million. Revenue grew across each genre: scripted; unscripted; and core ITV and other. Total organic revenue, which excludes our 2017 acquisitions and adjusts for currency, was up 4%. Revenue growth was driven by a significant increase in hours delivered, up 5% to over 8,900 hours.

Twelve months to 31 December	2018 £m	2017 £m	Change £m	Change %
Studios UK	695	692	3	–
ITV America	245	310	(65)	(21)
Studios RoW	516	390	126	32
Global Entertainment	214	187	27	14
Total ITV Studios revenue*	1,670	1,579	91	6
Total ITV Studios costs	(1,415)	(1,336)	(79)	(6)
Total ITV Studios adjusted EBITA**	255	243	12	5
ITV Studios adjusted EBITA margin	15%	15%		

* IFRS 15 'Revenue from Contracts with Customers' was effective from 1 January 2018. 2017 comparatives have been restated.

** Includes the benefit of production tax credits.

Twelve months to 31 December	2018 £m	2017 £m	Change £m	Change %
Sales from ITV Studios to Broadcast & Online	551	523	28	5
External revenue	1,119	1,056	63	6
Total ITV Studios revenue	1,670	1,579	91	6

Twelve months to 31 December	2018 £m	2017 £m	Change £m	Change %
Scripted	380	347	33	10
Unscripted	997	963	34	4
Core ITV and Other	293	269	24	9
Total ITV Studios revenue	1,670	1,579	91	6

Reflecting our growth in key global production markets, 56% of Studios revenue was generated outside the UK (2017: 54%). ITV is the number one commercial producer in the UK and a leading producer in Europe and the US.

Adjusted EBITA was up 5% year-on-year at £255 million. Adjusted EBITA margin was stable at 15%. Foreign exchange had an unfavourable £1 million impact on Studios adjusted EBITA. As our Studios business grows internationally, foreign currency movements could have a larger impact on our results.

Building scale in key creative markers

ITV Studios has three production divisions – Studios UK, ITV America and Studios Rest of World (RoW), with RoW achieving significant growth year-on-year. Across the divisions ITV Studios produced over 8,900 hours of programming compared to around 8,400 in 2017, and secured 249 new commissions and 210 recommissions in the year. Overall a strong performance, however, performance in different territories is impacted by phasing, with the risk managed through the portfolio.

The UK's revenue was broadly flat at £695 million (2017: £692 million). Sales to ITV Network grew 5% in 2018 driven by the extra weekly episode of Coronation Street, the successful return of Dancing on Ice and an extended series of Love Island. Drama deliveries to ITV Network declined in 2018 due to the schedule commitment to the World Cup. ITV Studios' UK share of original content on ITV main channel increased to 67% (2017: 66%).

Our off-ITV revenues in the UK declined 7% with growth in drama offset by a decline in entertainment and comedy deliveries. New drama commissions Bodyguard, Age Before Beauty and the part delivery of War of the Worlds offset the adverse timing of Shetland and non-return of The City and The City.

ITV America total revenue declined 21% to £245 million or 18% to £255 million (2017: £310 million) adjusted for the unfavourable foreign exchange impact. We have delivered a lower volume of programmes from our entertainment portfolio with Duck Dynasty and American Grit not returning, a reduction in the volume of Pawn Stars episodes delivered, and no Hell's Kitchen delivered following the delivery of two series in 2017. This volume decline was partly offset by new series, The Four and Knife or Death, and a higher volume of Emmy award winning Queer Eye delivered.

Studios RoW has production bases in Australia, Germany, France, the Netherlands, the Nordics, Italy and the Middle East where we produce original content as well as local versions of ITV Studios UK and Talpa formats. Revenue grew 32% to £516 million (2017: £390 million), driven particularly by good growth in France due to The Voice of France and The Voice Kids. Across the territories our entertainment and format deliveries included I'm A Celebrity ...Get Me Out of Here!, The Voice, Love Island and The Chase in Australia, I'm A Celebrity ...Get Me Out of Here!, Come Dine With Me, The Chase and Quizduell in Germany, and Love Island, The Chase and Four Weddings in Finland.

The business also benefited from the 2017 acquisitions of Tetra Media Studio, Cattleya and Elk. Demand for drama is growing strongly and we have made real progress in building a European scripted business with the acquisition of Cattleya and Tetra Media Studio. These, along with our existing European businesses, enable us to benefit from the increasing demand for locally produced content with global appeal.

Talpa continues to develop its formats including The Voice Senior, Dansing, The Wishing Tree, Around the World with 80 Year Olds and House of Talent. Our international scale now enables ITV to make these other formats, and in particular The Voice, in all our international production territories and therefore earn the production revenue as well as the format fee.

Expanding our global distribution business

Global Entertainment, the distribution arm within ITV Studios, reported revenue growth of 14% to £214 million (2017: £187 million) as our content continues to sell well internationally to both broadcasters and OTT platforms. Excluding the unfavourable impact of currency movements, revenue grew 16%.

2018 growth is driven by a strong slate of drama deliveries with multiple deals with Netflix including global distribution of Bodyguard, full delivery of season three and partial delivery of season four of Good Witch, Somewhere Between, and the delivery of Robozuna. 2018 also saw the delivery of period dramas Vanity Fair and Harlots to OTT platforms, Amazon and Hulu.

Over 15 of our scripted programmes have been sold to more than 100 countries. In 2018 we sold 57 (2017: 62) different formats internationally, five of which are being produced by ourselves in three or more countries. As well as funding and creating new content from ITV Studios, we also invest in third-party producers and their content from all over the world.

Full year results – statutory and adjusted

Twelve months to 31 December – on a continuing basis	2018 Statutory £m	2018 Adjustments £m	2018 Adjusted £m	2017 Statutory £m	2017 Adjustments £m	2017 Adjusted £m
EBITA¹	785	25	810	810	32	842
Exceptional items (operating) ²	(93)	93	–	(153)	153	–
Amortisation and impairment ³	(92)	85	(7)	(102)	97	(5)
Operating profit	600	203	803	555	282	837
Net financing costs ⁴	(43)	7	(36)	(50)	17	(33)
Share of losses on JVs and Associates	–	–	–	(4)	–	(4)
Gain/(loss) on sale of non-current assets and subsidiaries (non-operating exceptional items)	10	(10)	–	(1)	1	–
Profit before tax	567	200	767	500	300	800
Tax ⁵	(97)	(49)	(146)	(87)	(67)	(154)
Profit after tax	470	151	621	413	233	646
Non-controlling interests	(4)	–	(4)	(4)	–	(4)
Earnings	466	151	617	409	233	642
Shares (million), weighted average	3,999	–	3,999	4,006	–	4,006
EPS (p)	11.7p		15.4p	10.2p		16.0p
Diluted EPS (p)	11.6p		15.4p	10.2p		16.0p

1. £25 million adjustment relates to production tax credits which we consider to be a contribution to production costs and working capital in nature rather than a corporate tax item.

2. Exceptional items largely relate to acquisition costs, primarily employment linked consideration, as well as restructuring and property costs. £10 million non-operating exceptional items relate to the gain on sale of Manchester Quay Street.

3. £85 million adjustment relates to amortisation and impairment of assets acquired through business combinations and investments. We include only amortisation on purchased intangibles such as software within adjusted profit before tax.

4. £7 million adjustment is primarily for non-cash interest cost. This provides a more meaningful comparison of how the business is managed and funded on a day-to-day basis.

5. Tax adjustments are the tax effects of the adjustments made to reconcile profit before tax and adjusted profit before tax.

Exceptional items

Twelve months to 31 December	2018 £m	2017 £m
Acquisition-related expenses	(60)	(90)
Restructuring and property-related costs	(26)	(30)
Insured trade receivables provision	4	(27)
Pension related costs	4	–
Other	(15)	(6)
Total operating exceptional items	(93)	(153)
Non-operating exceptional items	10	(1)
Total exceptional items	(83)	(154)

Total exceptional items (operating and non-operating) in the period were £83 million (2017: £154 million). Operating exceptional items principally relate to acquisition-related expenses. Acquisition-related expenses largely relate to performance based, employment-linked consideration to former owners. Restructuring and property-related costs of £26 million includes £13 million of dual running costs and relocation costs as a result of our London property move and £13 million of costs from restructuring our business. Exceptional items included a net £4 million credit in respect of pension-related items. As a result of the purchase of a bulk annuity insurance contract ('Buy-in'), a net £10 million credit was recognised for changes to options available to members in those schemes. This has been offset by a £6 million past service cost for Guaranteed Minimum Pensions (GMP), which equalises the benefits between men and women, following a recent High Court ruling that set a precedent in this matter.

The cash cost of exceptionals in the period was £90 million (2017: £126 million).

EPS – adjusted and statutory

Overall, adjusted profit after tax was down 4% at £621 million (2017: £646 million). After non-controlling interests of £4 million (2017: £4 million), adjusted basic earnings per share was 15.4p (2017: 16.0p), down 4%, which is consistent with the decrease in adjusted EBITA of 4%. The weighted average number of shares declined to 3,999 million (2017: 4,006 million) because ITV bought shares during 2018 on behalf of the Employee Benefit Trust and, in line with accounting standards, shares held by the Trust are not included in the EPS share count. Diluted adjusted EPS in 2018 was 15.4p (2017: 16.0p) reflecting a weighted average diluted number of shares of 4,013 million (2017: 4,017 million). The weighted average diluted number of shares was down year-on-year because of a decrease in the number of shares expected to vest in ITV's long-term incentive plans in the future.

Statutory EPS grew by 15% to 11.7p (2017: 10.2p) with the decline in statutory EBITA more than offset by a reduction in exceptional items, amortisation and impairments, and net financing costs.

Dividend per share

ITV continues to deliver a strong operational performance in an uncertain economic and political environment. Reflecting the Board's confidence in the business and its strategy, as well as the continued strong cash generation, it has proposed a full year dividend of 8.0p, up 3% (2017: 7.8p). This is in line with the Board's intention to pay at least an 8p dividend per year in 2018 and 2019. The Board expects that over the medium term the dividend will grow broadly in line with earnings.

Balance Sheet and Cash Flow

One of ITV's key strengths is its healthy cash flows reflecting our ongoing tight management of working capital balances and our disciplined approach to cash and costs. This is particularly important when there is wider political and economic uncertainty. Remaining focused on cash and costs means we are in a good position to continue to invest across the business in line with our strategic priorities and continue to deliver sustainable returns to our shareholders.

In the year, we generated £712 million (2017: £763 million) of operational cash from £810 million (2017: £842 million) of adjusted EBITA, which equates to a strong profit to cash ratio of 88% after capex (2017: 91%). In the year, we saw an increase in working capital which was due primarily to an increase in stock relating to our programme delivery schedule.

To facilitate our working capital management, we have a £100 million non-recourse receivables purchase agreement (free of financial covenants), which gives us the flexibility to access additional liquidity when required. At 31 December, £100 million of receivables were sold under the purchase agreement (2017: £90 million).

Our free cash flow after payments for interest, cash tax and pension funding remained healthy in the period at £469 million (2017: £527 million).

Overall, after dividends, acquisitions and acquisition-related costs, pension and tax payments, we ended the period with net debt of £927 million, compared with net debt of £1,034 million at 30 June 2018 and £912 million at 31 December 2017.

Our balance sheet strength, together with our healthy free cash flow, will enable us to continue to invest in opportunities to grow the business in line with our strategic priorities and to make sustainable returns to our shareholders. We have a number of facilities in place to preserve our financial flexibility. We have a £630 million Revolving Credit Facility (RCF) in place until 2023. We also have a bilateral financing facility of £300 million, which is free of financial covenants and matures in 2021. This provides us with sufficient liquidity to meet the requirements of the business in the short to medium term. The RCF has the usual financial covenants for this type of financing. Of the total £930 million of facilities in place, £50 million was drawn down at 31 December 2018. Our policy is to maintain at least £250 million of available liquidity at any point.

Our objective is to run an efficient balance sheet and manage our financial metrics appropriately. At 31 December 2018 reported net debt to adjusted EBITDA was 1.1x (31 December 2017: 1.0x). Our priority remains to invest to drive organic growth and we have made acquisitions where we have found the right opportunities. We will continue to look at opportunities in line with our strategy. We will balance this investment with attractive returns to shareholders.

During 2019 we will revisit the 1.5x reported net debt to adjusted EBITDA guidance to ensure it remains appropriate. We will work with the ratings agencies as part of this process, but wherever we conclude on this our commitment to investment grade metrics will underpin the outcome.

Pensions

The net pension deficit for the defined benefit schemes at 31 December 2018 was £38 million (31 December 2017: £83 million deficit). The year-on-year reduction in the deficit reflects an increase in bond yields and our deficit funding contribution, partly offset by other losses in scheme assets and the impact of the purchase of a bulk annuity insurance contract ('Buy-in') in respect of two sections of our defined benefit schemes.

The net pension assets include £49 million of gilts, which are held by the Group as security for future unfunded pension payments to four former Granada executives, the liabilities of which are included in our pension obligations.

The 1 January 2017 actuarial valuation was agreed during the year. On the basis agreed with the Trustees, the combined deficits of the ITV defined benefit Pension Scheme as at 1 January 2017 amounted to £470 million.

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

The Group's deficit funding contributions in 2018 were £82 million. In 2019, we expect deficit funding contributions of around £75 million.

Outlook

We are very clear on what we need to do and it requires a relentless focus on delivery of our strategy, More than TV.

We have started the year with strong on-screen and online viewing. Economic and political uncertainty continues to impact the demand for advertising as we expected, with total advertising forecast to be down 3% to 4% over the first 4 months.

The first half of the year will also be impacted by tough advertising comparatives particularly in June against the World Cup last year, the investments we are making and the timing of ITV Studios deliveries being weighted to the second half.

We have a solid balance sheet which enables us to make the right decisions to build a future facing and robust business and deliver returns to shareholders.

We remain very focused on delivering in the areas we can control and actively mitigating the factors outside the company's control.

2019 planning assumptions

Profit and Loss impact:

- Total schedule costs are expected to be around £1.1 billion
- Total essential investment of around £40 million in 2019, increasing to £60 million by 2021 as previously announced
- In addition, ITV's net investment in BritBox will be up to £25 million in 2019, increasing to around £40 million in 2020 and expected to decline thereafter
- £15 million of cost savings to fund strategic priorities, increasing to £35-40 million in 2021 as previously announced
- Adjusted interest is expected to be around £35 million, which is broadly unchanged from 2018
- The adjusted effective tax rate is 19%, which is unchanged and expected to be sustainable over the medium term
- The translation impact of foreign exchange, assuming rates remain at current levels, is not expected to have an impact on revenue or EBITA.
- Exceptional items are expected to be around £65 million, mainly due to acquisition accounting and cost of change to deliver cost savings. This excludes the sale of The London Television Centre.

Cash impact:

- Total capex is expected to be around £65 million of regular capex, down on 2018
- The cash cost of exceptionals will be around £85 million, largely relating to accrued earnouts and excludes the sale of The London Television Centre
- Profit to cash is expected to be around 80%, reflecting our continued strong cash generation, investment in Studios working capital and BritBox.
- Total pension deficit funding contribution for 2019 is expected to be around £75 million.

Notes to editors

1 Unless otherwise stated, all financial figures refer to the 12 months ended 31 December 2018, with growth compared to the same period in 2017.

2 Group external revenue

Twelve months to 31 December	2018 £m	2017 £m	Change £m	Change %
Broadcast & Online	2,096	2,076	20	1
Studios	1,670	1,579	91	6
Internal Supply	(555)	(525)	(30)	(6)
Group external revenue	3,211	3,130	81	3

3 Total advertising is forecast to be down 3% to 4% over the four months to the end of April with January up 1%, February down 4%, March down 17% and April up between 6% and 10%. Q1 is forecast to be down 7%. These revenues include spot advertising, online, sponsorship and other advertising revenues and excludes self-promotion. Figures for ITV plc are based on ITV estimates and current forecasts.

4 Broadcast & Online key performance indicators

Twelve months to 31 December	2018	2017	Change %
ITV Total viewing	17.1bn hrs	16.6 bn hrs	3%
ITV Family SOV	23.2%	21.7%	7%
Long form online viewing	446m hrs	337m hrs	32%
ITV Hub registered users	27.6m	21.3m	29%

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

5 The final dividend will be paid on 23 May 2019. The ex-dividend date is 11 April 2019. The record date is 12 April 2019.

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

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

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Chief Executive's Report

ITV has delivered a strong operational performance in 2018 with very good on-screen and online viewing and good growth in ITV Studios.

Carolyn McCall
Chief Executive

"The economic and political environment has rarely been less certain but we are delivering in the areas of the business which are under our control and building an increasingly resilient business for the future."

ITV has delivered a strong operational performance in 2018, with very good on-screen and online viewing and good growth in ITV Studios.

We are very focused on executing our strategy to create a stronger, structurally sound business, building on this good operating performance. The economic and political environment has rarely been less certain but we are delivering in the areas of the business which are under our control. We will report progress in each area of the strategy. We have a solid balance sheet and good access to liquidity which gives us the flexibility and capacity to invest to strengthen the business, and deliver returns to shareholders.

2018 Financial highlights

Total revenues were up 3%, driven by 5% growth in our non-advertising revenues but profits were down primarily as a result of the higher programme budget with the Football World Cup. Our cash generation remains strong at 88% and our leverage is 1.1x net debt to adjusted EBITDA which provides good flexibility as we implement the strategy. Reflecting these strong cash flows and the Board's confidence in the business, it has proposed a dividend of 8p, up 3%, as we've already committed to.

Broadcast & Online delivered 1% growth in total advertising, with strong growth in VOD, up 36% more than offsetting the decline in spot revenues. Our Direct to Consumer revenues have grown 25% and are a growth opportunity albeit from a low base. In total, Broadcast & Online revenues were up 1% with adjusted EBITA down 7% to £555 million.

ITV Studios delivered 6% growth in total revenue with organic revenues up 4% and our portfolio of acquisitions continuing to perform well. The UK was broadly flat while international revenues continue to grow with the growth in the rest of world more than offsetting the decline in ITV America which was impacted by the timing of deliveries. International revenues now make up 56% of our total studios revenues, up 2 percentage points on last year. Total adjusted EBITA was £255 million up 5% at a 15% margin – firmly within our target range.

More than TV

ITV's vision is to be... More than TV.

- The pre-eminent integrated producer broadcaster for viewers and brands in the UK
- A world-class creative force in global content production
- A scaled and leading Direct to Consumer business with strong consumer relationships
- A lean and agile organisation capable of perpetual change
- A future facing, modern and digital brand that is relevant and valuable to all viewers and brands
- A sustainable, cash generative and growing business delivering value for shareholders

Our vision and strategy

In 2018 we launched our new strategy and vision in response to the changes we are seeing within the media market.

There is no doubt that the pace of change is rapid and our strategy will continue to evolve but our priorities are clear.

There has been a lot of commentary about changes in viewer behaviours. Viewers in the UK watch 192 minutes of TV per day. This is down 5% on the previous year, understandable given the profusion of content and the choice of how people can watch TV. Over 70% of all viewing remains live despite this.

Against this backdrop ITV's viewing performance was very strong. Our total viewing was up, with total linear viewing up 2% as well as significant growth in Hub viewing, up 32%; we continue to be the home of quality mass commercial audiences with 98% of audiences over 5 million, and our share of viewing up for the third year running.

16 to 34's are clearly watching TV differently – but deliver them content that they want and they watch it – Love Island is not the only example of this. ITV main channel's volume of 16 to 34's viewing was up 2% year on year and ITV Family volume was down only 2% against a market down 13%. TV and specifically ITV remains the only place to get a scaled, quality young audience.

And of course, we are driving significant young audiences on the ITV Hub. Total registered users have grown again and 79% of all 16 to 34's in the UK are registered on the ITV Hub. Simulcast requests are showing strong growth up 34%, as viewers and particularly young viewers use devices to watch TV. Our average monthly active users across all demographics have increased 64% following compulsory registration on connected TVs in 2018 - meaning we are reaching our users more often which is very important from an advertiser's perspective.

Despite 2018 being affected by economic and political uncertainty, we increased our total advertising revenue after two years of declines with VOD revenues offsetting the decline in spot revenues. This is because ITV's overall proposition remains strong. ITV gives immediate reach and scale that cannot be achieved anywhere else. It also provides a safe, trusted and transparent environment in which to advertise and generates the highest return on investment of any media.

The make up of TV advertisers is changing as new categories and markets are being disrupted by insurgent brands. Some categories are growing rapidly. Telecoms, Entertainment and Leisure and the Government are spending more. The key standout are the online brands which grew their spend by 10%.

However, the well publicised issues with the high street, retail and other FMCG companies have put their budgets under pressure and they are spending less and have generally reduced spend across all media.

So, there is clearly a great deal of change in viewing and advertising trends which we keep under constant focus. Our strategy is designed to address the challenges and the opportunities that they present.

Integrated producer broadcaster (IPB)

Our plans for the IPB have five key components and I will briefly illustrate how we are doing against each of them and our priorities for 2019. Much of what we have done so far is building the foundations for what we will deliver in 2019.

We have clear measures of success in our KPI's and we are on track to deliver the targets and strategic ambitions which we set out. A highlight for 2018 has been our viewing performance with a strong performance right across the schedule – from Daytime, to our dramas, sport and big entertainment programmes. And it's this great schedule and the continuous improvement in the ITV Hub which has driven the strong online metrics in terms of viewing, users and revenue.

1. Repositioning ITV and driving light viewers

The first part of our IPB strategy and investment is to reposition ITV, drive more light viewers and increase reach. As we have highlighted before, ITV has a brand perception challenge – people love our content but don't necessarily associate it with ITV.

We started developing this last year and in January we evolved the ITV and ITV Hub brands, giving them a more modern and creative position. We have a new brand identity for the main channel including idents and on-screen presentation. We are now developing consistent off-air marketing across multiple media channels which has helped to successfully launch a range of key shows in 2019 such as Cleaning up, Man Hunt and Vera helping our share of viewing and volume of viewing to grow so far this year. And there is more relevant communication to come in 2019 around our drama launches and of course the Rugby World Cup.

Although early, we are already seeing an improvement in brand consideration for light viewers up nine percentage points in January year on year.

2. Enhanced development and distribution of the Hub

The second component of our IPB investment is the ITV Hub which has shown very strong growth in viewing and revenues in 2018 with a continuous improvement in content, experience and distribution. We have delivered seamless live streaming at large scale with adverts inserted, and we have enhanced the boxset experience, introduced next episode sign posting, implemented cross platform resume and trialled recommendations on iOS.

In 2019 we will continue to enhance the viewer experience and start to really bridge the gap between ourselves and others in the market. This year you will see us roll out a newly designed ITV Hub which will create personalised experiences for all our 28 million registered users with programme recommendations and prompts for new series, develop features that drive engagement – such as video promos and resume play across all platforms and make the experience consistent across all devices.

3. Technology to support data and advertising proposition

Our third area of investment in the IPB is our technology capabilities and platforms. We have already strengthened our skills in key areas and will continue to do so through 2019. We are innovating and developing our core technology. In 2019, we will increasingly invest in technology and platforms to deliver the specific priorities of our strategy: including enhancing and evolving our underlying Online Video Platform for the Hub; the launch of SVOD; developing a programmatic AdTech platform and the use of technology to automate operational processes.

4. Data capabilities

Technology will also enable our focus on data. We have significantly strengthened our data capabilities and have established a centre of data excellence covering the full range of data and insight. This includes data science, analytics and research, so we can understand, predict and affect behaviours across all ITV touchpoints – viewing, the Hub, advertisers and direct to consumer.

We are just at the start of the process and are now increasingly collecting data across linear viewing, online viewing and every touchpoint we have with users. We are beginning to unify it by matching this across datasets; and then enriching it with 3rd party data and automated tagging generated by AI algorithms. All the while protecting the privacy of our users, as well as the security, quality and consistency of our data.

Chief Executive's Report continued

5. Advertising capabilities

We have restructured our commercial team, built a new client strategy team and invested in our creative partnerships team to provide original, engaging and brand defining marketing campaigns and build deeper partnerships with our advertisers. The John Lewis Christmas piano ad campaign or Suzuki featuring Take That are great examples.

Delivering scaled addressable advertising around our premium VOD is a priority. We have made good progress in 2018.

We have significantly increased our addressable advertising inventory. At the end of 2017 only around 10% of our VOD inventory was addressable and today it is around 75%. However, this is currently a very manual process. We are very focused on creating an ad tech solution in 2019 to create a fully automated and data driven system and we are having positive discussions with third parties about how we deliver this in the most efficient way.

This will deliver the best of both worlds for advertisers – mass simultaneous reach on our linear channels and more tailor made and addressable targeting at scale on the ITV Hub.

ITV Studios

Our second major strategic focus is Studios. Our aim here is to be a leading creative force in global content. ITV Studios is now a scaled business delivering good growth at a stable margin and our plan for organic growth requires only modest investment over the next three years.

Demand for great content has never been stronger – so this continues to be a real growth opportunity. And we are well on track to deliver the targets we set out with good revenue growth at a 15% margin and a 5% increase in total production hours.

We've seen good growth in our all key genres with particularly strong growth in Scripted. The business is predominantly unscripted in terms of scale but scripted, especially driven by demand from the OTT platforms, is likely to be an area of higher growth over the medium term.

We are seeing increasing demand from OTT platforms internationally for original long-form content and secondary rights. In 2018 we produced and jointly commissioned a number of scripted and unscripted programmes with OTT platforms including *Queer Eye* for Netflix and in 2019, we have an original commission, *Cowboy Bebop*, for Netflix.

A key strength of ITV Studios is its large portfolio of successful formats that return and travel which we are strengthening each year, for example in 2018 with *The Voice Senior* from Talpa and *Britain's Brainiest Family* from the UK. And increasingly we are also producing them locally, therefore capturing the full margin, including *The Voice* and *Love Island* in seven countries, with *Love Island* also being produced in the US in 2019 for CBS.

As we look to 2019, we are clear on our priorities. Key to our success is attracting and retaining great talent. We will invest in building our creative talent – collaborating with innovative and entrepreneurial creatives with minimal risks and attractive returns as we have successfully done historically.

We are also very focused on maximising the value of our formats and IP internationally. There are exciting opportunities to licence our brands and library content and drive value through merchandising using our significant capabilities across our network of labels and our global relationships.

We see good opportunities for European scripted content, with strong demand from broadcasters and OTT platforms for local content with global appeal. We have strengthened our portfolio in this area with our acquisitions of *Tetra* and *Cattleja* in 2017, both of which are set to have another strong year in 2019.

We have a strong pipeline of new and returning shows and we have already secured £100m more revenue than this time last year which gives us the confidence that we will deliver good revenue growth again in 2019.

Direct to Consumer

Our third area of future growth is all about the consumer and we have now created a direct to consumer business. We are making good progress – our revenues were up 25% to £81m and we now have 8.5m paying relationships which are up 27% on last year.

This has been driven by good growth in our competition portal, live events such as *Ninja Warrior* aqua park and our pay per view boxing events.

Our existing SVOD and pay propositions ITV Hub+, BritBox in the US and Canada, and Cirkus in the Nordics and Germany are performing well and demonstrate our ability to compete in this market.

We are in the concluding phase of talks with the BBC to establish a strategic partnership to bring BritBox, our exciting new SVOD proposition to UK audiences. This will provide an unrivalled collection of British boxsets and original series all in one place.

SVOD is an important part of our strategy and we see it as a real opportunity in the UK. The UK Pay TV market is worth £6.3 billion, with a further £1.3 billion generated by OTT subscription. And ITV has less than 1% of the total pay TV market. Subscriptions are growing at pace, up 20% to 12 million households and more households are taking multiple subscriptions - those 12 million households now have 17 million OTT subscriptions.

Our most recent tranche of research shows that four million households are likely or very likely to subscribe to a or another SVOD service in the next three months. Despite the number of streaming services, there is a clear gap for quality British content and desire for British content is high, with research showing that 43% of all online homes are interested in subscribing to a new SVOD service which features British content and this increases to over 50% in Netflix homes.

Our SVOD team is in place and we are working round the clock to launch later this year. We have agreed a joint vision for the service and we are now working on a formal agreement. BBC and ITV anticipate that other partners will be added to BritBox and both will speak to regulators and the wider industry about their proposals. ITV's net investment in BritBox UK will be up to £25 million in 2019, rising to around £40 million in 2020 and expected to decline thereafter. We will be disciplined and ensure we deliver a return on this investment that creates value for shareholders.

Investments and cost savings

In order to ensure that ITV has a strong and sustainable future, we have set out our essential £40 million investment programme for 2019 which catches us up on technology, data, capability and user experience. As previously announced, this will increase to £60 million by 2021. These will partly be offset by £15 million of cost savings which will be delivered in 2019, increasing to a run rate of £35-£40 million by 2021.

Colleagues

I want ITV to be an open and inclusive place to work at all times. We have a number of strong, active networks which Peter has already described. We are working with these networks and with others in the industry such as the Creative Diversity Network to improve diversity at ITV. BAME representation is an area of focus going forward, particularly at senior level.

I enjoy meeting our people across ITV - in our Manchester and Leeds operations, in our regional news rooms across the UK and, of course, our studios across the world - and listening to their views. That is something I will continue to do going forward.

Regulation

In 2018 the Government announced the Second Chapter in its Obesity strategy. As part of that there will be a consultation on the possibility of introducing a 9pm watershed on TV advertising of HFSS products and similar protection for children viewing adverts online. The government has committed to explore options to ensure that any restrictions are proportionate. We are fully engaged in this process and believe that there is a strong, evidence based, case for alternatives to a pre-9pm ban.

The Company continues to keep the potential implications of Brexit under review. Workstreams are in place across the business to identify, manage and mitigate the impact across advertising, broadcast licensing, tax, data, copyright and IP. The most significant risk is the likely impact on the wider advertising market.

Outlook

We are very clear on what we need to do and it requires a relentless focus on delivery of our strategy, More than TV.

We have started the year with good on-screen and online viewing. Economic and political uncertainty continues to impact the demand for advertising as we expected, with total advertising forecast to be down 3% to 4% over the first 4 months.

The first half of the year will also be impacted by tough advertising comparatives particularly in June against the World Cup last year, the investments we are making and the timing of ITV Studios deliveries being weighted to the second half.

We have a solid balance sheet which enables us to make the right decisions to build a future facing and robust business and deliver returns to shareholders. We remain very focused on delivering in the areas we can control and actively mitigating factors outside the Company's control.

A defining attribute of ITV is its talent - whether that's on-screen or off-screen, in the many areas that support our fantastic programmes - from advertising to technology, production to finance, marketing to Direct to Consumer. 2018 has been a particularly busy year and I would like to say a huge thank you to all our people. It is their drive and love for what they do that will ensure our future success.

Carolyn McCall
Chief Executive



Investor Proposition

ITV has a clear strategy – More than TV – which is already making significant progress in growing and strengthening ITV creatively and commercially.

A strong platform for delivery

ITV is an increasingly global and diversified business and no longer reliant on UK advertising, with more than half of ITV total revenue coming from non-advertising.

However, the market is clearly changing and we have developed a vision and strategy 'More than TV' to build upon ITV's unique and winning combination of creativity and commercial strength. We have clear priorities and initiatives which we believe will deliver growth and strengthen ITV to ensure that it is well positioned to address the opportunities and challenges of a competitive media landscape. We will strengthen our high margin integrated producer broadcaster (IPB), continue to grow our stable margin Studios business and create a new scaled and profitable Direct to Consumer business.

We have delivered a good operational performance in 2018, despite the current economic and political uncertainty, which means we are executing the strategy from a position of strength.

Unique market position

As an IPB, ITV is in a unique position to create and own world-class content, broadcast it on one of the biggest marketing platforms in the UK and distribute it globally through its international network.

The current market uncertainty impacts the advertising market and ITV is sensitive to this. However, our on-screen and online viewing performance is strong and we continue to deliver unrivalled audience scale and reach and creative marketing solutions for advertisers as well as more targeted demographics on the ITV Hub. With trusted and engaging brands ITV is well positioned to create value by developing and nurturing direct relationships with our viewers, where people want to spend money on a range of content and experiences.

ITV Studios is a strong and scaled international production business, creating, owning and managing rights and we will continue to grow in key creative markets, driving value from the strong demand for quality content.

This is the next exciting chapter in ITV's story. We will compete where we can win – domestically where we intend to lead in broadcasting and on demand, and globally as a world-class Studios business.

Highly cash generative

We believe that with our 'More than TV' strategy we will continue to be a highly cash generative business and our disciplined approach to cash, costs and capital gives us a solid balance sheet and enables us to continue to invest across the business in line with our strategic priorities.

Attractive investment opportunities

We have highlighted a number of investment opportunities across the business, to strengthen and grow the business. A key part of this investment is in data, analytics and technology which we will embed right across the business to help drive our strategy. These investments will partly be funded by cost savings as we become a more lean and agile organisation.

Compelling shareholder returns

Reflecting the Board's confidence in the business and the strategy as well as the continued strong cash generation, the Board has committed to pay at least an 8.0p dividend per year over the period of investment in 2018 and 2019. Over the medium term the Board expects the dividend will grow broadly in line with earnings.

52%

of total revenue is from
non-advertising revenue
streams (2017: 51%)

88%

profit to cash conversion
(2017: 91%)

8.0p

full year dividend proposed
by the Board (2017: 7.8p)

Key Performance Indicators

In 2018 we redefined our KPIs to align our performance and accountability to our strategic priorities. As we implement our strategy our KPIs may evolve to ensure they remain appropriate to our business and our priorities. We have set targets or strategic ambitions for our KPIs for three years to 2021 where it is appropriate to do so.

ITV Group

Adjusted EPS¹

Definition

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

Performance

Adjusted EPS decreased by 4% from 16.0p to 15.4p. This was predominantly due to higher programme costs as a result of the Football World Cup which more than offset the good adjusted EBITA growth in ITV Studios.

Total non-advertising revenues

Definition

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

Performance

Non-advertising revenue increased by 5% in 2018 driven by growth in our ITV Studios and Direct to Consumer businesses. We delivered 6% growth in ITV Studios total revenue to £1,670 million and 25% growth in Direct to Consumer revenues to £81 million.

Target

3 years to 2021

Grow by at least 5% CAGR

1. A full reconciliation between our adjusted and statutory results is provided in the APMS. 1.

Cost savings

Definition

Cost savings are permanent savings to the business. Managing our cost base is key as we aim to run our business as efficiently as possible and fund investments in line with our strategic priorities.

Performance

No cost saving target was set for 2018 but we continued to focus on running the business efficiently.

We are on track to deliver £15 million of cost savings in 2019 as previously announced as part of ITV's £35 million to £40 million target by 2021.

Target

3 years to 2021

Deliver £35-£40 million run-rate of savings by 2021

Profit to cash conversion

Definition

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

Performance

Profit to cash remains high at 88% (2017: 91%).

In the period we saw an increase in working capital which was primarily due to an increase in stock.

Target

3 years to 2021

Maintain at around 85%

Key Performance Indicators continued

1 Strengthen

Integrated producer broadcaster

Total advertising revenue

Definition

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

Performance

Total advertising revenue grew 1% to £1,795 million in a challenging market, with online revenue growth of 36% more than offsetting the decline in spot revenues.

Strategic Ambition

To grow total advertising in a flat NAR market

Online revenue growth

Definition

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

Performance

Online revenue continued to grow strongly, up 36% in 2018, as we delivered significant growth in online viewing, up 32%.

Target

3 years to 2021

Double digit growth per annum

Total ITV viewing²

Definition

Keeping our viewing healthy is vital for our advertising proposition. Total ITV viewing is the total number of hours spent watching ITV channels live and recorded within 28 days and VOD viewing via the ITV Hub and third-party platforms.

Performance

On-screen and online viewing performed strongly with total ITV viewing up 3% to 17.1 billion hours with growth in both linear and online viewing.

External source: BARB, Crocus, comScore Data Analytics and third-party platforms

Strategic Ambition

To maintain total viewing²

ITV Family SOV

Definition

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

Performance

ITV Family SOV grew 7% in 2018 to 23.2%. Our ITV Family SOV is now the highest it has been for ten years. Within this, the ITV main channel was up 9% to 16.9% and the digital channels were up 2% in the year mainly across ITV2 and ITV3, up 5% and 10% respectively. ITV2 was the most watched digital channel for 16-34s, growing 10% to a SOV of 6.0% for the target demographic.

External source: BARB/AdvantEdge

Strategic Ambition

Above 21%

2. Maintain total viewing compared to average for 2015 – 2018.

Online viewing

Definition

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

Performance

The ITV Hub and ITV Hub+, the online home for our family of channels and content, is growing rapidly, driven by viewers' appetite for our content on catch up, VOD and simulcast. Online viewing was up 32% in 2018, driven by viewing on mobile devices, connected TVs and streaming media players.

External source: Crocus and comScore Data Analytics

Target

3 years to 2021

Double digit growth per annum

ITV Hub registered users

Definition

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

Performance

The ITV Hub grew the number of registered users 29% to 28 million in 2018. This growth is driven by the great content and good user experience, supported and enhanced by a process of continued improvement and investment.

The ITV Hub helps ITV reach valuable younger audiences, who are increasingly using the ITV Hub for simulcast as well as catch up. 79% of the UK's 16-34 year olds are registered on the ITV Hub. Simulcast requests were up 34% year-on-year.

Target

3 years to 2021

Increase to 30 million

Brand consideration

Definition

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

Performance

A new measure for ITV's spontaneous brand consideration was introduced in 2016 and in 2018 we achieved the best ever at 58.9%, growing a percentage point among all adults and two percentage points among light viewers.

External source: YouGov

2 Grow

UK and global production

Total Studios revenue growth

Definition

Total Studios revenue measures the scale and success of our global studios business. It includes revenues from programmes sold to the ITV Network, which as an integrated producer broadcaster are an important part of our business.

Performance

ITV Studios total revenue grew 6% to £1,670 million, including an unfavourable currency impact of £11 million. Revenue growth was driven by Rest of World and Global Entertainment, as we continue to build our capabilities in key creative markets.

Total organic revenue, which excludes our 2017 acquisitions and is adjusted for currency, was up 4%.

Target

3 years to 2021

Grow by at least 5% average CAGR

Key Performance Indicators continued

Studios adjusted EBITA margin¹

Definition

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

Performance

ITV Studios adjusted EBITA margin was 15%, consistent with prior year and with our target.

Target

3 years to 2021

Maintain at 14% to 16%

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

Total production hours

Definition

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

Performance

There was good growth in the number of hours of programming produced by ITV Studios in 2018, up 5% to over 8,900 hours.

Target

3 years to 2021

Grow to 10,000

3 Create

Direct to Consumer

Direct to Consumer revenue

Definition

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

Performance

Direct to Consumer revenue grew 25% to £81 million in 2018, on track to achieve the £100 million revenue by 2021 as set out in the strategy. The target excludes revenue from any new UK SVOD proposition.

Growth was driven by interactive with the success of daytime competitions, an increase in subscriptions to ITV Hub+, the subscription ad-free version of the ITV Hub, and pay per view boxing events.

Target

3 years to 2021

Grow to at least £100 million

Paying product relationships

Definition

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

Performance

Paying product relationships grew 27% to 8.5 million in 2018, on track to deliver the target ten million relations by 2021. The target excludes relationships from any new UK SVOD proposition.

The number of relationships grew across all revenue streams; ITV Hub+ subscribers, competition entrants, live event attendees, product sales, gaming purchases, and pay per view event customers.

Target

3 years to 2021

Grow to 10 million

Operating and Performance Review

ITV has continued to deliver a strong operating performance in 2018 with fantastic viewing figures both on-screen and online.

Key highlights

Group external revenue

£3,211m

(2017: £3,130m)

Total advertising revenue

£1,795m

(2017: £1,781m)

Total non-advertising revenue

£1,971m

(2017: £1,874m)

Adjusted EBITA

£810m

(2017: £842m)

Adjusted EPS

15.4p

(2017: 16.0p)

Statutory EPS

11.7p

(2017: 10.2p)

Net debt

£927m

(2017: £912m)

Dividend per share (ordinary)

8.0p

(2017: 7.8p)

Overview

ITV has delivered a strong operating performance in an uncertain economic and political environment. In 2018 we launched our new strategy with clear priorities and initiatives which we believe, following investment, will deliver growth in the medium term and strengthen ITV, ensuring it is well positioned to address the opportunities and challenges of an increasingly competitive media landscape.

On-screen, our ITV Family SOV has again grown, increasing for the third consecutive year up 7% to 23.2% with strength across the schedule and outstanding contributions from the World Cup, I'm a Celebrity... Get Me Out of Here! and drama. The ITV Hub continues to deliver strong viewing, up 32%. Total ITV viewing combining ITV channels live, recorded and VOD, increased by 3% year-on-year.

Total advertising revenue grew 1%, outperforming expectations, with online revenue growth of 36% more than offsetting the decline in spot advertising. Direct to Consumer revenues increased 25% to £81 million driven by competitions, ITV Hub+ subscription growth and pay per view events. ITV Studios total revenue increased 6% driven by Rest of World and Global Entertainment, including the £11 million unfavourable impact of currency. We have a strong creative pipeline of high-quality programmes, particularly drama and entertainment, and we continue to perform well across the key genres that return and travel.

We measure performance through a range of metrics, particularly through our alternative performance measures and KPIs, as well as statutory results, all of which are set out in this report on page 30.

Operating and Performance Review continued

Total ITV revenue increased 3% to £3,766 million (2017: £3,655 million), with external revenue up 3% at £3,211 million (2017: £3,130 million). Total non-advertising revenue grew 5% to £1,971 million (2017: £1,874 million), now accounting for 52% of total revenue.

Adjusted EBITA declined 4% to £810 million (2017: £842 million) and adjusted EPS declined 4% to 15.4p (2017: 16.0p) with the 5% growth in ITV Studios adjusted EBITA offset by the 7% decline in Broadcast & Online adjusted EBITA. Broadcast & Online total revenue grew 1% year-on-year, however, EBITA was impacted by investment in the schedule for the World Cup and the closure of Encore.

Adjusted financing costs remain broadly flat year-on-year at £36 million and our adjusted tax rate remained unchanged at 19%.

Statutory profit before tax grew by 13% to £567 million (2017: £500 million) and statutory EPS increased by 15% to 11.7p (2017: 10.2p) primarily due to a reduction in operating exceptional items and lower amortisation and impairment on acquired assets, which is explained in further detail in the Finance Review.

Statutory financing costs were £43 million over the period which was down year-on-year (2017: £50 million) and our reported tax rate remains unchanged at 17%.

We have a solid balance sheet, healthy liquidity, and the business continues to be highly cash generative. Our profit to cash conversion remains high at 88% and we ended the year with net debt of £927 million (2017: £912 million) after the effect of dividend payments of £315 million and pension contributions of £82 million. 1.1x net debt to adjusted EBITDA provides headroom against our investment grade rating.

This allows us to continue to invest in growing a more robust business with the implementation of our strategy, whilst continuing to deliver sustainable returns to our shareholders.

Reflecting the Board's confidence in the business and its strategy, as well as the continued strong cash generation, it has proposed a full year dividend of 8.0p, up 3% year-on-year (2017: 7.8p). This is in line with the Board's intention to pay at least an 8.0p dividend per year in 2018 and 2019. The Board expects that over the medium term the dividend will grow broadly in line with earnings.

ITV is More than TV. We are a business built on hugely talented, creative and passionate people. We are focused on strengthening the integrated producer broadcaster, growing our UK and global content and distribution business, and developing and nurturing strong direct consumer relationships. We have a clear vision, priorities and initiatives for how we can compete in a changing environment. Implementing the strategy and creating value requires a relentless focus on delivery. We are clear about what we need to do and how we will measure success, and ITV is strong on delivery.

The Company continues to keep the potential implications of Brexit under review. Workstreams are in place across the business to identify, manage and mitigate the impact across advertising, broadcast licensing, tax, data, copyright and IP. The most significant risk is the likely impact on the wider advertising market. Further detail is included in the Risks and Uncertainties section on pages 41 to 46.

Broadcast & Online

The media market environment in which we operate is dynamic. It is changing and evolving rapidly, becoming increasingly competitive. Our Broadcast & Online business is constantly adapting, and therefore well positioned to address the challenges and capitalise on the significant opportunities presented by the changing environment.

ITV, through our family of free-to-air channels and platforms, offers unique audience scale and reach, as well as more targeted demographics demanded by advertisers. The ITV Hub and ITV Hub+, the online home for our family of channels and content, is growing rapidly, driven by viewers' appetite for our content on catch up, VOD and simulcast. Through our Direct to Consumer business we are increasingly engaging with our audiences who have a growing willingness to pay to engage with our brands, content and IP, whether that is through SVOD, competitions, voting, live events, gaming, merchandise or pay per view. Data and technology are key to evolving operations and driving revenue growth.

Twelve months to 31 December	2018 £m	2017 £m	Change £m	Change %
Total advertising revenue	1,795	1,781	14	1
Direct to Consumer	81	65	16	25
SDN	73	70	3	4
Other revenue	147	160	(13)	(8)
Broadcast non-advertising revenue	301	295	6	2
Total Broadcast & Online revenue*	2,096	2,076	20	1
Network schedule costs	(1,055)	(1,025)	(30)	(3)
Variable costs	(123)	(104)	(19)	(18)
Broadcast infrastructure and overheads	(363)	(348)	(15)	(4)
Total Broadcast & Online adjusted EBITA	555	599	(44)	(7)
Adjusted EBITA margin	26%	29%		

* IFRS 15 'Revenue from Contracts with Customers' was effective from 1 January 2018. 2017 comparatives have been restated. Please see Section 1 of the Notes to the accounts for further details

Financial Performance

Broadcast & Online total revenue was up 1% in the year at £2,096 million (2017: £2,076 million). We delivered a 1% growth in total advertising revenue, with VOD revenue up 36%, more than offsetting the decline in NAR, which is impacted by political and economic uncertainty with the lack of confidence meaning some corporations are not investing in spot advertising. Direct to Consumer revenue grew 25% to £81 million (2017: £65 million), on track to achieve the targeted £100 million revenue by 2021 as set out in the strategy. Growth was driven by interactive with the success of daytime competitions, an increase in ITV Hub+ subscriptions, and pay per view boxing events.

Spot and VOD advertising categories have shown different trends in spend across the year. On a combined basis advertising categories such as Retail, FMCG, and Airlines, Travel and Holidays continued to see declines in advertising spend due to the uncertain economic outlook, leading advertisers to reduce spend in order to maintain margins. Within Retail, we have seen spending decline from both supermarkets and the high street. Entertainment & Leisure was up, particularly around the World Cup, telecommunication grew with spend around product launches and Government spending increased with both national and regional campaigns. Digital disrupter brands continue to spend heavily on television, up 10% on 2017, to build brand awareness and having witnessed the immediate response from customers to spot advertising.

Total costs were up 4%, around half of this driven by higher schedule costs, up £30 million to £1,055 million, with coverage of the Football World Cup. Variable costs increased with the significant growth in online impacting bandwidth costs and rights payments, and investment in the ITV Hub, ITV Hub+ and ITV Box Office (our pay per view channel used in 2018 to show boxing matches). Broadcast infrastructure and overhead costs increased with foreign exchange movements on our euro denominated transmission contracts and higher property costs from our new London offices.

Viewing

On-screen, we performed strongly with total ITV viewing up 3% to 17.1 billion hours with growth in both linear and online viewing, and SOV up for the third consecutive year.

ITV Family SOV grew 7% to 23.2% with a strong performance across the schedule. This level of growth is the biggest in ITV's recent history and never before has ITV delivered three years of consecutive share growth. Our ITV Family SOV is now the highest it has been for ten years. Main channel SOV grew 9% to 16.9%, showing the most growth of all broadcast channels. The main channel was the biggest channel for 16-34s for the first time since 2004 with SOV for the demographic up 18% year-on-year to 15.7%.

Within digital channels, ITV2 was the most watched digital channel for the 16-34s for the second year in a row, growing 10% to a SOV of 6.0% for the demographic. For the second time ever at year end for 16-34s and 16-24s, ITV2 is ahead of E4. It is also ahead of Channel 4, Channel 5 and BBC Two for 16-24s.

Daytime shows grew their audiences, including The Chase, Good Morning Britain – with its highest share ever, and This Morning and Lorraine – both achieving their highest share in five years. Our soaps, Coronation Street and Emmerdale, have enjoyed success in 2018 with both holding a steady audience volume and managing to increase share year-on-year, maintaining their position as the UK's two largest soaps. We launched the sixth weekly episode of Coronation Street in September 2017, which has further strengthened its performance. We successfully aired a range of new dramas including Innocent, Trauma, Girlfriends and Butterfly; new entertainment shows, including Britain's Brightest Family; and successful factual, including Gino, Gordon and Fred: Road Trip and The Queen's Green Planet. We continue to drive significant audiences with our returning brands such as Vera – which had its most successful series to date, Unforgotten, Endeavour, The Durrells, Ant & Dec's Saturday Night Takeaway, Britain's Got Talent, The Voice UK, The Real Full Monty and I'm a Celebrity... Get Me Out of Here! – with its most watched series ever averaging 11.8 million viewers and 45% share, achieving the accolade as the biggest show on TV in 2018 outside of some Football World Cup matches. Our news programming continues to perform well with positive share growth across all programmes against a picture of falling news audiences across our competition. Our sporting schedule had an outstanding year with the Football World Cup, the Six Nations Rugby Championship, the Tour de France, and horse racing. ITV's coverage of England's semi-final against Croatia hit a peak of 26.6 million viewers. The match average of 24.3 million was bigger than the audiences for the Olympic Opening and Closing ceremonies in 2012. While overall our schedule is performing strongly, not all of our programmes performed as we had hoped so some, for example Change Your Tune, Our Shirley Valentine Summer, and The Big Audition, will not return.

We continue to target the demographics most highly demanded by advertisers – particularly young and male audiences – through our digital channels and online, and have seen a strong performance in our target demographics on ITV2, ITV4 and the ITV Hub.

On ITV2, Love Island was the most watched programme on any digital channel in 2018 with the best performing series yet with an average of 4.0 million viewers and a share of 17.0%. It was up on series three by two million viewers and +6.4 share points. For 16-34s it averaged 2.0 million viewers with a 46.2% share. Together with Ibiza Weekender, Celebrity Juice, Family Guy, American Dad and I'm a Celebrity... Extra Camp, the performance of Love Island helped ITV2 to achieve a SOV of 6.0% and SOCI of 9.2% for the 16-34s demographic, up 10% and 11% respectively. ITV3's viewing performance improved in the period due to the strong slate of dramas such as Midsomer Murders, Vera, Lewis, Poirot and Endeavour. Following the closure of ITV Encore at the end of April 2018 the content has moved back to ITV3, adding to the strength of the schedule. ABC1 adults SOV and SOCI on ITV3 up 11% and 10% respectively. Male SOCI on ITV4 was marginally up year-on-year with the continued strength of the sport schedule, including horse racing, the French Open tennis, and the Tour de France.

Operating and Performance Review continued

ITV Hub

The ITV Hub, the online home for all of our channels and content, continues to grow rapidly. This is driven by our viewers' appetite to watch our content whenever and wherever they want, be it catch up or, increasingly, simulcast. The ITV Hub is available on 28 platforms and is pre-installed on over 90% of all connected televisions sold in the UK.

Long-form video requests are up 23% and online viewing, which measures how long viewers are spending online, was up 32% driven by viewing on mobile devices, connected TV and streaming media players. The ITV Hub now has 28 million registered users (2017: 21 million). This growth is driven by the great content and good user experience, supported and enhanced by a process of continued improvement and investment, including a revamp of the home pages on website and mobile devices to present a wider variety of content to viewers and the soft introduction of personalised content suggestions to connected TVs and iOS, which will be amplified in 2019.

The ITV Hub helps ITV reach valuable younger audiences – around 79% of the UK's 16-34 year olds are registered. Younger viewers increasingly use the ITV Hub for simulcast viewing, as well as catch up, with programmes such as the World Cup delivering record viewing with 0.9 million simulcast viewers for England's semi-final against Croatia. Love Island achieved an average of 0.3 million viewers via simulcast per episode, which is greater than linear audiences on most digital channels. Simulcast requests were up 34% year-on-year driven by great content and supported by the increasing robustness of the platform.

Growth in ITV Hub allows us to collect more data. We are consolidating and unifying data from across the business to drive our ambitions.

Our SVOD & pay offerings

ITV is well positioned to take advantage of the opportunities that arise from the changes we are seeing in digital media and consumer behaviour.

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ITV managed YouTube channels – driving significant growth in viewer engagement

Strong advertising proposition

While political and economic uncertainty has led advertisers to reduce their current spend in order to maintain margins, television remains one of the most efficient and effective mediums for advertisers to achieve mass simultaneous reach. As viewing and advertising becomes more fragmented, the scale and reach of advertising that television, and particularly ITV, delivers becomes increasingly valuable. We provide a safe, trusted and transparent environment in which to advertise, and television generates the highest return on investment of any media.

SOV provides an overall measure of viewing performance, however, because advertisers are buying scale and breadth of audiences, SOV is not necessarily a direct indicator of advertising performance. ITV offers scale, delivering 98% of all commercial audiences over five million and 96% of all commercial audiences over three million in 2018.

Online advertising is growing rapidly and we have seen double digital growth in our VOD advertising on the ITV Hub, which delivers more targeted demographics in a high-quality, trusted and measured environment for online advertisers. Online advertising can deliver a more targeted advertising proposition and ITV is making good progress on developing a scaled, programmatic addressable advertising proposition on the ITV Hub. This will enable our Commercial business to offer our clients the best of both worlds with mass audiences and addressable advertising.

ITV aims to maximise further the value of its airtime and drive new revenue streams through sponsorship, brand extension and creative collaboration. ITV utilises the core assets of its strong brand and reputation, unique commercial relationships and quality production capability to deliver a wide variety of innovative marketing solutions. To enhance our offering to advertisers and fulfill the full potential we have scaled up the creative solutions team to provide original, engaging and brand-defining marketing propositions. John Lewis engaged ITV to launch their 2018 Christmas campaign with our creative solutions team devising a piano-themed teaser campaign to build anticipation for the full-length advert featuring Elton John. In 2018 we attracted an unprecedented number of commercial partners for Love Island, engaging in programme and podcast sponsorship, brand licences, instore branding, exclusive product lines and merchandise, and product placement.

Responsive to a changing media environment

Linear television viewing remains resilient despite significant changes in the availability and delivery of content. On average the number of minutes of television viewers watched per day in 2018 was 192 minutes, down 5% from 203 minutes in 2017. ITV has countered this trend showing growth in the hours of linear television viewing. The majority of viewing remains live at over 70% as television continues to have the power to bring audiences together.

VOD viewing continues to grow rapidly while PVR (recorded) viewing has remained relatively constant over the last few years at around 13%. Younger viewers are watching less linear television than they used to, but through delivering great content such as the World Cup, The Voice UK, Love Island, I'm a Celebrity... Get Me Out of Here! and Saturday Night Takeaway, ITV Family SOV for 16-34s has increased by 13% to 23.9% and accounted for 77 of the top 100 shows for this demographic in 2018. Television still reaches 85% of young people each week and remains their dominant choice of media.

Increasingly homes are supplementing their free, pay television and advertising video on demand (AVOD) platforms with SVOD services. SVOD has seen strong growth in the UK over the last few years with approximately 41% of UK householders subscribing to at least one of Netflix, Amazon or NowTV. As a creator, owner and distributor of sought after content, ITV is well positioned to take advantage of the opportunities from the changes we are seeing in the media environment and consumer behaviour.

Direct to Consumer

Direct to Consumer generates revenue directly from the customer, and includes SVOD, competitions, live events and pay per view events. In 2018, total revenue has grown 25% to £81 million (2017: £65 million).

We are in the concluding phase of talks with the BBC to establish a strategic partnership to bring BritBox, an exciting new SVOD service, to UK audiences. This will provide an unrivalled collection of British boxsets and original series. Research has demonstrated there is high demand for British content and ITV is well positioned to deliver this. Research has also shown the willingness to pay for an additional service by those who already subscribe to an SVOD platform. See CEO's Statement for more details.

Our existing SVOD propositions include ITV Hub+ in the UK, BritBox US in the US and Canada, and Cirkus in the Nordics, Germany, Austria and Switzerland, demonstrates our ability and ambition to compete in this market internationally.

ITV Hub+ offers an ad-free subscription version of the ITV Hub with content download capability and EU portability. While it remains relatively small, the number of subscribers has more than tripled in 2018 to 265,000. The subscriber growth has been driven by increased marketing, great content, and viewer recognition of the benefits offered. The number of subscribers is seasonal, with a 2018 peak of over 350,000 subscribers in July due to Love Island and the World Cup, and viewers' demand for content when overseas. In 2018 we introduced a free trial to the ITV Hub+ allowing viewers to sample the ad-free content service prior to a paid commitment, and enabled EU portability.

Our joint venture with the BBC, BritBox US, provides an ad-free SVOD service offering the most comprehensive collection of British content available in the US and Canada. Subscribers have continued to grow steadily, exceeding 500,000 in 2018. We will continue to explore opportunities for BritBox US on other platforms and in other territories internationally.

Elsewhere in Direct to Consumer our competitions have performed well across the schedule with continued growth, and development of the competition portal. Programme related app downloads have been strong, encouraging viewer engagement. App downloads have both benefited from, and contributed to, the growth in linear viewing. The Love Island app saw over two million downloads, and over ten million votes cast via the app. The Love Island game was downloaded over four million times. We hosted a number of live events throughout 2018 based around our key brands, including the Coronation Street tour; Emmerdale village tour and studio experience which showcases the process of creating an episode; the Ninja Warrior UK aqua park; Love Island Live, offering passionate fans the opportunity to meet the Islanders; and This Morning Live, a shopping and lifestyle festival. These events build relationships directly with our viewers. In 2018 we ran a number of trial pay per view boxing events on ITV Box Office. Although low margin, we see a further opportunity for this, and in December 2018 we announced the agreement signed with Haymon Sports Ltd, which grants us the rights to a number of future bouts.

SDN

SDN generates revenue by licencing multiplex capacity to broadcast channels, radio stations and data providers on digital terrestrial television or Freeview. Currently, the SDN platform utilises the radio spectrum licenced to it to provide capacity for 16 broadcast channels and a number of data and radio services. SDN customers include ITV and third parties, with external revenue (non-ITV) growing 4% in the period. SDN's multiplex licence expires in 2022. We are fully engaged with both Government and Ofcom in relation to the possible renewal or extension of the licence.

Other revenue

Other revenue includes revenue from platforms, such as Sky and Virgin, and third-party commissions, e.g. for services we provide to STV. This is down year-on-year due to the closure of Encore at the end of April 2018. ITV continues to license its channels and content across multiple platforms, including our HD digital channels and catch up VOD on Sky and Virgin Media set top boxes and all our live channels and catch up VOD across their connected platforms. In 2018 we signed a new deal with Virgin Media providing Virgin TV customers with an enhanced viewing experience across all of ITV's channels and services.

Operating and Performance Review continued

ITV Studios

ITV Studios is a scaled business delivering growth at a stable margin. Growing UK and global production is central to ITV's strategy as an integrated producer broadcaster and our aim is to be a leading creative force in global content production. As ITV creates and owns more content, our channels in the UK provide a platform to showcase our programmes before distributing them across multiple platforms in the UK and internationally.

Financial Performance

ITV Studios total revenue grew 6% to £1,670 million (2017: £1,579 million), driven by Studios Rest of World (RoW) and Global Entertainment, which more than offset the decline in ITV America. This performance includes an unfavourable currency impact of £11 million. Revenue grew across each genre: scripted; unscripted; and core ITV and other. Total organic revenue, which excludes our 2017 acquisitions and adjusts for currency, was up 4%. Revenue growth was driven by a significant increase in hours delivered, up 5% to over 8,900 hours.

Reflecting our growth in key global production markets, 56% of Studios revenue was generated outside of the UK (2017: 54%). ITV is the number one commercial producer in the UK and a leading producer in Europe and the US. As our Studios business grows internationally, foreign currency movements could have a larger impact on our results.

Adjusted EBITA was up 5% year-on-year at £255 million. Adjusted EBITA margin was stable at 15%. Foreign exchange had an unfavourable £1 million impact on Studios adjusted EBITA.

Twelve months to 31 December	2018 £m	2017 £m	Change £m	Change %
Studios UK	695	692	3	–
ITV America	245	310	(65)	(21)
Studios RoW	516	390	126	32
Global Entertainment	214	187	27	14
Total ITV Studios revenue*	1,670	1,579	91	6
Total ITV Studios costs	(1,415)	(1,336)	(79)	(6)
Total ITV Studios adjusted EBITA**	255	243	12	5
ITV Studios adjusted EBITA margin	15%	15%		

* IFRS 15 'Revenue from Contracts with Customers' was effective from 1 January 2018. 2017 comparatives have been restated. Please see Section 1 of the Notes to the accounts for further details.

** Includes the benefit of production tax credits.

Twelve months to 31 December	2018 £m	2017 £m	Change £m	Change %
Sales from ITV Studios to Broadcast & Online	551	523	28	5
External revenue	1,119	1,056	63	6
Total ITV Studios revenue	1,670	1,579	91	6

Twelve months to 31 December	2018 £m	2017 £m	Change £m	Change %
Scripted	380	347	33	10
Unscripted	997	963	34	4
Core ITV* and Other	293	269	24	9
Total ITV Studios revenue	1,670	1,579	91	6

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

Growing demand for content

The strong global demand for content from broadcasters and platform owners provides significant opportunity for ITV Studios. We estimate that the global content market is growing at around 4-5% per annum, with some genres, such as drama, growing more rapidly. A key driver of this change over recent years has been the evolution in the delivery and availability of content with a substantial increase in the number of ways to consume content. To capitalise on this growth, we continue to develop, own and manage rights in genres that return and travel internationally, namely drama, entertainment and factual entertainment, and we have built a healthy pipeline of new and returning programmes, which we will continue to nurture and develop.

Building scale in key creative markets

ITV Studios has three production divisions – Studios UK, ITV America and Studios Rest of World (RoW), with RoW achieving significant growth year-on-year. Across the divisions ITV Studios produced over 8,900 hours of programming compared to around 8,400 in 2017, and secured 249 new commissions and 210 recommissions in the year. Overall a strong performance, however, performance in different territories is impacted by phasing, with the risk managed through the portfolio.

The US and UK are the dominant creative markets, with the US the largest exporter of scripted content globally and the UK the world leader in exported formats. Over the last few years we have built scale in these key markets, both organically and through acquisitions, and we now have a significant portfolio of successful series and formats. In recent years in the US, we have invested in backing talent and IP, rather than large scale acquisitions. This allows us to attract and collaborate with innovative and entrepreneurial creatives, with minimal risks and attractive returns. In 2017 we took a 45% stake in Blumhouse Television, the TV division of the company founded by prodigious film producer Jason Blum, which in 2018, produced *Into the Dark* for Hulu, and co-produced *The Purge* for USA Network and *Sharp Objects* for HBO. Previous investments include a 75% stake in Tomorrow Studios with Marty Adelstein, with delivery across 2018 and 2019 of original commission *Cowboy Bebop* to Netflix, and co-production *Snowpiercer* for TNT in the US and Netflix internationally. We also acquired a 49% stake in Circle of Confusion, which is building its development slate, including the co-development of *Thirteen* with Amazon Studios in 2019. Europe is a growing creative market, with particular demand for foreign language drama internationally and local scripted content from broadcasters and OTT platforms. In recent years we have strengthened our position in the European market through the acquisitions of Tetra Media Studio in France and Cattleya in Italy.

The UK's revenue was broadly flat at £695 million (2017: £692 million). Sales to ITV Network grew 5% in 2018 driven by the extra weekly episode of *Coronation Street*, the successful return of *Dancing on Ice* and an extended series of *Love Island*. Drama deliveries to ITV Network declined in 2018 due to the schedule commitment to the World Cup. ITV Studios' UK share of original content on ITV main channel increased to 67% (2017: 66%).

Our off-ITV revenues in the UK declined 7% with growth in drama offset by a decline in entertainment and comedy deliveries. New drama commissions *Bodyguard*, *Age Before Beauty* and the part delivery of *War of the Worlds* offset the adverse timing of *Shetland* and non-return of *The City and The City*. Comedy deliveries in 2018 were impacted by *Motherland*, *Back* and *Mum* not returning until 2019, and the non-return of *Bliss*. Entertainment was impacted by the loss of *The Jump* only partly offset by new commission *This Time Next Year US*, produced by Twofour Group.

ITV America total revenue declined 21% to £245 million (2017: £310 million), and 18% to £255 million (2017: £310 million) when adjusted for the unfavourable foreign exchange impact. We have delivered a lower volume of programmes from our entertainment portfolio with *Duck Dynasty* and *American Grit* not returning, a reduction in the volume of *Pawn Stars* episodes delivered, and no *Hell's Kitchen* delivered following the delivery of two series in 2017. There is growing pressure in the US cable market with significant external competition. This volume decline was partly offset by new series, *The Four and Knife or Death*, and a higher volume of Emmy award winning *Queer Eye* delivered, and a higher number of *Good Witch* episodes. *Snowpiercer* and the remainder of the fifth series of *Good Witch* will deliver in 2019.

Studios RoW has production bases in Australia, Germany, France, the Netherlands, the Nordics, Italy and the Middle East where we produce original content as well as local versions of ITV Studios UK and Talpa formats. Revenue grew 32% to £516 million (2017: £390 million), driven particularly by good growth in France due to *The Voice of France* and *The Voice Kids*. Across the territories our entertainment and format deliveries included *I'm A Celebrity ...Get Me Out of Here!*, *The Voice*, *Love Island* and *The Chase* in Australia, *I'm A Celebrity ...Get Me Out of Here!*, *Come Dine With Me*, *The Chase* and *Quizduell* in Germany, and *Love Island*, *The Chase* and *Four Weddings* in Finland.

The business also benefited from the 2017 acquisitions of Tetra Media Studio, Cattleya and Elk. Demand for drama is growing strongly and we have made real progress in building a European scripted business with the acquisition of Cattleya and Tetra Media Studio. These, along with our existing European businesses, enable us to benefit from the increasing demand for locally produced content with global appeal. Cattleya is very much at the vanguard of the growth of Netflix's push into non-English language drama, with the delivery of the second series of *Suburra* in 2018. In 2019, Cattleya is set to deliver new drama *Zero, Zero, Zero* to Sky, Canal+ and Amazon, and *Gomorrah* returns for a fourth series to Sky. In 2018, Beaubourg, part of Tetra Media Studio, produced *Balthazar*, one of the year's top ten most watched dramas in France. 2019 is set to be another strong year for Tetra Media Studio, with *Vernon Subutex* for Canal+ and the delivery of *Profilage* to TF1.

Talpa continues to develop its formats including *The Voice Senior*, *Dansing*, *The Wishing Tree*, *Around the World with 80 Year Olds* and *House of Talent*. Our international scale now enables ITV to make these other formats, and in particular *The Voice*, in all our international production territories and therefore earn the production revenue as well as the format fee.

Operating and Performance Review continued

Expanding our global distribution business

Global Entertainment, the distribution arm within ITV Studios, reported revenue growth of 14% to £214 million (2017: £187 million) as our content continues to sell well internationally to both broadcasters and OTT platforms. Excluding the unfavourable impact of currency movements, revenue grew 16%.

2018 growth is driven by a strong slate of drama deliveries with multiple deals with Netflix including global distribution of Bodyguard, Good Witch, Somewhere Between, and the delivery of Robozuna. 2018 also saw the delivery of period dramas Vanity Fair and Harlots to OTT platforms, Amazon and Hulu.

Over 15 of our scripted programmes have been sold to more than 100 countries. Our entertainment and factual entertainment formats are highly demanded and include programmes such as The Voice, Love Island, The Graham Norton Show, Judge Rinder, The Chase, This Time Next Year, Come Dine With Me and Four Weddings.

In 2018 we sold 57 (2017: 62) different formats internationally, five of which are being produced by ourselves in three or more countries. As well as funding and creating new content from ITV Studios, we also invest in third-party producers and their content from all over the world.

Global Entertainment continues to be a strong and expanding business driven by our strong pipeline of high-end scripted programmes and our valuable library, which we sell to our vast network of long-standing existing traditional linear broadcasters, the global OTTs and new and emerging digital platforms, such as FilmRise. The pipeline for 2019 is healthy with the international distribution of War of the Worlds (pre-sold to over 80 territories), Wild Bill, The Bay, World on Fire, and Snowpiercer.

Investing in content with international appeal

Polarisation of content demand remains a feature of the market. This is driven by the growth of viewing platforms looking for channel defining content with demand for both local adaptations of proven entertainment formats and standout original scripted content.

We are continuing to expand our portfolio of successful formats and series that return and can be distributed internationally. Across the business we have grown a robust portfolio of high volume and high margin formats that travel internationally and that we produce locally. For example, in 2018 we produced Love Island in seven of the eight countries in which the format had been sold, The Voice in seven countries, The Chase in four countries, and I'm a Celebrity... Get Me Out of Here! in four countries. In 2019, ITV America will produce Love Island for CBS.

Demand for drama is growing strongly as prominent unique content becomes brand-defining for both broadcasters and OTT players. To capitalise on this, we are investing in our global scripted business. We are strengthening our development and creative capabilities, growing our European business and investing in a number of development relationships in the US.

We finance our large-scale scripted projects, and to a limited degree some unscripted projects, through our strong underlying cash flows or through co-productions and partnerships with broadcasters and OTT platforms. The production costs are partly funded by the initial sale of the series to a broadcaster, while the deficit is recovered through distribution revenue from selling the finished product globally to other broadcasters and platforms. Doing more scripted deals and deals with OTT platforms will impact our working capital going forward.

We balance our financial exposure through building a portfolio of programmes across genres and across their content life cycle, with successful international dramas offsetting the risk that we will not recover the full deficit on every show. This efficiently uses the rights windows of our content to maximise monetisation opportunities. We are seeing increasing demand from OTT platforms for original long-form content and secondary rights. As well as distributing library content to OTT platforms through Global Entertainment, in 2018 we produced and jointly commissioned a number of scripted and unscripted programmes with OTT platforms, including Vanity Fair with Amazon, Queer Eye with Netflix and Harlots for Hulu, and original commission, Cowboy Bebop, for Netflix. We are in development on a number of shows for Quibi, the new platform set up by Meg Whitman and Jeffrey Katzenberg, and in which we are an investor, which is set to launch in 2019 with bite-size original programming designed for smartphones. Original hours supplied to OTTs increased over 35% in 2018.

Productivity

We consistently seek to drive productivity across the Group by investing in our people, new broadcast and production technology as well as up-to-date office facilities.

By investing in these areas, we aim to transmit our content and advertisements more efficiently, increase our production output and IP rights while improving the user experience for viewers.

People

We continued to invest in our people and have made significant investments in new properties and technology to provide staff with upgraded workplace facilities enabling better collaboration and communication amongst our colleagues.

Our approach to performance management engages managers and colleagues in regular reviews of performance and objective setting. We continue to invest in our management development capability to ensure all managers have the skills and tools required to sustain high performance in their teams.

Following the results from our last engagement survey, we launched our wellbeing programme, ITV Feel Good, to offer colleagues support and advice on having a balanced and healthy working lifestyle. ITV Feel Good offers one-off activities and experiences to inform and inspire everyone to take control of their own health and wellbeing, both inside and outside of the workplace.

Broadcast and content technology

One of the key initiatives in our Broadcast business is to improve our processes around our content supply chain, which includes how we store our content and how our content is managed and ultimately played out via our transmission centres. This project has continued in 2018 and we have sought to reduce the time taken from live transmission to content being available for catch up on the ITV Hub. This year the productivity investments meant that Love Island was available immediately after the linear episode aired on ITV2.

We are in the process of upgrading our advertising sales system and launched a new audience forecasting system which helped improve productivity by allowing us to be more efficient. We also continued to investigate how robotic process automation may benefit ITV in the future. Based on the proofs of concepts we did last year, we are now launching three trials across our Broadcast business to test if our current robots can improve productivity in these specific test cases.

During the year we started a number of initiatives in our Direct to Consumer business, with a focus on data. We intend to unify our first-party data by consolidating our multiple datasets across ITV, instead of relying on manual processes across multiple teams thereby improving the productivity of the teams.

Production facilities

Following last year's investments in Manchester for Coronation Street and Belfast for UTV, during 2018 we relocated our Daytime studios to White City where we invested in a new state-of-the-art facility as part of our London property move. Further, we invested in a large production facility for our key entertainment brands such as Dancing on Ice.

We also seek to use established and emerging technology to drive productivity, where it makes commercial sense to do so. In our Studios business, we installed a suite of new high end cameras at Emmerdale and continued to roll-out our bespoke artist payment system, which has significantly reduced duplication of effort across the business. Further, we reviewed our end-to-end freelancer contracting process and reduced complexity and administration where it was possible to do so.

Alternative Performance Measures

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

Our APMs and KPIs are aligned with our strategy and business segments and together are used to measure the performance of our business and form the basis of the performance measures for remuneration.

Adjusted results exclude certain items because, if included, these items could distort the understanding of our performance for the year and the comparability between periods.

Key adjustments for adjusted EBITA, profit before tax and EPS

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

Production tax credits

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

Exceptional items

These include acquisition-related costs, reorganisation and restructuring costs, property costs, non-routine legal costs and pension-related costs. These items are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis. They are typically gains or losses arising from events that are not considered part of the core operations of the business or are considered to be one-off in nature, though they may cross several accounting periods. We also adjust for the tax effect of these items. Note 2.2 to the financial statements includes further detail.

Acquisition-related costs

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

Restructuring and reorganisation costs

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

Property costs

In the first half of 2018, we relocated our London headquarters from The London Television Centre to three central London locations. The fit-out costs of the three new locations were capitalised. In October 2018, the Directors reversed their prior decision, reported in 2017, and agreed not to redevelop the Group's headquarters at The London Television Centre and the site is now for sale. The new London locations give ITV the flexibility to continue to grow, while supporting our ambition to be an agile and increasingly digital organisation. During the course of the relocation project, dual rent, other property costs and move related costs have been recognised as exceptional and are therefore excluded from our adjusted measures. Rent and other property costs for the new offices and studios are being treated as operating costs. The costs associated with The London Television Centre until disposal will be treated as exceptional.

Amortisation and impairment

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

Net financing costs

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

A full reconciliation between our adjusted and statutory results is provided on the following page.

Reconciliation between statutory and adjusted results

Twelve months to 31 December – on a continuing basis	2018 Statutory £m	2018 Adjustments £m	2018 Adjusted £m	2017 Statutory £m	2017 Adjustments £m	2017 Adjusted £m
EBITA ¹	785	25	810	810	32	842
Exceptional items (operating) ²	(93)	93	–	(153)	153	–
Amortisation and impairment ³	(92)	85	(7)	(102)	97	(5)
Operating profit	600	203	803	555	282	837
Net financing costs ⁴	(43)	7	(36)	(50)	17	(33)
Share of losses on JVs and Associates	–	–	–	(4)	–	(4)
Gain / (loss) on sale of non-current assets and subsidiaries (non-operating exceptional items) ²	10	(10)	–	(1)	1	–
Profit before tax	567	200	767	500	300	800
Tax ⁵	(97)	(49)	(146)	(87)	(67)	(154)
Profit after tax	470	151	621	413	233	646
Non-controlling interests	(4)	–	(4)	(4)	–	(4)
Earnings	466	151	617	409	233	642
Shares (million), weighted average	3,999	–	3,999	4,006	–	4,006
EPS (p)	11.7p		15.4p	10.2p		16.0p
Diluted EPS (p)	11.6p		15.4p	10.2p		16.0p

- £25 million adjustment relates to production tax credits which we consider to be a contribution to production costs and working capital in nature rather than a corporate tax item.
- Exceptional items largely relate to acquisition costs, primarily employment linked consideration, as well as restructuring and property costs. £10 million non-operating exceptional items mainly relates to the gain on sale of Manchester Quay Street. Further detail is included in the Finance Review.
- £85 million adjustment relates to amortisation and impairment of assets acquired through business combinations and investments. We include only amortisation on purchased intangibles such as software within adjusted profit before tax.
- £7 million adjustment is primarily for non-cash interest cost. This provides a more meaningful comparison of how the business is managed and funded on a day-to-day basis.
- Tax adjustments are the tax effects of the adjustments made to reconcile profit before tax and adjusted profit before tax. A full reconciliation is included in the Finance Review.

Other Alternative Performance Measures

Total revenue

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

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

Twelve months to 31 December	2018 £m	2017 £m
External revenue (Reported)	3,211	3,130
Internal supply	555	525
Total revenue (Adjusted)	3,766	3,655

Alternative Performance Measures continued

Adjusted net debt

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

Twelve months to 31 December	2018 £m	2017 £m
Net debt	(927)	(912)
Expected contingent payments on acquisitions	(252)	(292)
Net pension deficit	(38)	(83)
Operating leases*	(147)	(143)
Adjusted net debt	(1,364)	(1,430)
Adjusted net debt to adjusted EBITDA	1.6x	1.6x
Reported net debt to adjusted EBITDA	1.1x	1.0x

* Excludes transponder costs, which are now treated as service contracts. See the Finance Review for further detail. The comparator has not been re-presented.

Net pension deficit

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

Profit to cash conversion

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

Free cash flow

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

Finance Review

ITV's strong operating performance in a challenging year reflects the underlying strength of the business.

ITV delivered a strong operational performance in a challenging year with ongoing political and economic uncertainty in the UK, which has undoubtedly had an impact on the demand for television advertising, and therefore on ITV's financial performance. We launched our new strategy with clear priorities which we believe will deliver growth and strengthen ITV.

This Finance Review focuses on the more technical aspects of our financial results while the operating and financial performance has been discussed within the Operating and Performance Review. Our Alternative Performance Measure explain the adjustments we make to our statutory results and focus on the key measures that we report on internally and use as KPIs across the business.

ITV delivered 3% external revenue growth to £3,211 million (2017: £3,130 million). Total advertising revenue was up 1%. VOD revenue was up 36% year-on-year, more than offsetting the decline in NAR, which was impacted by political and economic uncertainty. Total non-advertising revenue grew 5% to £1,971 million (2017: £1,874 million), including the £11 million unfavourable impact of currency. ITV Studios total revenue grew 6% to £1,670 million (2017: £1,579 million), with growth driven by Studios RoW and Global Entertainment, as we continue to build our capabilities in key creative markets. Organic revenue grew 4% and our portfolio acquisitions continue to deliver a return in excess of our cost of capital. Direct to Consumer revenue grew 25% to £81 million (2017: £65 million), driven by interactive with the success of daytime competitions, an increase ITV Hub+ subscriptions, and pay per view boxing events.

Twelve months to 31 December – on a continuing basis	2018 £m	2017 £m	Change £m	Change %
Total advertising revenue	1,795	1,781	14	1
Total non-advertising revenue	1,971	1,874	97	5
Total revenue	3,766	3,655	111	3
Internal supply	(555)	(525)	(30)	(6)
Group external revenue	3,211	3,130	81	3
Group adjusted EBITA	810	842	(32)	(4)
Group adjusted EBITA margin	25%	27%		
Group statutory EBITA	785	810	(25)	(3)
Adjusted EPS	15.4p	16.0p	(0.6)p	(4)
Statutory EPS	11.7p	10.2p	1.5p	15
Dividend per share	8.0p	7.8p	0.2p	3
Net debt as at 31 December	(927)	(912)	(15)	(2)

Adjusted EBITA declined 4% to £810 million. ITV Studios adjusted EBITA was up 5% at £255 million (2017: £243 million) with good revenue growth, including the unfavourable impact of currency, and the adjusted EBITA margin was flat at 15%. Broadcast & Online adjusted EBITA declined 7% to £555 million (2017: £599 million) with revenue growth more than offset by a £30 million increase in schedule costs with the 2018 Football World Cup, higher variable costs attributable to online revenue growth, investment in the ITV Hub, ITV Hub+ and ITV Box Office, and property costs associated with the new London properties.

Adjusted financing costs were broadly flat year-on-year and our adjusted tax rate was the same year-on-year, at 19%. The net of these movements resulted in a 4% decline in adjusted EPS to 15.4p. Statutory EPS was up 15% to 11.7p due to the reduction in operating exceptional items and lower amortisation and impairment on acquired assets, which are explained on the following pages, more than offsetting the decline in EBITA.

Our key strengths include our high margins and healthy cash flows, which, together with our ongoing focus on costs, place us in a good position to continue to invest in growing an even stronger and more resilient business going forward, while delivering sustainable returns to our shareholders.

Finance Review continued

Exceptional items

Twelve months to 31 December	2018 £m	2017 £m
Acquisition-related expenses	(60)	(90)
Restructuring and property-related costs	(26)	(30)
Insured trade receivables provision	4	(27)
Pension related costs	4	–
Other	(15)	(6)
Total operating exceptional items	(93)	(153)
Non-operating exceptional items	10	(1)
Total exceptional items	(83)	(154)

Total exceptional items in the period were £83 million (2017: £154 million). Operating exceptional items principally relate to acquisition-related expenses. Acquisition-related expenses largely relate to performance based, employment-linked consideration to former owners. Restructuring and property-related costs of £26 million includes £13 million of dual running costs and relocation costs as a result of our London property move and £13 million of costs from restructuring our business. Exceptional items included a net £4 million credit in respect of pension-related items. As a result of the purchase of a bulk annuity insurance contract ('Buy-in'), a net £10 million credit was recognised for changes to options available to members in those schemes. This has been offset by a £6 million past service cost for Guaranteed Minimum Pensions (GMP), which equalises the benefits between men and women, following a recent High Court ruling that set a precedent in this matter. Full detail of these costs and a breakdown of the pension schemes is included in the notes to the financial statements.

The cash cost of exceptionals in the period was £90 million (2017: £126 million).

Net financing costs

Twelve months to 31 December	2018 £m	2017 £m
Financing costs directly attributable to loans and bonds	(30)	(30)
Cash-related net financing costs	(5)	(2)
Amortisation of bonds	(1)	(1)
Adjusted financing costs	(36)	(33)
Imputed pension interest	(2)	(9)
Unrealised foreign exchange and other net financial losses	(5)	(8)
Net financing costs	(43)	(50)

Adjusted financing costs were broadly flat year-on-year at £36 million (2017: £33 million). Net financing costs were £43 million over the period, which was down year-on-year (2017: £50 million), largely due to a small reduction in net pension interest.

JVs and associates

The share of losses from JVs and associates has decreased to £nil million (2017: £4 million). It is net of losses arising on some of our investments, including our new venture BritBox US and scripted talent investment, Circle of Confusion, offset with profit on a range of investments, including the 2017 ITV Studios investment in Blumhouse Television.

Profit before tax

Adjusted profit before tax, after amortisation and impairment of assets and financing costs, was down 4% at £767 million (2017: £800 million).

Statutory profit before tax increased by 13% to £567 million (2017: £500 million), primarily as a result of a reduction in exceptional items, and amortisation and impairments.

Profit before tax (PBT)

Twelve months to 31 December – on a continuing basis	2018 £m	2017 £m
Profit before tax	567	500
Production tax credits	25	32
Exceptional items	83	154
Amortisation and impairment*	85	97
Adjustments to net financing costs	7	17
Adjusted profit before tax	767	800

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

Tax

Adjusted tax charge

The total adjusted tax charge for the period was £146 million (2017: £154 million), corresponding to an effective tax rate on adjusted profit before tax (PBT) of 19% (2017: 19%), which is in line with the standard UK corporation tax rate of 19% (2017: 19.25%). We expect this effective tax rate to be sustainable over the medium term. On a reported basis, the tax charge of £97 million (2017: £87 million) corresponds to an effective tax rate of 17% (2017: 17%). The adjustments made to reconcile the tax charge with the adjusted tax charge are the tax effects of the adjustments made to reconcile PBT and adjusted PBT, as discussed earlier.

Twelve months to 31 December	2018 £m	2017 £m
Tax charge	(97)	(87)
Production tax credits	(25)	(32)
Charge for exceptional items	(9)	(12)
Charge in respect of amortisation and impairment*	(14)	(19)
Charge in respect of adjustments to net financing costs	(1)	(4)
Adjusted tax charge	(146)	(154)
Effective tax rate on adjusted profits	19%	19%

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

Cash tax

Cash tax paid in the period was £92 million (2017: £95 million) and is net of £27 million of production tax credits received (2017: £23 million). The majority of the cash tax payments were made in the UK. The cash tax paid is lower than the full year tax charge for 2018 of £97 million, largely due to the phasing of tax payments in the UK and the treatment of allowable pension contributions (cash tax benefit of £14m in 2018 and £15m in 2017). A reconciliation between the tax charge for the year and the cash tax paid in the year is shown below.

Twelve months to 31 December	2018 £m	2017 £m
Tax charge	(97)	(87)
Temporary differences recognised through deferred tax	(37)	(17)
Prior year adjustments to current tax	14	2
Current tax, current year	(120)	(102)
Phasing of tax payments (including in respect of pension contribution benefit)	26	16
Production tax credits – timing of receipt	2	(9)
Cash tax paid	(92)	(95)

Tax strategy

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

www.itvplc.com/investors/governance/policies

We have four key strategic tax objectives:

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

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

Finance Review continued

EPS – adjusted and statutory

Overall, adjusted profit after tax was down 4% at £621 million (2017: £646 million). After non-controlling interests of £4 million (2017: £4 million), adjusted basic earnings per share was 15.4p (2017: 16.0p), down 4%, which is consistent with the decrease in adjusted EBITA of 4%. The weighted average number of shares declined to 3,999 million (2017: 4,006 million) because ITV bought shares during 2018 on behalf of the Employee Benefit Trust and, in line with accounting standards, shares held by the Trust are not included in the EPS share count. Diluted adjusted EPS in 2018 was 15.4p (2017: 16.0p) reflecting a weighted average diluted number of shares of 4,013 million (2017: 4,017 million). The weighted average diluted number of shares was down year-on-year because of a decrease in the number of shares expected to vest in ITV's long-term incentive plans in the future.

Statutory EPS grew by 15% to 11.7p (2017: 10.2p) with the decline in statutory EBITA more than offset by a reduction in exceptional items, amortisation and impairments, and net financing costs.

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

Dividend per share

ITV continues to deliver a strong operational performance in an uncertain economic and political environment. Reflecting the Board's confidence in the business and its strategy, as well as the continued strong cash generation, it has proposed a full year dividend of 8.0p, up 3% (2017: 7.8p). This is in line with the Board's intention to pay at least an 8p dividend per year in 2018 and 2019. The Board expects that over the medium term the dividend will grow broadly in line with earnings.

Acquisitions

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

Our business is performing well and we will consider selective value creating M&A and talent deals in both scripted and unscripted to obtain further creative talent and IP. However, at this stage, we will not be doing any scaled US scripted acquisitions.

Acquisitions – between 2012 and 2017 (undiscounted)

Company	Geography	Genre	Initial consideration £m	Additional consideration paid £m	Expected future payments* £m	Total expected consideration** £m	Expected payment period	Total maximum consideration** £m
Total for 2012–2017	Various	Content & Broadcast TV	941	138	252	1,331	2019–2024	2,370
Total			941	138	252	1,331		2,370

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

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

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

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

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

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

We closely monitor the forecast performance of each acquisition and, where there has been a change in expectations, we adjust our view of potential future commitments.

Expected future payments of £252 million have decreased by £40 million since 31 December 2017, due to payments made relating to our 2014 and 2015 acquisitions. At 31 December 2018, £176 million of expected future payments had been recorded on the balance sheet. We have not made any acquisitions in 2018.

Cash generation

Profit to cash conversion

Twelve months to 31 December	2018 £m	2017 £m
Adjusted EBITA	810	842
Working capital movement	(93)	(58)
Adjustment for production tax credits	2	(9)
Depreciation	28	30
Share-based compensation and pension service costs	10	13
Acquisition of property, plant and equipment and intangible assets	(82)	(71)
Capex relating to redevelopment of London headquarters	37	16
Adjusted cash flow	712	763
Profit to cash ratio	88%	91%

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

One of ITV's key strengths is its healthy cash flows reflecting our ongoing tight management of working capital balances and our disciplined approach to cash and costs. This is particularly important when there is wider political and economic uncertainty. Remaining focused on cash and costs means we are in a good position to continue to invest across the business in line with our strategic priorities and continue to deliver sustainable returns to our shareholders.

In the year, we generated £712 million (2017: £763 million) of operational cash from £810 million (2017: £842 million) of adjusted EBITA, which equates to a strong profit to cash ratio of 88% after capex (2017: 91%). In the year, we saw an increase in working capital which was due primarily to an increase in stock relating to our programme delivery schedule.

To facilitate our working capital management, we have a £100 million non-recourse receivables purchase agreement (free of financial covenants), which gives us the flexibility to access additional liquidity when required. At 31 December, £100 million of receivables were sold under the purchase agreement (2017: £90 million).

Free cash flow

Twelve months to 31 December	2018 £m	2017 £m
Adjusted cash flow	712	763
Net interest paid	(42)	(38)
Adjusted cash tax*	(119)	(118)
Pension funding	(82)	(80)
Free cash flow	469	527

* Adjusted cash tax of £119 million is total cash tax paid of £92 million plus receipt of production tax credits of £27 million, which are included within adjusted cash flow from operations, as these production tax credits relate directly to the production of programmes.

Our free cash flow after payments for interest, cash tax and pension funding remained healthy in the period at £469 million (2017: £527 million).

Overall, after dividends, acquisitions and acquisition-related costs, pension and tax payments, we ended the period with net debt of £927 million, compared with net debt of £1,034 million at 30 June 2018 and £912 million at 31 December 2017.

Funding and liquidity

Debt structure and liquidity

Our balance sheet strength, together with our healthy free cash flow, will enable us to continue to invest in opportunities to grow the business in line with our strategic priorities and to make sustainable returns to our shareholders. We have a number of facilities in place to preserve our financial flexibility. We have a £630 million Revolving Credit Facility (RCF) in place until 2023. We also have a bilateral financing facility of £300 million, which is free of financial covenants and matures in 2021. This provides us with sufficient liquidity to meet the requirements of the business in the short to medium term. The RCF has the usual financial covenants for this type of financing. Of the total £930 million of facilities in place, £50 million was drawn down at 31 December 2018. Our policy is to maintain at least £250 million of available liquidity at any point.

Finance Review continued

Net debt

At 31 December	2018 £m	2017 £m
Gross cash	(95)	(126)
Gross debt	1,022	1,038
Net debt	927	912

Financing – gross debt

We are financed using debt instruments and facilities with a range of maturities. Borrowings at 31 December 2018 were repayable as follows:

Amount repayable as at 31 December 2018	£m	Maturity
£630 million Revolving Credit Facility	50	Various
€600 million Eurobond	536	Sep 2022
€500 million Eurobond	449	Dec 2023
Other loans	12	Various
Total debt repayable on maturity*	1,047	

* Net of £25 million cross-currency swaps.

At 31 December 2018, £580 million of the £630 million RCF was undrawn.

Capital allocation and leverage

Our objective is to run an efficient balance sheet and manage our financial metrics appropriately. At 31 December 2018 reported net debt to adjusted EBITDA was 1.1x (31 December 2017: 1.0x). Our priority remains to invest to drive organic growth and we have made acquisitions where we have found the right opportunities. We will continue to look at opportunities in line with our strategy. We will balance this investment with attractive returns to shareholders. Our investment decisions are based upon value creation and returns analysis. Our returns analysis looks at the 360 degree value creation and the long-term future value of our investments in Broadcast & Online, Direct to Consumer and Studios.

We also look at an adjusted measure of net debt, taking into consideration all of our other debt-like commitments including the expected, undiscounted contingent payments on acquisitions, the net pension deficit and the undiscounted operating lease commitments, which mainly relate to property. This adjusted leverage measure better reflects how the credit rating agencies look at our balance sheet. This is important to monitor as investment grade metrics are a key criteria when considering our overall capital allocation. At 31 December 2018, adjusted net debt was £1,364 million (adjusted net debt of £1,430 million at 31 December 2017) and adjusted net debt to adjusted EBITDA was 1.6x (adjusted net debt to adjusted EBITDA was 1.6x at 31 December 2017). A reconciliation of net debt to adjusted net debt is provided in the Alternative Performance Measures.

During 2019 we will revisit the 1.5x reported net debt to adjusted EBITDA guidance to ensure it remains appropriate. We will work with the ratings agencies as part of this process, but wherever we conclude on this our commitment to investment grade metrics will underpin the outcome.

Credit ratings

We are rated investment grade by two ratings agencies: BBB- (stable outlook) by Standard and Poor's and Baa3 (stable outlook) by Moody's Investor Services. The factors that are taken into account in assessing our credit rating include our degree of operational gearing, exposure to the economic cycle, as well as business and geographical diversity. Continuing to execute our strategy to diversify will strengthen our position against all these metrics.

Foreign exchange

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

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

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

The foreign exchange and interest rate hedging strategy is discussed and approved by the ITV plc Board and implemented by our internal Tax and Treasury Committee which oversees governance, recommends policies for approval by the Board and exercises delegated authority to approve certain other tax and treasury related policies and procedures within the business.

Foreign exchange sensitivity

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

Currency	Revenue £m	Adjusted EBITA £m
US dollar	±40-50	±7-9
Euro	±45-55	±5-7

Pensions

The net pension deficit for the defined benefit schemes at 31 December 2018 was £38 million (31 December 2017: £83 million deficit). The year-on-year reduction in the deficit reflects an increase in bond yields and our deficit funding contribution, partly offset by other losses in scheme assets and the impact of the purchase of a bulk annuity insurance contract ('Buy-in') in respect of two sections of our defined benefit schemes.

The net pension assets include £49 million of gilts, which are held by the Group as security for future unfunded pension payments to four former Granada executives, the liabilities of which are included in our pension obligations.

A full reconciliation is included within note 3.7 in the notes to the financial statements.

Actuarial valuation

The 1 January 2017 actuarial valuation was agreed during the year. On the basis agreed with the Trustees, the combined deficits of the ITV defined benefit Pension Scheme as at 1 January 2017 amounted to £470 million.

Deficit funding contributions

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

The Group's deficit funding contributions in 2018 were £82 million. Further details are included within note 3.7 to the financial statements. In 2019, we expect deficit funding contributions of around £75 million.

New accounting standards

IFRS 15 'Revenue from Contracts with Customers', was effective from 1 January 2018. The new standard requires the Group to reclassify various costs attributable to revenue in the income statement as well as the change for certain contracts for the production of programmes from point-in-time to over-time recognition. The prior year comparatives have been restated, resulting in a net £2 million decrease to the 2017 reported revenue.

IFRS 16 'Leases', is effective from 1 January 2019. The detailed assessment of the impact on the Group's performance has been completed. The Group plans on adopting the modified retrospective approach with the right of use asset equal to the lease liability at transition date. The likely impact to operating costs is expected to be between £3 million to £5 million with the likely impact to Profit before tax being between £nil and £1 million. Gross liabilities are expected to increase by £90 million to £120 million with net assets remaining unchanged. Section 1 of the notes to the financial statements provides further detail on these new accounting standards.

London property

In the first half of 2018, we relocated our London headquarters from The London Television Centre to three central London locations. The fit-out costs of the three new locations were capitalised. In October 2018, the Directors reversed their prior decision, reported in 2017, and agreed not to redevelop the Group's headquarters at The London Television Centre and the site is now for sale. The new London locations give ITV the flexibility to continue to grow, while supporting our ambition to be an agile and increasingly digital organisation. During the course of the relocation project, dual rent, other property costs and move related costs have been recognised as exceptional and are therefore excluded from our adjusted measures. Rent and other property costs for the new offices and studios are being treated as operating costs. The costs associated with The London Television Centre until disposal will be treated as exceptional.

In 2014, ITV established a Pension Funding Partnership with the Trustees backed by The London Television Centre which resulted in the assets of Section A of the DB pension scheme being increased by £50 million. With the planned sale of the asset we have commenced discussions with the Trustees around providing a suitable equivalent asset. The proceeds of the sale of the South Bank site could be used to replace the £50 million asset security and the remaining sale proceeds used to reduce ITV's net debt.

Finance Review continued

2019 full year planning assumptions

Profit and Loss impact:

- Total schedule costs are expected to be around £1.1 billion
- Total essential investment of around £40 million in 2019, increasing to £60 million by 2021 as previously announced
- ITV's net investment in BritBox UK will be up to £25 million for ITV in 2019, increasing to around £40 million in 2020 and expected to decline thereafter
- Previously announced £15 million cost savings in 2019 to fund strategic priorities, increasing to £35 - 40 million in 2021 as previously announced
- Adjusted interest is expected to be around £35 million, which is broadly unchanged from 2018
- The adjusted effective tax rate is 19%, which is unchanged and expected to be sustainable over the medium term
- The translation impact of foreign exchange, assuming rates remain at current levels, is not expected to have an impact on revenue or EBITA
- Exceptional items are expected to be around £65 million, mainly due to acquisition accounting and cost of change to deliver cost savings. This excludes the sale of The London Television Centre.

Cash impact

- Total capex is expected to be around £65 million of regular capex, down on 2018
- The cash cost of exceptionals will be around £85 million, largely relating to accrued earnouts and excludes the sale of The London Television Centre
- Profit to cash is expected to be around 80%, reflecting our continued strong cash generation, investment in Studios working capital and BritBox.
- Total pension deficit funding contribution for 2019 is expected to be around £75 million.

Risks and uncertainties

As an integrated producer broadcaster ITV's business carries a number of risks which we manage through our risk management framework. Our continuing success is dependent on how well we understand and manage our risks.

Risk management framework

We continue to focus on embedding the ownership of risks within relevant divisions and teams whilst ensuring that the appropriate oversight and escalation process is in place, delivered through a three lines of defence model.

Group operational risks that have an impact across the business are owned and considered at a strategic level by the Management Board, with tactical operational responsibility for managing and monitoring the risks with the divisional boards.

The central risk team provides a simple risk management process aligned to business activities and supporting the development of a positive risk management culture. Our approach to risk management is a cultural, people driven process that encourages and focuses on prevention rather than reaction to failure.

Board

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

Management Board

Has responsibility for:

- The development and operation of the risk management framework and the operation of our systems of internal control including:
 - Risk identification and assessment and establishing controls and procedures to monitor and mitigate risks.
 - Assessment and review of financial controls, policies and procedures to ensure risks are identified and the processes and procedures are in accordance with and aligned to the strategy.
 - Reviewing and monitoring the effectiveness of internal controls and putting in place remedial plans where controls are weak or there are opportunities for improvement. Serious control weaknesses (if any) are reported to the Board and action taken as appropriate.
- Routinely reviewing and challenging risks and mitigations, including relevant reports or other performance indicators.
- Reviewing policies and processes to ensure they remain fit for purpose.
- Identifying and reporting emerging risks.

Divisional Boards

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

- Routinely reviewing and challenging risks and mitigations, including relevant reports or other performance indicators.
- Reviewing policies and processes to ensure they remain fit for purpose.
- Monitoring the local implementation of key group policies and procedures.
- Identifying and reporting emerging risks through the risk management framework.

Audit and Risk Committee

Has responsibility for:

- Overseeing and advising the Board on risk exposures and future mitigation strategy.
- Reviewing internal controls and their effectiveness.
- Reviewing the effectiveness of the risk management framework.
- Conducting in-depth reviews of high-risk business areas or processes.
- Setting the internal audit plan to ensure key risks are covered in respect of providing assurance.
- Reviewing internal audit actions and management responsiveness to the findings.

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

Risks and uncertainties continued

Three lines of defence

1 Business divisions

- The business divisions own the management of their risks and are responsible for:
 - Identifying and reporting local risks.
 - Maintaining risk registers and business continuity plans where appropriate.
 - Reviewing and implementing mitigating actions and controls.

2 Group functions

- Support the business divisions in managing risks.
- Including Group Finance, Legal, Human Resources, Group Secretariat, Technology, Procurement, Health and Safety, Tax, Treasury and Insurance.

3 Internal audit

- Internal Audit provides objective assurance as to the effectiveness of the Group's systems of internal control and risk management, reporting to the Management Board, Divisional Boards and the Audit and Risk Committee.
- The internal audit plan is driven from ITV's risk management framework. Internal Audit reviews the auditable elements of the principal and operational risks and this review informs the areas and topics that Internal Audit focuses on.

Principal risks

Through our risk management framework the Divisional and Management Boards have reviewed our principal risks which have also been reviewed and approved by the Board. In presenting these risks below we have provided context of the risk, its link to our strategy along with detail on how we currently manage the risk and any further plans that we have. A number of the risks have been redefined since 2017 although the substance has not changed. One risk has been removed relating to a potential financial crisis in removing this, consideration has been given to the state of the financial markets along with our current business position. This will be kept under review given the potential impact of Brexit on credit availability and therefore our credit status.

Brexit – the Board continues to keep the potential implications of Brexit for ITV under review. Workstreams are in place across the business to identify, manage and mitigate risks across a range of the potential outcomes. Particular focus has been given to a no deal scenario as this could have an immediate impact across multiple business areas and on credit availability. Many of the risks pose operational challenges which could cumulatively have an impact on our business. The most significant risk associated with a no deal is the likely impact on the wider advertising market.

Regulation and legislation

Risk ownership: Management Board

Description

1. A significant or unexpected change in legislation or regulation could lead to reduced income or operational impact.

Context

- We could be affected if there is a change in UK media regulation or legislation; for example, if there is a change in advertising restrictions in key categories.
- We could be affected if there is a significant change in regulation or legislation in any of our key territories that impacts the way in which we are able to operate.
- The outcome of Brexit could lead to changes in regulation or legislation which would impact how we interact with our businesses based in other EU countries.

Link to strategy 1 2 3

How we currently and further plan to manage the risk

- We regularly communicate with appropriate groups, our legal panel and Ofcom to monitor potential policy, legal and regulatory developments.
- We put forward alternative actions to regulation where such regulation may have adverse impact on ITV.
- We have regular dialogue with government ministers in relevant departments.
- We are monitoring closely the Brexit process and have plans in place to mitigate the risks in the event of a no deal Brexit.

Economic

Risk ownership: Management Board

Description

2. A financial crisis or macroeconomic change could impact the value of pension scheme investments and increase the deficit.

Context

- Macroeconomic changes could result in material movements in the Group's defined benefit pension scheme.
- A major change in investment values or in the discount rate affecting the value of liabilities could have a material impact on the net pension liability.
- ITV may need to cover an increase in the deficit in such an event and update the schedule of contributions.

Link to strategy 1 2 3**How we currently and further plan to manage the risk**

- We have regular communication with the pension trustees.
- The pension scheme's assets are invested in a diversified portfolio, with a significant amount of the fund held in bonds.
- We have worked with the pension trustees to limit the potential deficit by a series of asset-backed arrangements. This includes removing some mortality risk from the scheme with a longevity swap and hedging a portion of inflation and interest rate variability.
- We have reduced some of our exposure through the 'Buy In' of two sections of the scheme.

Advertising market**Risk ownership: Integrated Broadcast Board****Description**

3. A faster than expected shift towards non-linear viewing could lead to a sustained loss of viewing and/or significant reduced demand for television advertising.

Context

- Content is now available across many different devices and platforms which is impacting consumer habits with viewers shifting from linear television and watching more content online.

Link to strategy 1**How we currently and further plan to manage the risk**

- Our strategy focuses on ITV being the pre-eminent integrated producer broadcaster for viewers and brands in the UK.
- We continue to develop both VOD and SVOD propositions as a key part of our strategy.
- By developing and managing the rights to content we will be able to maximise the value of our programme brands across a range of revenue streams.
- We continue to invest £1 billion annually in our programming budget to attract viewers, continuing to deliver share of viewing that attracts advertisers.
- Owning and producing content enables us to deliver unique advertising propositions and create innovative solutions.

Advertising market**Risk ownership: Integrated Broadcast Board****Description**

4. Advertisers could be impacted by general or sector economic uncertainty and/or voluntary advertiser category restrictions that could lead to a significant reduced demand for advertising.

Context

- The current overall economic environment is uncertain which may impact demand for advertising.
- The current position with Brexit is uncertain and could have an impact on the overall economic environment and impact demand for advertising.
- There is significant economic uncertainty within some of our key advertiser sectors which could have a disproportionate effect on advertising.
- Key sectors have opted to voluntarily restrict advertising.

Link to strategy 1**How we currently and further plan to manage the risk**

- Our strategy focuses on creating value for advertisers through delivering unique scale and breadth of demographics as well as more targeted opportunities and new innovative ways of engaging with consumers around quality brands.
- We are developing our data strategy to support value creation for advertisers.
- We work closely with advertisers to articulate the benefits of advertising on our media.
- We regularly communicate with appropriate groups, our legal panel and Ofcom to monitor and influence potential policy, legal and regulatory developments.

Content rights**Risk ownership: Integrated Broadcast Board****Description**

5. A rapidly changing marketplace for content rights could result in us failing to identify or obtain optimal rights packages.

Context

- The landscape for rights is increasingly complex due to the multiple ways in which content is broadcast.
- Our own rights requirements are diversifying and changing to support the delivery of the strategy.
- The increasing risk of global piracy of content could lead us to lose programme rights.

Link to strategy 1 2**How we currently and further plan to manage the risk**

- We are developing the rights packages and content management processes to meet strategic requirements.
- By investing in creating and owning quality content we can ensure we have optimal rights packages and efficiently manage exploitation.
- Our rights packages and content management processes are focused on both protecting and exploiting existing rights and ensuring that future rights generated accrue to us.

Risks and uncertainties continued

Generating hit programmes and formats

Risk ownership: Studios Board

Description

6. A failure to create, own and protect the rights to a sufficient number of hit programmes/formats across our portfolio of content companies. For management of rights see risk 5.

Context

- ITV Studios has 50+ labels producing over 8,900 hours of original content.
- The competition for creative talent is increasing due to the demand for content across all platforms.
- ITV Studios creates for over 200 channels or platforms globally that have varying rights ownership requirements.

Link to strategy 2

How we currently and further plan to manage the risk

- We maximise opportunities for ITV Studios to create successful shows by investing in the creative pipeline and focusing on programmes and genres that can return and travel internationally.
- Our management approach is creatively led and commercially driven to promote an environment where creative ideas can be nurtured and developed.
- We are focused on hiring and retaining key creative talent.
- We manage a proportion of the associated financial risk for high-end drama through deficit financing.
- ITV Studios has built significant scale in key creative markets around the world creating and producing programmes and formats that return and travel.

People and culture

Risk ownership: Management Board

Description

7. A failure to continue to evolve our organisational structure and culture could prevent us attracting or retaining key creative, commercial and management talent to deliver our strategy.

Context

- Employing and retaining the best creative, commercial and management talent is key to our success.
- The market for talent is competitive especially for those with experience in key strategic areas.
- We need to ensure engagement across the business with our More than TV strategy.
- We need to ensure a culture of creative autonomy within ITV Studios.

Link to strategy 1 2 3

How we currently and further plan to manage the risk

- We are strengthening specific teams to deliver our strategy through key talent, building expertise and market knowledge.
- We foster both a commercial and entrepreneurial culture that is creatively led and commercially driven to attract and retain key creative talent.
- We have a developed network of employee Ambassadors to ensure communication across the business.
- We have succession plans in place which include nominated deputies.
- Employee engagement is critical and we will undertake a survey in 2019.

People and culture

Risk ownership: Management Board

Description

8. A major health and safety incident on an ITV or ITV Studios production could result in a loss of human life or major injury.

Context

- As ITV Studios expands there is an increase in the number of production hours and increased potential to produce certain types of programming that have higher inherent risks.
- ITV is closely associated with all content we broadcast including that produced by independent production companies.

Link to strategy 1 2 3

How we currently and further plan to manage the risk

- We have a central health and safety risk management team to support the business, developing and implementing our health and safety management system.
- The central health and safety risk management team work with ITV Broadcast to ensure there is a process for vetting content suppliers to ensure they have appropriate health and safety management in place.

Brand**Risk ownership: Management Board****Description**

9. A failure to meet legal or publicly expected standards could result in severe reputational and brand impact.

Context

- We operate in a public environment and are exposed to a high degree of media interest.

Link to strategy 1 2 3**How we currently and further plan to manage the risk**

- Our in house programme compliance department advises all producers and reviews all pre-recorded editorial content before broadcast.
- We proactively manage our broadcast chain partners and suppliers to minimise the risk of incidents and regulatory breaches.
- Our risk management framework supports a culture of encouraging everyone to raise concerns.
- We have a crisis management policy and process in place and are continuing to increase the emphasis on its development and application.

Broadcast infrastructure**Risk ownership: Management Board****Description**

10. A major failure in complex broadcast system chains could result in us being unable to continue broadcasting for a sustained period of time.

Context

- Our broadcast technology chain is complex because it operates in multiple regions and links to many platforms.
- As we broadcast content across an increasing number of platforms the infrastructure to deliver and broadcast this content becomes increasingly complex.

Link to strategy 1**How we currently and further plan to manage the risk**

- We continually review and monitor the broadcast operations risks through our management and reporting processes.
- We have detailed business continuity and recovery plans in place to deliver a rapid and flexible response to an incident.
- We conduct major incident scenario testing at least annually and ahead of major live events.
- We proactively manage our broadcast chain partners and suppliers to ensure the risk of incidents is minimised.

Cyber security and data protection**Risk ownership: Management Board****Description**

11. A sustained cyber incident could result in system denial or loss of data.

Context

- We consider cyber security an increasing risk as our business develops new revenue streams and direct to consumer propositions.
- With increasingly sophisticated technology and proliferation of cyber hacking tools, along with increased amounts of company data, the risk of a cyber attack has increased across the world.
- We are a higher risk organisation as a result of being a media company and operating in a public environment.
- There is a growing volume of software and hardware vulnerabilities being identified by technology providers in their own products.

Link to strategy 1 2 3**How we currently and further plan to manage the risk**

- We work with specialist security organisations to implement 24/7 monitoring of our network traffic.
- We conduct regular cyber simulation exercises (including with the Management Board) and phishing exercises. Key learnings are reflected in our response plans.
- We have enhanced our risk assessment process for third party security as our cyber risk extends to our supply chain.
- We have disaster recovery and incident management plans in place for high risk areas of the business.

Technology resilience**Risk ownership: Management Board****Description**

12. Legacy technology systems could restrict our ability to respond to business changes and maintain system security.

Context

- Our system requirements change as we continue to rebalance the business, grow new revenue streams and become increasingly international.
- The pace of technological change outstrips our capacity to respond and migrate off legacy systems.
- Maintaining the security and performance of legacy systems requires ongoing resources and investment.

Link to strategy 1 2 3**How we currently and further plan to manage the risk**

- Our system requirements are kept under review with business growth and system modernisation projects implemented as appropriate.
- We have a modernisation plan in place for legacy systems, which remains under constant review and development to ensure technology systems meet the needs of the business.

Viability Statement

What is the process ITV follows?

At the annual strategy meeting the Board assesses ITV's prospects and risks. Amongst other topics, the Board reviews the five year financial plan, which is based on our strategic priorities. In 2018, we undertook a strategy refresh to highlight the opportunities for ITV and also the challenges we need to address. The Annual Report provides detail of ITV's prospects in the Strategy and Business Model section.

What is the assessment period for viability?

In its assessment of viability, the Board reviewed the planning horizon and is of the view that a three year period to 31 December 2021 continues to be most appropriate. The factors the Board considered in adopting this timeframe were as follows:

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

Assessment of viability

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

Scenario modelled	Link to Principal risks (pages 42 to 45)
Scenario 1: The Broadcast division experiencing a significant downturn, based on the 2008/09 financial crisis, with advertising revenues declining sharply for two years followed by a year of flat revenue.	Advertising Market: 4) Advertisers could be impacted by general or sector economic uncertainty and/or voluntary advertiser category restrictions that could lead to a significant reduced demand for advertising. Regulation & Legislation: 1) A significant or unexpected change in legislation or regulation could lead to reduced income or operational impact.
Scenario 2: A number of key programme brands within the Studios division are not recommissioned. The scheduling decisions of commissioners are made in advance, so we have clear sight on 2019, however key shows could come to an end at the same time in 2020 impacting a quarter of the division's profits	Generating hit programmes and formats: 6) A failure to create, own and protect the rights to a sufficient number of hit programmes/formats across our portfolio of content companies.
Scenario 3: A significant change in ITV's pension funding obligations, following the triennial valuation in 2020 resulting in doubling of the current deficit funding payments.	Economic: 2) A financial crisis or macroeconomic change could impact the value of pension scheme investments and increase the deficit. Regulation & Legislation: 1) A significant or unexpected change in legislation or regulation could lead to reduced income or operational impact.

The sale of the London Television Centre has been included in the models. It is expected that a sale takes place in 2019 and the Board will continue to monitor the impact of the project as it progresses.

The viability review involved flexing the underlying strategic forecast for the above impacts, both individually and concurrently, and no specific mitigations were assumed. The underlying strategic forecast assumed: business as usual capital spending; the ongoing availability of the financing facilities (as ITV remains within the covenants and there are no major bond repayments due in this period); and the Group maintains the stated dividend policy. The current bank facilities are secured until June 2021 and December 2023. Our model assumed both facilities will be available for the full period under review.

The scenarios used are hypothetical and severe but plausible and are considered appropriate to model risks that could impact the viability of the Group. In addition, there are options at the disposal of the Board to maintain liquidity and continue operations in the event of any of the scenarios arising, such as reducing M&A activity and non-essential capital expenditure as well as reviewing the Group's dividend policy.

Viability statement

Based on the results of this review, the Board has a reasonable expectation that ITV will be able to continue in operation and meet its liabilities as they fall due over the three year period ending 31 December 2021. The assessment has been made with reference to ITV's strategy and the current position and prospects.

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

Carolyn McCall

Chief Executive

27 February 2019

Directors' Report

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

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

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

The Board has conducted a review of the effectiveness of the Group's systems of internal controls for the year ended 31 December 2018. In the opinion of the Board, the Company has complied with the internal control requirements of the UK Corporate Governance Code throughout the year, maintaining an ongoing process for identifying, evaluating and minimising risk.

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

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

- To select suitable accounting policies and then apply them consistently
- To make judgements and estimates that are reasonable, relevant, reliable and prudent
- For the Group financial statements, to state whether they have been prepared in accordance with IFRSs as adopted by the EU
- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements
- To assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters relating to the going concern; and
- To use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Annual Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

By order of the Board

Chris Kennedy

Group CFO

27 February 2019

ITV plc

Registered Number: 4967001

Financial Statements

In this section



The financial statements have been presented in a style that 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 that follow are a part of the financial statements and will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the Annual Report and the financial statements.

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Independent Auditor's Report to the members of ITV plc

1. Our opinion is unmodified

We have audited the financial statements of ITV plc ("the Company") for the year ended 31 December 2018 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, company balance sheet, company statement of changes in equity, and the related notes, including the accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion


We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors in December 2003 prior to the company becoming the parent company of the now ITV Group on 2 February 2004. The period of total uninterrupted engagement is for the 15 financial years ended 31 December 2018 for the listed ITV Group. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2017), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to the members of ITV plc continued

The risk	Our response
<p>Total Advertising Revenue: £1,795 million (2017: £1,781 million) Risk vs 2017: ,</p> <p>Refer to the Audit and Risk Committee report, page 66 (accounting policy) and pages 67 to 69 (financial disclosures)</p> <p>Calculation complexity</p> <p>The majority of ITV's advertising revenue is subject to regulation under Ofcom's Contract Rights Renewal system ('CRR'). CRR works by ensuring that the annual share of TV advertising that will be placed with ITV by each advertising agency can change in relation to the viewing figures for commercial television that it delivers. The CRR system, the pricing of the annual contractual arrangements with advertising agencies and the details of each advertising campaign, together with the related processes and controls, are complex and involve estimation.</p> <p>Our risk relates to the largest component of total advertising – spot advertising.</p> <p>In particular, the complexity of the pricing mechanism means it is possible for a difference to arise between the price received by ITV for an advertising campaign and the value it delivered, mainly as a result of the actual viewing figures differing from the expected level for the campaign. Where the Group has over-delivered viewers this is referred to as a 'deal credit', or a 'deal debt' where delivery has fallen short. Rather than the price paid for that campaign being adjusted at the end of the campaign, these differences are noted for each agency and then taken into account when agreeing either future campaigns or the annual contract. A net deal debt position with an agency is recorded in ITV's accounts, as a liability. Net deal credit positions are not recognised.</p> <p>Spot advertising as the main component of total advertising is therefore considered a significant risk due to:</p> <ul style="list-style-type: none"> • The number and complexity of contractual agreements with advertising agencies • The complexity of the systems and processes of control used to record revenue and • The complexity involved in determining any deal debt liability at the period end 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Control operation: testing of controls, assisted by our own IT specialists, including those over: segregation of duties, input of annual deal terms with agencies, input of individual campaigns' terms and pricing, comparison of those terms and pricing data against the related contracts with advertising agencies; link to transmission/viewer data; and the system generated calculation of deal debt for each campaign. • Test of detail: challenging the year-end deal debt positions based on comparison with customers' correspondence and agreed terms of business. • Test of detail: checking that the revenue is recognised post transmission. Agreeing revenue recognised by matching the transmissions to the corresponding spots and by agreeing invoices to subsequent cash receipts on sample basis. • Assessing disclosures: we also assessed the adequacy of the Group's disclosures in respect of the accounting policies on revenue recognition. <p>Our results:</p> <ul style="list-style-type: none"> • From the evidence we obtained we found the resulting amount of recorded spot advertising to be acceptable (2017: acceptable).

The risk	Our response
Non-advertising revenue £1,971 million (2017: £1,874 million) Risk vs 2017: ◆ Refer to the Audit and Risk Committee report, pages 66 and 67 (accounting policy) and pages 67 to 69 (financial disclosures)	
Complex contract accounting Non-advertising revenue includes revenue from: programme production and the sale of programme rights within the Studios segment; transmission supply arrangements and the pay and interactive revenue within the Broadcast segment. Our risk relates to the non-advertising revenue within the Studios segment due to contractual nature of revenue recognition. Recognition of revenue is driven by the specific terms of the related contracts and is considered to be a significant risk as the terms of the contracts are varied and can be complex, with the result that accounting for the revenue generated in any given period can require judgement. Specifically judgement has been involved with regards to determining separate performance obligations and the timing of the revenue recognition of each. Due to the contractual nature of these revenue streams, the focus of our work is on the risks associated with significant one-off contracts.	Our procedures included: <ul style="list-style-type: none"> • Accounting analysis: we considered the Group's revenue recognition policies against the relevant accounting standards. • Test of detail: on a sample basis we assessed revenue contracts entered into during the year, and considered whether revenue had been recognised in accordance with the contractual terms in the correct accounting period, given the requirements of the relevant accounting policy. • Assessing disclosures: we assessed the adequacy of the Group's disclosures in respect of the accounting policy on revenue recognition. Our findings: <ul style="list-style-type: none"> • From the evidence we obtained we found the resulting amount of recorded non advertising revenue to be acceptable (2017: acceptable).
Gross defined benefit pension scheme obligations £3,719 million (2017: £3,987 million) Risk vs 2017: ◆ Refer to the Audit and Risk Committee report, pages 94 and 95 (accounting policy) and pages 95 to 102 (financial disclosures)	
Subjective valuation Significant estimates are made in determining the key assumptions used in valuing the Group's post-retirement defined benefit obligations. When making these assumptions the directors take independent actuarial advice relating to their appropriateness. The valuation of the gross defined benefit obligations is considered a significant risk given the quantum of the gross pension obligation and that a small change in assumptions can have a material financial impact on the Group.	Our procedures included: <ul style="list-style-type: none"> • Benchmarking assumptions: challenging the key financial assumptions applied in determining the Group's gross pension obligations, being the discount rate, inflation rate and mortality/life expectancy, with the support of our own actuarial specialists. This included a comparison of these key assumptions against externally derived data. • Assessing disclosures: considering the adequacy of the Group's disclosures in respect of the sensitivity of the gross defined benefit obligations to the assumptions. Our findings: <ul style="list-style-type: none"> • From the evidence we obtained we found the resulting valuation of the gross pension obligations to be acceptable (2017: acceptable).
Recoverability of parent company's investment in subsidiaries £2,286 million (2017: £2,191 million) Risk vs 2017: ◆ Refer to page 122 (accounting policy) and page 124 (financial disclosures)	
Low risk, high value The carrying amount of the parent company's investments in subsidiaries represents 35% (2017: 34%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: <ul style="list-style-type: none"> • Test of detail: comparing the carrying amount of 100% of the investments balance (2017: 100%) with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. Our results: <ul style="list-style-type: none"> • We found the Group's assessment of the recoverability of the investment in subsidiaries to be acceptable (2017: acceptable).

Independent Auditor's Report to the members of ITV plc continued

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

Materiality for the Group financial statements as a whole was set at £28 million (2017: £28.4 million), determined with reference to a benchmark of Group profit before tax normalised to exclude pension exceptional items disclosed in note 2.2, of £563m, of which materiality represents 4.9% (2017: 5% of group profit before tax normalised to exclude certain exceptional items, of £568m). The group team performed procedures on the items excluded from normalised group profit before tax.

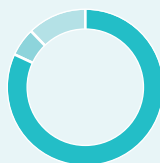
Materiality for the parent company financial statements as a whole was set as £27m (2017: £27 million) determined with reference to the benchmark of the company's total assets, of which it represents 0.4% (2017: 0.4%).

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £1.4 million (2017: £1.4 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Scoping and coverage

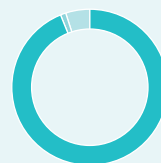
Revenue

Full scope audit	82%
Specified risk-based audit procedures	6%
Out of scope	12%



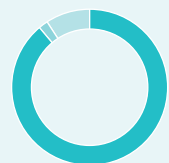
Profit before tax

Full scope audit	94%
Specified risk-based audit procedures	1%
Out of scope	5%



Total assets

Group audited	89%
Specified risk-based audit procedures	2%
Out of scope	9%



The Group's principal operations are in the United Kingdom. The Group audit team performed the audit of the core UK operations (comprising Broadcast and Online, the UK Studios, Global Entertainment and the central functions) as if they were a single aggregated set of financial information using materiality of £25 million (2017: £25 million). Talpa Media B.V. – a significant component of the Group in the Netherlands was subject to an audit for Group reporting purposes. The Group audit team instructed the component auditor as to the significant areas to be covered, including the relevant risks described above and the determination of the information to be reported back. Specified audit procedures were performed by other component auditors, as instructed by the Group audit team, on three entities in the US included in our scope based on the relative size of their operations. The Group audit team set the materiality of £5 million (2017: £5 million) for both the audit of the component and the specified audit procedures. The Group audit team performed procedures on the items excluded from normalised Group profit before tax.

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

Together the above audit and these specified audit procedures covered 88% (2017: 88%) of Group revenue, 95% (2017: 95%) of Group profit before taxation; and 91% (2016: 92%) of total Group assets.

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- The Broadcast division experiencing a significant and sharp decline in advertising revenues due to broader economic downturn
- A number of key program brands within the Studios division not being recommissioned

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Section 1 on page 62 of the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 47 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within the viability statement on page 46 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the risks and uncertainties on pages 41 to 45 describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Independent Auditor's Report to the members of ITV plc continued

Corporate governance disclosures

We are required to report to you if:

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

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 47, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the group's licence to operate. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Sawdon (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
27 February 2019

Consolidated Income Statement

For the year ended 31 December	Note	2018 £m	Restated* 2017 £m
Revenue	2.1	3,211	3,130
Operating costs		(2,611)	(2,575)
Operating profit		600	555
Presented as:			
Earnings before interest, tax and amortisation (EBITA) before exceptional items	2.1	785	810
Operating exceptional items	2.2	(93)	(153)
Amortisation and impairment	3.3, 3.5	(92)	(102)
Operating profit		600	555
Financing income	4.4	3	4
Financing costs	4.4	(46)	(54)
Net financing costs	4.4	(43)	(50)
Share of losses of joint ventures and associated undertakings	3.5	–	(4)
Gain/(loss) on sale of non-current assets (exceptional items)	2.2	10	(1)
Profit before tax		567	500
Taxation	2.3	(97)	(87)
Profit for the year		470	413
Profit attributable to:			
Owners of the Company		466	409
Non-controlling interests	4.6.6	4	4
Profit for the year		470	413
Earnings per share			
Basic earnings per share	2.4	11.7p	10.2p
Diluted earnings per share	2.4	11.6p	10.2p

* The Group has applied IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' at 1 January 2018. Under the transition method chosen, the comparative information has been restated. See section 1.

Consolidated Statement of Comprehensive Income

For the year ended 31 December	Note	2018 £m	Restated* 2017 £m
Profit for the year		470	413
Other comprehensive (loss)/income:			
Items that are or may be reclassified to profit or loss			
Revaluation of financial assets	4.6.4	(1)	(1)
Net gain/(loss) on cash flow hedges and costs of hedging	4.6.3	7	(3)
Share of losses of joint ventures and associated undertakings		(15)	–
Exchange differences on translation of foreign operations (net of hedging)	4.6.3	12	(32)
Items that will never be reclassified to profit or loss			
Remeasurement (losses)/gains on defined benefit pension schemes	3.7	(52)	172
Income tax credit/(charge) on items that will never be reclassified	2.3	8	(39)
Other comprehensive (loss)/income for the year, net of income tax		(41)	97
Total comprehensive income for the year		429	510
Total comprehensive income attributable to:			
Owners of the Company		425	506
Non-controlling interests	4.6.6	4	4
Total comprehensive income for the year		429	510

Consolidated Statement of Financial Position

As at 31 December	Note	2018 £m	Restated* 2017 £m
Non-current assets			
Property, plant and equipment	3.2	191	256
Intangible assets	3.3	1,614	1,645
Investments in joint ventures, associates and equity investments	3.5	51	74
Derivative financial instruments	4.3	26	10
Distribution rights	3.1.2	29	19
Defined benefit pension surplus	3.7	19	16
Other pension asset	3.7	49	38
Deferred tax asset	2.3	38	31
		2,017	2,089
Current assets			
Programme rights	3.1.1	298	321
Trade and other receivables due within one year	3.1.3	355	413
Trade and other receivables due after more than one year	3.1.3	71	27
Trade and other receivables		426	440
Contract assets	3.1.6	470	352
Current tax receivable		15	19
Derivative financial instruments	4.3	2	6
Cash and cash equivalents	4.1	95	126
Asset held for sale	3.2	85	–
		1,391	1,264
Current liabilities			
Borrowings	4.1, 4.2	(54)	(76)
Derivative financial instruments	4.3	(4)	(2)
Trade and other payables due within one year	3.1.4	(768)	(810)
Trade payables due after more than one year	3.1.5	(49)	(68)
Trade and other payables		(817)	(878)
Contract liabilities	3.1.6	(255)	(219)
Current tax liabilities		(115)	(86)
Provisions	3.6	(16)	(16)
		(1,261)	(1,277)
Net current assets/(liabilities)		130	(13)
Non-current liabilities			
Borrowings	4.1, 4.2	(993)	(982)
Derivative financial instruments	4.3	(1)	(1)
Defined benefit pension deficit	3.7	(106)	(137)
Deferred tax liabilities	2.3	(64)	(111)
Other payables	3.1.5	(130)	(106)
Provisions	3.6	(4)	(7)
		(1,298)	(1,344)
Net assets		849	732
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	206	199
Translation reserve	4.6.3	60	41
Fair value reserve	4.6.4	5	6
Retained earnings	4.6.5	(33)	(136)
Total equity attributable to equity shareholders of the parent company		815	687
Non-controlling interests		34	45
Total equity		849	732

* The Group has applied IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' at 1 January 2018. Under the transition method chosen, the comparative information has been restated. See section 1.

The accounts were approved by the Board of Directors on 27 February 2019 and were signed on its behalf by:

Chris Kennedy
Group CFO

Carolyn McCall
Chief Executive

Consolidated Statement of Changes in Equity

		Attributable to equity shareholders of the parent company								
	Note	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Fair value reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2018 (restated*)		403	174	199	41	6	(136)	687	45	732
Total comprehensive income/(loss) for the year										
Profit for the year		–	–	–	–	–	466	466	4	470
Other comprehensive income/(loss)										
Revaluation of financial assets		–	–	–	–	(1)	–	(1)	–	(1)
Net gain on cash flow hedges and costs of hedging		–	–	–	7	–	–	7	–	7
Exchange differences on translation of foreign operations (net of hedging)		–	–	–	12	–	–	12	–	12
Remeasurement loss on defined benefit pension schemes	3.7	–	–	–	–	–	(52)	(52)	–	(52)
Share of losses of joint ventures and associated undertakings		–	–	–	–	–	(15)	(15)	–	(15)
Income tax credit on other comprehensive income	2.3	–	–	–	–	–	8	8	–	8
Total other comprehensive (loss)/income		–	–	–	19	(1)	(59)	(41)	–	(41)
Total comprehensive (loss)/income for the year		–	–	–	19	(1)	407	425	4	429
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	(315)	(315)	(8)	(323)
Movements due to share-based compensation	4.7	–	–	–	–	–	10	10	–	10
Tax on items taken directly to equity	2.3	–	–	–	–	–	6	6	–	6
Purchase of own shares via employees' benefit trust	4.7	–	–	–	–	–	(5)	(5)	–	(5)
Total transactions with owners		–	–	–	–	–	(304)	(304)	(8)	(312)
Changes in non-controlling interests ^(a)	3.4	–	–	7	–	–	–	7	(7)	–
Balance at 31 December 2018	4.6	403	174	206	60	5	(33)	815	34	849

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

* The Group has applied IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' at 1 January 2018. Under the transition method chosen, the comparative information has been restated. See section 1.

Consolidated Statement of Changes in Equity continued

	Note	Attributable to equity shareholders of the parent company						Non-controlling interests £m	Total equity £m
		Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available-for-sale reserve £m	Retained earnings £m		
Balance at 1 January 2017		403	174	221	79	7	(162)	33	755
Adjustment on application of IFRS 15 *		–	–	–	–	–	2	–	2
Restated balance at 1 January 2017		403	174	221	79	7	(160)	–	757
Total comprehensive income / (loss) for the year									
Restated profit for the year *		–	–	–	–	–	409	4	413
Other comprehensive income / (loss)									
Revaluation of available-for-sale financial assets		–	–	–	–	(1)	–	–	(1)
Net loss on cash flow hedges and costs of hedging		–	–	–	(3)	–	–	–	(3)
Exchange differences on translation of foreign operations (net of hedging)		–	–	–	(32)	–	–	–	(32)
Remeasurement loss on defined benefit pension schemes	3.7	–	–	–	–	–	172	–	172
Income tax charge on other comprehensive income	2.3	–	–	–	–	–	(39)	–	(39)
Total other comprehensive income/(loss)		–	–	–	(35)	(1)	133	–	97
Total comprehensive income/(loss) for the year		–	–	–	(35)	(1)	542	4	510
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Equity dividends		–	–	–	–	–	(494)	(4)	(498)
Movements due to share-based compensation	4.7	–	–	–	–	–	12	–	12
Purchase of own shares via employees' benefit trust	4.7	–	–	–	–	–	(36)	–	(36)
Total transactions with owners		–	–	–	–	–	(518)	(4)	(522)
Changes in non-controlling interests ^(a)	3.4	–	–	(22)	(3)	–	–	12	(13)
Balance at 31 December 2017	4.6	403	174	199	41	6	(136)	45	732

* The Group has applied IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' at 1 January 2018. Under the transition method chosen, the comparative information has been restated. See section 1.

Consolidated Statement of Cash Flows

For the year ended 31 December	Note	£m	2018 £m	£m	2017 £m
Cash flows from operating activities					
Cash generated from operations before exceptional items	2.1		730		795
Cash flow relating to operating exceptional items:					
Operating exceptional items	2.2	(93)		(153)	
Decrease/(increase) in exceptional payables		1		(18)	
Decrease in exceptional prepayments and other receivables		2		45	
Cash outflow from exceptional items			(90)		(126)
Cash generated from operations			640		669
Defined benefit pension deficit funding		(82)		(80)	
Interest received		10		21	
Interest paid on bank and other loans		(52)		(59)	
Net taxation paid		(92)		(95)	
			(216)		(213)
Net cash inflow from operating activities			424		456
Cash flows from investing activities					
Acquisition of subsidiary undertaking, net of cash acquired	3.4	–		(35)	
Acquisition of property, plant and equipment		(56)		(46)	
Acquisition of intangible assets		(26)		(25)	
Acquisition of investments		(13)		(19)	
Proceeds from sale of property, plant and equipment		17		–	
Acquisition of non-controlling interests		(10)		–	
Purchase of gilts (other pension assets)		(11)		–	
Loans granted to associates and joint ventures		(4)		(4)	
Net cash outflow from investing activities			(103)		(129)
Cash flows from financing activities					
Bank and other loans – amounts repaid		(422)		(680)	
Bank and other loans – amounts raised		400		465	
Capital element of finance lease payments		–		(4)	
Equity dividends paid		(315)		(494)	
Dividends paid to minority interest		(8)		(4)	
Purchase of own shares via employees' benefit trust		(5)		(36)	
Net cash outflow from financing activities			(350)		(753)
Net decrease in cash and cash equivalents			(29)		(426)
Cash and cash equivalents at 1 January	4.1		126		561
Effects of exchange rate changes and fair value movements			(2)		(9)
Cash and cash equivalents at 31 December	4.1		95		126

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 2018 or later years. We explain how these changes are expected to impact the financial position and performance of the Group.

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

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

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

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

Going concern

At 31 December 2018, the Group was in a financial net debt position with a positive gross cash balance. The Group is in a net current asset position with a solid balance sheet. The Group continues to generate significant cash from operations which enables the Group to meet its obligations.

As a part of the going concern test, the Group reviews forecasts of the total advertising market to determine the impact on ITV's liquidity position. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current available funding.

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

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for at least 12 months from the date of this report. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

Subsidiaries, joint ventures, associates and investments

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

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

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

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

Current/non-current distinction

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

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

Classification of financial instruments

The financial assets and liabilities of the Group are classified into the following financial statement captions in the statement of financial position in accordance with IFRS 9 'Financial Instruments':

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

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

Recognition and derecognition of financial assets and liabilities

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

Cash and cash equivalents

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

Foreign currencies

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

Where Group companies based in the UK transact in foreign currencies, these transactions are translated into pounds sterling at the exchange rate on the transaction date. Foreign currency monetary assets and liabilities are translated into pounds sterling at the year end exchange rate. Non-monetary assets and liabilities measured at historical cost are translated into pounds sterling at the exchange rate on the date of the transaction. 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.

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.

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

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

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

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

Notes to the Financial Statements

Section 1: Basis of Preparation continued

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 area involving a high degree of estimation, judgement or complexity is set out below and in more detail in the related note:

- Revenue recognition (note 2.1)

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

- Defined benefit pension (note 3.7)
- Taxation (note 2.3)
- Business combinations including earnouts (note 3.3 and note 3.1.5)

New or amended EU endorsed accounting standards

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018. Neither standard has a material effect on the Group's financial statements.

IFRS 9 'Financial Instruments'

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new models for classification of financial assets and accounting for credit losses. Hedging rules have been amended to allow hedge accounting to be applied to more risks.

The adoption of IFRS 9 did not result in a material adjustment to previously reported results. See 4.3 for further details.

IFRS 16 'Leases'

IFRS 16 is effective 1 January 2019 and will change lease accounting for lessees under operating leases. Such agreements will require recognition of an asset, representing the right to use the leased item, and a liability, representing future lease payments. Lease costs (such as property rent) will be recognised in the form of depreciation and interest, rather than as an operating cost.

The Group plans on adopting the modified retrospective approach with the right of use asset equal to the lease liability at transition date, less any lease incentives received. The likely impact to Operating costs is expected to be between £3 million to £5 million with the likely impact to Profit before tax being £nil to £1 million. Non-current assets and gross liabilities are both expected to increase by £90 million to £120 million with net assets remaining unchanged.

The Group has elected not to recognise right of use assets and lease liabilities for short-term leases or low-value assets. The Group will continue to expense the lease payments associated with these leases on a straight-line basis over the lease term.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations.

The Group has adopted IFRS 15 on a fully retrospective basis.

The following table summarises the impacts of adopting IFRS 15 on the Group's Income Statement for the year end 31 December 2017.

Impact on the Income Statement	Note	As reported 2017 £m	Adjustments	Restated 2017 £m
Revenue		3,132	2	3,130
Operating costs		(2,577)	(2)	(2,575)
Operating profit		555	–	555

The following table summarises the impacts of adopting IFRS 15 on the Group's Statement of Financial Position as at 31 December 2017.

Impact on the Statement of Financial Position	Note	As reported 2017 £m	Adjustments	Restated 2017 £m
Programme rights		570	(249)	321
Trade and other receivables due within one year		514	(101)	413
Contract assets		–	352	352
Trade and other payables due within one year		(1,029)	219	(810)
Contract liabilities		–	(219)	(219)
Others		675	–	675
Net assets		730	2	732
Retained earnings		(138)	2*	(136)
Others		868	–	868
Equity		730	2*	732

* The change in retained earnings relates to the restatement of 2017 opening balances.

The changes to revenue recognition as a result of IFRS 15 relate to:

- Principal versus agent consideration in the Broadcast & Online division resulted in movements between revenue and costs. This resulted in an increase to revenue of £1 million with a corresponding increase in operating costs
- Certain contracts for production of programmes in ITV Studios meet over-time revenue recognition criteria under IFRS 15, compared to point-in-time recognition under the previous standard. This change has resulted in a reduction in revenue by £3 million with a corresponding reduction in operating costs. The Statement of Financial Position has been adjusted for the impact of this timing difference and the reclassification of contract assets and liabilities from other balances
- The changes in the Statement of Financial Position relate to the reclass of programme rights and accrued revenue to contract assets and deferred revenue to contract liabilities

There was no impact to the Group's Statement of Cash Flows.

Other new or amended accounting standards

IFRIC 22 'Foreign Currency Transactions and Advance Consideration' and the amendments to IFRS 2 'Share-based Payment' on the classification and measurement of share-based payment transactions did not have an impact to our results.

Based on the Directors' analysis, other than those specifically mentioned, the new or amended accounting standards outlined above do not have a material impact on the Group's financial position or performance for the year ended 31 December 2018.

EU endorsed accounting standards effective in future periods

The Directors considered the impact on the Group of other new and revised accounting standards, interpretations or amendments that are currently endorsed but not yet effective. IFRS 16 has been discussed earlier. The Directors do not expect any other standards 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.

2.1 Profit before tax

Keeping it simple



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

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

Accounting policies

Revenue recognition

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

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

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

Revenue is stated exclusive of VAT and equivalent sales taxes.

Complexity in advertising revenue recognition is driven by automated and manual processes involved in measuring the value delivered to the customer.

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

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

Segment	Major classes of revenue	Payment terms
Studios		
Programme production	• Revenue generated from the programmes produced for broadcasters in the UK and internationally and is recognised at the point of delivery of an episode and acceptance by the customer. Producer for hire contracts where cost plus a margin is received upon cancellation is recognised over time	• Payment term is over the term of the contract
Programme distribution rights	• A licence is granted for the transmission of a programme in a stated territory, media and period and revenue is recognised at the point when the contract is signed, the content is available for download and the licence period has started	• Payment term is over the term of the contract
Format and licences	• A licence is granted for the exploitation of a format in a stated territory, media and period. These are recognised when the licence is granted to the customer (point in time)	• Payment term is over the term of the contract
Digital: archive	• Content sold to broadcasters and is recognised on delivery of content or over the contract period in a manner that reflects the flow of content delivered	• Payment term is over the term of the contract

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

	2018 £m	2018 % of total	2017 £m	2017 % of total
Total advertising revenue	1,795	48%	1,781	49%
Direct to consumer	81		65	
SDN	73		70	
Other	147		160	
Total Broadcast & Online	2,096	56%	2,076	57%
Studios UK	695		692	
ITV America	245		310	
Studios RoW	516		390	
Global Entertainment	214		187	
Total ITV Studios*	1,670	44%	1,579	43%
Total revenue	3,766		3,655	

* Studios UK and ITV America revenues are mainly programme production. Studios RoW revenue is from programme production, programme distribution rights and format and licences. Global Entertainment revenue includes programme distribution rights, format and licences and digital archive.

Notes to the Financial Statements

Section 2: Results for the Year continued

Segmental information

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

The Board considers the business primarily from an operating activity perspective. The reportable segments for the years ended 31 December 2018 and 31 December 2017 are therefore Broadcast & Online and ITV Studios, the results of which are outlined in the following tables:

	Broadcast & Online ⁽ⁱⁱ⁾ 2018 £m	ITV Studios ^{(i), (iii)} 2018 £m	Consolidated 2018 £m
Total segment revenue	2,096	1,670	3,766
Intersegment revenue	(4)	(551)	(555)
Revenue from external customers	2,092	1,119	3,211
Adjusted EBITA⁽ⁱⁱⁱ⁾	555	255	810

	Broadcast & Online ⁽ⁱⁱ⁾ 2017 £m	ITV Studios ^{(i), (iii)} 2017 £m	Consolidated 2017 £m
Total segment revenue	2,076	1,579	3,655
Intersegment revenue	(2)	(523)	(525)
Revenue from external customers	2,074	1,056	3,130
Adjusted EBITA⁽ⁱⁱⁱ⁾	599	243	842

(i) Revenue of £354 million (Restated 2017: £393 million) was generated in the US during the year; the US represented £329 million (2017: £330 million) of non-current assets at year end.

(ii) Adjusted EBITA is before exceptional items and includes the benefit of production tax credits. It is shown after the elimination of intersegment revenue and costs.

(iii) The Group has applied IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' at 1 January 2018. Under the transition method chosen, the comparative information has been restated. See section 1.

The Group's principal operations are in the United Kingdom. Revenue from external customers in the United Kingdom is £2,250 million (Restated 2017: £2,273 million), and revenue from external customers in other countries is £961 million (Restated 2017: £856 million). The Operating and Performance Review provides further detail on ITV's international revenues.

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

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

There is one media buying agency (2017: one) acting on behalf of a number of advertisers that represent the Group's major customers. This agency is the only customer that individually represents over 10% of the Group's revenue. Revenue of approximately £554 million (2017: £561 million) was derived from this customer. This revenue is attributable to the Broadcast & Online segment.

Timing of revenue recognition

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

	2018 £m	Restated 2017 £m
Products transferred at a point in time	2,709	2,607
Products and services transferred over time	502	523
Total external revenue	3,211	3,130

Included in the above 'Products transferred at a point in time' is Total advertising revenue, DTC, SDN (2018: £1,802 million, 2017: £1,766 million), Programme production, programme distribution rights, digital archive (2018: £1,340 million, 2017: £1,272 million); and Formats and Licences (2018: £122 million, 2017: £95 million).

Included in the above 'Products and services transferred over time' is Total advertising revenue, DTC, SDN (2018: £294 million, 2017: £310 million), Programme production, programme distribution rights, digital archive (2018: £199 million, 2017: £201 million); and Formats and Licences (2018: £9 million, 2017: £11 million).

Forward bookings

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

	2019 £m	2020 £m	2021 £m	Beyond £m
Broadcast & Online	134	113	56	34
ITV Studios	204	96	71	15
Revenue	338	209	127	49

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

Broadcast & Online

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

Other sources of revenue are from: Direct to Consumer revenue (which includes interactive sales from competitions as well as ITV Hub+ and Commerce & Ventures); SDN revenue (which generates licence sales for DTT Multiplex A); HD digital channels on pay platforms (e.g. Sky and Virgin) and the ITV Choice subscription service in other countries.

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 67% of ITV main channel spend on commissioned programming (2017: 66%). Programming is also sold to other UK broadcasters such as the BBC, Channel 4 and Sky.

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

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

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

Notes to the Financial Statements

Section 2: Results for the Year continued

Adjusted EBITA

The Directors assess the performance of the reportable segments based on a measure of adjusted EBITA. The Directors use this measurement basis as it excludes the effect of transactions that could distort the understanding of the Group's performance for the year and comparability between periods. See the Operating and Performance Review on pages 21 to 29 for the detailed explanation of the Group's use of adjusted performance measures. A reconciliation from adjusted EBITA to profit before tax is provided as follows:

	2018 £m	2017 £m
Adjusted EBITA	810	842
Production tax credits	(25)	(32)
EBITA before exceptional items	785	810
Operating exceptional items	(93)	(153)
Amortisation and impairment	(92)	(102)
Net financing costs	(43)	(50)
Share of losses of joint ventures and associated undertakings	–	(4)
Gain/(Loss) on sale of non-current assets (exceptional items)	10	(1)
Profit before tax	567	500

Cash generated from operations

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

	2018 £m	2017 £m
Cash flows from operating activities		
Profit before tax	567	500
Add back:		
(Gain)/loss on sale of non-current assets (exceptional items)	(10)	1
Share of losses of joint ventures and associated undertakings	–	4
Net financing costs	43	50
Operating exceptional items	93	153
Depreciation of property, plant and equipment	28	30
Amortisation and impairment	92	102
Share-based compensation and pension service costs	10	13
Decrease/(increase) in programme rights and distribution rights	14	(94)
(Increase)/decrease in receivables and contract assets	(103)	13
(Decrease)/increase in payables and contract liabilities	(4)	23
Movement in working capital	(93)	(58)
Cash generated from operations before exceptional items	730	795

Operating costs

The major components of operating costs are Network schedule costs of £1,055 million (2017 £1,025 million), Staff costs of £473 million (2017: £449 million), Depreciation, Amortisation and Impairment of £120 million (2017: £132 million) and Operating exceptional items of £93 million (2017: £153 million).

Staff costs

Staff costs before exceptional items can be analysed as follows:

	2018 £m	2017 £m
Wages and salaries	384	358
Social security and other costs	52	55
Share-based compensation (see note 4.7)	10	12
Pension costs	27	24
Total staff costs	473	449
Less: staff costs allocated to productions	(189)	(166)
FTEE staff costs (non-production)	284	283

Exceptional staff costs are disclosed separately in note 2.2.

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

	2018	2017
Broadcast & Online	2,143	2,053
ITV Studios	4,138	4,002
	6,281	6,055

The increase in full-time equivalent employees is primarily driven by the full year impact of acquisitions completed in 2017. 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 2018 are set out in the ITV plc Company financial statements.

Depreciation

Depreciation in the year was £28 million (2017: £30 million), of which £12 million (2017: £11 million) relates to Broadcast & Online and £16 million (2017: £19 million) to ITV Studios. A further £2 million in respect of accelerated depreciation for assets made redundant under restructuring projects. See notes 2.2 and 3.3 for further details.

Operating leases

The Group's operating leases relate to offices, studio properties and other assets such as cars and office equipment. Property leases run for terms ranging from five to 20 years, depending on the expected operational use of the site. Leases may include break clauses or options to renew (options to renew are not included in the commitments table). Lease payments are generally subject to market review every five years to reflect market rentals, but because of the uncertainty over the amount of any future changes, such changes have not been reflected in the table below. None of the lease agreements include contingent rentals. The total undiscounted future minimum lease payments under non-cancellable operating leases are due for payment as follows:

2018	Property £m	Other £m	Total £m
Within one year	27	3	30
Later than one year and not later than five years	83	3	86
Later than five years	31	–	31
	141	6	147

2017	Property £m	Other £m	Total £m
Within one year	28	3	31
Later than one year and not later than five years	89	4	93
Later than five years	19	–	19
	136	7	143

The total operating lease expenditure recognised during the year was £26 million (2017: £21 million) and total sublease payments received were £1 million (2017: £1 million).

IFRS 16 'Leases' is effective 1 January 2019 and will change lease accounting for lessees under operating leases. The impact to the Group has been outlined in Section 1. Non-current assets and gross liabilities are both expected to increase by £90 million to £120 million with net assets remaining unchanged.

Notes to the Financial Statements

Section 2: Results for the Year continued

Audit fees

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

	2018 £m	2017 £m
For the audit of the Group's annual accounts	0.7	0.6
For the audit of subsidiaries of the Group	0.7	0.6
Audit-related assurance services	0.1	0.2
Total audit and audit-related assurance services	1.5	1.4
Taxation advisory services	–	–
Other assurance services	–	–
Total non-audit services	–	–
Total fees paid to KPMG	1.5	1.4

There were no fees payable in 2018 or 2017 to KPMG and associates for the auditing of accounts of any associate or pension scheme of the Group, internal audit, and services relating to corporate finance transactions entered into or proposed to be entered into, by or on behalf of the Group or any of its associates. Fees paid to KPMG for audit and other services to the Company are not disclosed in its individual accounts as the Group accounts are required to disclose such fees on a consolidated basis.

2.2 Exceptional items

Keeping it simple



Exceptional items are excluded from management's assessment of profit because by their size or nature they could distort the Group's underlying quality of earnings. They are typically gains or losses arising from events that are not considered part of the core operations of the business (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 highlighted on the face of the income statement. See the Operating and Performance Review on pages 21 to 29 for the detailed explanation of the Group's use of adjusted performance measures. Gains or losses on disposal of non-core assets are also considered exceptional due to their nature and impact on the Group's underlying quality of earnings.

Exceptional items

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

(Charge)/credit	Ref.	2018 £m	2017 £m
Operating exceptional items:			
Acquisition-related expenses	A	(60)	(90)
Restructuring and property related costs	B	(26)	(30)
Insured trade receivable provision	C	4	(27)
Pension related costs	D	4	–
Other	E	(15)	(6)
Total operating exceptional items		(93)	(153)
Non-operating exceptional items:			
Gain/(loss) on sale of non-current assets	F	10	(1)
Total non-operating exceptional items		10	(1)
Total exceptional items before tax		(83)	(154)
Tax on exceptional items		9	12
Total exceptional items net of tax		(74)	(142)

A – Acquisition-related expenses

Acquisition-related expenses of £60 million includes £54 million (2017: £86 million) relating to performance-based, employment-linked costs to former owners. The remaining £6 million (2017: £4 million) is primarily comprised of professional fees (mainly financial due diligence and legal costs in respect of potential acquisitions during the year). See note 3.4 for further details on acquisitions.

B – Restructuring and property-related costs

In October 2018, the Directors reversed their prior decision, reported in 2017 and agreed not to redevelop the Group's headquarters at The London Television Centre and the site is now for sale. £13 million of dual rent, other property costs and move related costs have been recognised as exceptional.

In 2018, we announced our strategy 'More than TV' and as a result incurred £13 million of costs from restructuring our business.

In 2017, the Group incurred £30 million of costs in relation to the London property project including the closure of The London Studios business.

C – Insured trade receivable provision

Refer to section 5.2 for further details.

D – Pension related costs

A past service cost of £6 million has been included in the measurement of the Pension scheme liabilities for Guaranteed Minimum Pension ("GMP") equalisation. This is to equalise the benefits between men and women following a High Court ruling around equalisation of GMP.

Notes to the Financial Statements

Section 2: Results for the Year continued

In November 2018, the Pension Trustee entered into a bulk annuity insurance contract in respect of the benefits of two sections of the ITV Pension Scheme. This type of deal is also known as a 'Buy-in', which resulted in recognition of a loss of £94 million in other comprehensive income as explained in section 3.7. Further, as part of the buy-in transaction, certain amendments were made to the scheme. As a result, a past service cost of £5 million has been included in the measurement of the pension scheme liabilities for the pension increase exchange option no longer being available to members of these schemes. Certain members of the sections also had a change of rate of pension increases. This change resulted in a credit of £15 million which has also been recognised as an exceptional past service cost.

E – Other

Other relates to ongoing litigation costs outside the normal course of business.

F – Gain/(loss) on sale of non-current assets

The gain on sale of non-current assets arose primarily as a result of the sale of freehold land and buildings in Manchester and Belfast.

2.3 Taxation

Keeping it simple



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

Accounting policies

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

Current tax

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

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

Deferred tax

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

The following temporary differences are not provided for:

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

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

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

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

Taxation – Income statement

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

	2018 £m	2017 £m
Current tax:		
Current tax charge on profit before exceptional items	(123)	(110)
Current tax credit on exceptional items	3	8
	(120)	(102)
Adjustments to prior periods	(14)	(2)
	(134)	(104)
Deferred tax:		
Origination and reversal of temporary differences	5	13
Deferred tax credit on exceptional items	6	4
Impact of changes to statutory tax rates	1	(6)
	12	11
Adjustments to prior periods	25	6
	37	17
Total taxation charge in the income statement	(97)	(87)

In order to understand how, in the income statement, a tax charge of £97 million (2017: £87 million) arises on a profit before tax of £567 million (2017: £500 million), the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2018 £m	2017 £m
Profit before tax	567	500
Notional taxation charge at UK corporation tax rate of 19% (2017: 19.25%) on profit before tax	(108)	(96)
Non-taxable income/non-deductible expenses	(30)	(35)
Prior year adjustments	11	4
Other taxes	(1)	–
Previously unrecognised deferred tax assets	3	11
Current year losses not recognised	–	(4)
Impact of overseas tax rates	2	7
Impact of changes in tax rates	1	(6)
Production tax credits	25	32
Total taxation charge in the income statement	(97)	(87)

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

Adjustments to prior periods primarily arise where an outcome is obtained on certain tax matters, which differs from expectations held when the related provision was made. Where the outcome is more favourable than the provision made, the difference is released, lowering the current year tax charge. Where the outcome is less favourable than our provision, an additional charge to current year tax will occur. The current tax charge includes a £14 million charge relating to prior years, and the deferred tax credit includes a £25 million credit relating to prior years. These adjustments largely represent a movement between current tax and deferred tax, however differences have also arisen following changes in estimates of taxes that have already become due, or will become due in the future.

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

The impact of overseas tax rates reflects the fact that some of our profits are earned in territories other than the UK and taxed at rates different from the UK corporation tax rate. This year, losses arising in higher taxed jurisdictions, which we recognise through deferred tax, give rise to a reconciling benefit.

The UK corporation tax rate fell from 20% to 19% from 1 April 2017 and has been enacted to fall further to 17% from 1 April 2020. These rates were enacted at the previous balance sheet date, and the carrying value of UK temporary differences were adjusted accordingly. To the extent that temporary differences have unwound in the current year, this has given rise to a credit of nil (2017: charge of £6 million) of which £1 million is recognised as a credit in the income statement and £1 million as a debit in other comprehensive income.

Notes to the Financial Statements

Section 2: Results for the Year continued

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

The effective tax rate is 17.1% (2017: 17.4%), and is the tax charge on the face of the income statement expressed as a percentage of the profit before tax. As explained in the Finance Review, the Group uses an adjusted tax rate to show how tax impacts total adjusted earnings in a way that is more aligned with the Group's cash tax position.

This year, the current year movement on origination and reversal of temporary differences (excluding exceptional items) is a credit of £5 million, compared with a credit of £13 million in 2017.

Taxation – Other comprehensive income and equity

As analysed in the table below, a deferred tax credit of £8 million on actuarial movements on pensions has been recognised in other comprehensive income (2017: £39 million charge). A deferred tax credit of £6 million has been recognised in equity in respect of share-based payments (2017: charge of £1 million).

There is no current tax recognised in equity in relation to share-based payments (2017: credit of £1 million).

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 2018 £m	Other movements £m	Recognised in the income statement £m	Recognised in OCI and equity £m	Business acquisitions £m	Foreign exchange £m	At 31 December 2018 £m
Tangible assets	–	–	5	–	–	–	5
Intangible assets	(80)	–	14	–	–	–	(66)
Programme rights	1	–	(1)	–	–	–	–
Pension scheme deficits	(18)	–	4	8	–	–	(6)
Tax losses	21	–	15	–	–	1	37
Share-based compensation	(5)	–	(1)	6	–	–	–
Other temporary differences	1	1	1	–	–	1	4
	(80)	1	37	14	–	2	(26)

	At 1 January 2017 £m	Other movements £m	Recognised in the income statement £m	Recognised in OCI and equity £m	Business acquisitions £m	Foreign exchange £m	At 31 December 2017 £m
Tangible assets	–	3	(3)	–	–	–	–
Intangible assets	(94)	–	22	–	(6)	(2)	(80)
Programme rights	1	–	–	–	–	–	1
Pension scheme deficits	34	–	(13)	(39)	–	–	(18)
Tax losses	30	–	(6)	–	–	(3)	21
Share-based compensation	(4)	–	–	(1)	–	–	(5)
Other temporary differences	(20)	(2)	17	–	4	2	1
	(53)	1	17	(40)	(2)	(3)	(80)

At 31 December 2018, total deferred tax assets are £46 million (2017: £23 million) and total deferred tax liabilities are £72 million (2017: £103 million). After netting off balances within countries, there is a deferred tax liability of £64 million and a deferred tax asset of £38 million (2017: deferred tax liability of £111 million and deferred tax asset of £31 million) recognised in the Consolidated Statement of Financial Position.

The deferred tax balances relate to:

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

The deferred tax balance associated with the pension deficit reflects the current tax benefit obtained in the current year following the employer contributions of £89 million to the Group's defined benefit pension scheme. The adjustment in other comprehensive income to the deferred tax balance primarily relates to the actuarial loss recognised in the period.

A deferred tax asset of £375 million (2017: £377 million) in respect of capital losses of £2,205 million (2017: £2,217 million) has not been recognised due to uncertainties as to whether capital gains will arise in the appropriate form and relevant territories against which such losses could be utilised. For the same reasons, deferred tax assets of £19 million (2017: £13 million) in respect of overseas losses that time expire between 2019 and 2026 have not been recognised.

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

2.4 Earnings per share

Keeping it simple



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

Basic EPS is calculated on the Group profit for the year attributable to equity shareholders of £466 million (2017: £409 million) divided by 3,999 million (2017: 4,006 million), being the weighted average number of shares in issue during the year, which excludes EBT shares held in trust (see note 4.7).

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

Adjusted EPS is presented in order to show the business performance of the Group in a consistent manner and reflect how the business is managed and measured on a day-to-day basis. Adjusted EPS reflects the impact of operating and non-operating exceptional items on Basic EPS. Other items excluded from Adjusted EPS are amortisation and impairment of intangible assets acquired through business combinations; net financing cost adjustments; and the tax adjustments relating to these items. Each of these adjustments is explained in detail in the section below.

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

Basic earnings per share

	2018 £m	2017 £m
Profit for the year attributable to equity shareholders of ITV plc	466	409
Weighted average number of ordinary shares in issue – million	3,999	4,006
Basic earnings per ordinary share	11.7p	10.2p

Notes to the Financial Statements

Section 2: Results for the Year continued

Diluted earnings per share

	2018 £m	2017 £m
Profit for the year attributable to equity shareholders of ITV plc	466	409
Weighted average number of ordinary shares in issue – million	3,999	4,006
Dilution due to share options	14	11
Total weighted average number of ordinary shares in issue – million	4,013	4,017
Diluted earnings per ordinary share	11.6p	10.2p

Adjusted earnings per share

	Ref.	2018 £m	2017 £m
Profit for the year attributable to equity shareholders of ITV plc		466	409
Exceptional items (net of tax)	A	74	142
Profit for the year before exceptional items		540	551
Amortisation and impairment of acquired intangible assets	B	71	78
Adjustments to net financing costs	C	6	13
Adjusted profit		617	642
Total weighted average number of ordinary shares in issue – million		3,999	4,006
Adjusted earnings per ordinary share		15.4p	16.0p

Diluted adjusted earnings per share

	2018 £m	2017 £m
Adjusted profit	617	642
Weighted average number of ordinary shares in issue – million	3,999	4,006
Dilution due to share options	14	11
Total weighted average number of ordinary shares in issue – million	4,013	4,017
Diluted adjusted loss per ordinary share	15.4p	16.0p

Details of the adjustments to earnings are as follows:

A. Exceptional items (net of tax) £74 million (2017: £142 million)

- Exceptional items of £83 million (2017: £154 million), net of related tax credit of £9 million (2017: £12 million). See note 2.2 for the detailed composition of exceptional items

B. Amortisation and impairment of acquired intangible assets of £71 million (2017: £78 million)

- Amortisation and impairment of assets acquired through business combinations and investments of £92 million (2017: £102 million), excluding amortisation of software licences and development of £7 million (2017: £5 million), net of related tax credit of £14 million (2017: £19 million)

C. Adjustments to net financing costs £6 million (2017: £13 million)

- Mark-to-market movements on derivative instruments, foreign exchange and imputed pension interest charges of £7 million (2017: £17 million), net of related tax credit of £1 million (2017: £4 million)

Notes to the Financial Statements

Section 3: Operating Assets and Liabilities

In this section



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

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

3.1 Working capital

Keeping it simple



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

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

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

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

3.1.1 Programme rights and commitments

Accounting policies

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

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

Broadcast programme rights

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

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

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

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

	2018 £m	Restated* 2017 £m
Acquired programme rights	154	177
Commissions	99	86
Sports rights	45	58
	298	321

* The Group has applied IFRS 15 'Revenue from Contracts with Customers' at 1 January 2018. Under the transition method chosen, the comparative information has been restated. See section 1.

Notes to the Financial Statements

Section 3: Operating Assets and Liabilities continued

Broadcast programme and transmission commitments

Transmission commitments are the contracted future payments under transmission supply agreements that require the use of transponder assets for a period of up to ten years with payments increasing over time, limited by specific RPI caps.

Programming commitments are transactions entered into in the ordinary course of business with programme suppliers, sports organisations and film distributors in respect of rights to broadcast on the ITV network.

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

	Transmission £m	Programme £m	Total £m
2018			
Within one year	34	471	505
Later than one year and not more than five years	135	610	745
More than five years	5	50	55
	174	1,131	1,305
	Transmission £m	Programme £m	Total £m
2017			
Within one year	32	455	487
Later than one year and not more than five years	132	709	841
More than five years	58	47	105
	222	1,211	1,433

3.1.2 Distribution rights

Accounting policies

Distribution rights are programme rights the Group buys from producers to derive future revenue, principally through licensing to other broadcasters. These are classified as non-current assets as these rights are used to derive long-term economic benefit for the Group.

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

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

	2018 £m	2017 £m
Distribution rights	29	19

During the year, £56 million was charged to the income statement (2017: £35 million).

3.1.3 Trade and other receivables

Accounting policies

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

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

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

	2018 £m	Restated* 2017 £m
Due within one year:		
Trade receivables	261	311
Other receivables	48	51
Prepayments	46	51
	355	413
Due after more than one year:		
Trade receivables	36	19
Other receivables	35	8
	71	27
Total trade and other receivables	426	440

* The Group has applied IFRS 15 'Revenue from Contracts with Customers' at 1 January 2018. Under the transition method chosen, the comparative information has been restated. See section 1.

£297 million (2017: £330 million) of total trade receivables, stated net of provisions for impairment, are aged as follows.

	2018 £m	2017 £m
Current	265	275
Up to 30 days overdue	24	28
Between 30 and 90 days overdue	6	16
Over 90 days overdue	2	11
	297	330

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

	2018 £m	2017 £m
At 1 January	35	4
Charged during the year – insured trade receivable provision	–	30
Charged during the year	9	5
Unused amounts reversed	(5)	(4)
At 31 December	39	35

Of the provision total, £21 million relates to balances overdue by more than 90 days (2017: £4 million) and less than £1 million relates to current balances (2017: £1 million). £26 million of the provision relates to the overdue Talent receivable which includes £10 million of trade receivables and £16 million of contract assets (accrued income). The provision for these insured receivables, net of insurance excess, was recognised as an exceptional expense in 2017 (see note 2.2).

Notes to the Financial Statements

Section 3: Operating Assets and Liabilities continued

3.1.4 Trade and other payables due within one year

Accounting policies

Trade payables are recognised at the value of the invoice received from a supplier. The carrying value of current and non-current trade payables is considered to approximate fair value. Trade and other payables due within one year can be analysed as follows:

	2018 £m	Restated* 2017 £m
Trade payables	62	63
VAT and social security	56	67
Other payables	226	233
Acquisition-related liabilities – employment-linked contingent consideration	13	34
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	42	42
Accruals	369	371
	768	810

3.1.5 Trade and other payables due after more than one year

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

	2018 £m	2017 £m
Trade payables	49	68
Other payables	9	21
Acquisition-related liabilities – employment-linked contingent consideration	94	54
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	27	31
	130	106
Total Trade and other payables due after more than one year	179	174

Trade payables due after more than one year, relate primarily to film creditors of £24 million and royalties of £25 million.

Acquisition-related liabilities or performance-based employment-linked earnouts are estimated payable to previous owners. The estimated future payments of £252 million are sensitive to forecast profits as they are based on a multiple.

3.1.6 Contract assets and liabilities

Contract assets (accrued income) primarily relate to the Group's right to consideration for work completed but not billed at the reporting date. Contract liabilities (deferred income) primarily relate to the consideration received from customers in advance of transferring a good or service. The following table provides significant changes to contract assets and liabilities in the period:

	2018		Restated* 2017	
	Contract assets £m	Contract liabilities £m	Contract assets £m	Contract liabilities £m
Balance at 1 January	352	(219)	261	(205)
Decrease due to balance transferred to trade receivables	(115)	–	(88)	–
Increases as a result of the changes in the measure of progress	233	–	126	–
Increases due to revenue recognised in the period	–	216	–	196
Increase due to cash received	–	(252)	–	(179)
Business combination	–	–	53	(31)
Balance at 31 December	470	(255)	352	(219)

* The Group has applied IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' at 1 January 2018. Under the transition method chosen, the comparative information has been restated. See section 1.

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 £93 million (2017: outflow of £58 million) derived as follows:

	2018 £m	2017 £m
Decrease/(increase) in programme rights, and distribution rights	14	(94)
(Increase)/decrease in receivables and contract assets	(103)	13
(Decrease)/increase in payables and contract liabilities	(4)	23
Working capital outflow	(93)	(58)

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

Notes to the Financial Statements

Section 3: Operating Assets and Liabilities continued

3.2 Property, plant and equipment

Keeping it simple



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

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

Assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. An asset is held for sale if its carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Depreciation

Depreciation is provided to write off the cost of property, plant and equipment less estimated residual value, on a straight-line basis over their estimated useful lives. The annual depreciation charge is sensitive to the estimated useful life of each asset and the expected residual value at the end of its life. The major categories of property, plant and equipment are depreciated as follows:

Asset class	Depreciation policy
Freehold land	not depreciated
Freehold buildings	up to 60 years
Leasehold improvements	shorter of residual lease term or estimated useful life
Vehicles, equipment and fittings*	3 to 20 years

* Equipment includes studio production and technology assets.

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

Impairment of assets

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

Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	Freehold land and buildings	Improvements to leasehold land and buildings		Vehicles, equipment and fittings	Total
	£m	Long £m	Short £m	Owned £m	£m
Cost					
At 1 January 2017	92	66	20	272	450
Additions	–	6	–	40	46
Acquisitions	7	–	–	4	11
Foreign exchange	–	–	–	(3)	(3)
Disposals and retirements	–	(2)	–	(30)	(32)
At 31 December 2017	99	70	20	283	472
Additions	2	8	8	35	53
Reclassifications	(1)	6	(2)	(3)	–
Foreign exchange	–	1	–	1	2
Classified as held for sale	(87)	(13)	–	–	(100)
Disposals and retirements	(4)	(3)	–	(79)	(86)
At 31 December 2018	9	69	26	237	341
Depreciation					
At 1 January 2017	7	16	16	167	206
Charge for the year	8	2	–	31	41
Foreign exchange	–	–	–	(1)	(1)
Disposals and retirements	–	(2)	–	(28)	(30)
At 31 December 2017	15	16	16	169	216
Charge for the year	1	4	–	25	30
Reclassifications	(1)	3	–	(2)	–
Foreign exchange	–	–	–	–	–
Classified as held for sale	(15)	–	–	–	(15)
Disposals and retirements	–	(2)	–	(79)	(81)
At 31 December 2018	–	21	16	113	150
Net book value					
At 31 December 2018	9	48	10	124	191
At 31 December 2017	84	54	4	114	256

Included within property, plant and equipment are assets in the course of construction of £14 million (2017: £41 million).

Included within the depreciation charge for the year of £30 million is £2 million in respect of accelerated depreciation for assets made redundant as a result of restructuring. This accelerated depreciation has been recorded as an exceptional item in 2018. Refer to note 2.2 for further details.

Included in disposals and retirements for the year are assets written off with nil net book value that are not expected to generate any future economic benefits. This is mainly due to our departure from the London Television Centre and premises in Northern Ireland previously occupied by UTV.

In 2018, management committed to a plan to sell the London Television Centre. Accordingly, the related assets have been presented at its carrying value 'Asset held for sale' in the Statement of Financial Position. The Group acquired the freehold for the London Television Centre in 2013 for £58 million, although the Directors' view is that the fair value of the property would be significantly higher than the carrying value.

Capital commitments

There are £4 million of capital commitments at 31 December 2018 (2017: £15 million).

Notes to the Financial Statements

Section 3: Operating Assets and Liabilities continued

3.3 Intangible assets

Keeping it simple



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

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

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

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

Accounting policies

Goodwill

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

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

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

Where less than 100% of a subsidiary is acquired, and call and put options are granted over the remaining interest, a non-controlling interest is initially recognised in equity at fair value, which is established based on the value of the put option. A call option is recognised as a derivative financial instrument, carried at fair value. The put option is recognised as a liability within other payables, carried at the present value of the put option exercise price, and a corresponding charge is included in merger and other reserves. Any subsequent remeasurement of the put option liability is recognised within finance income or cost.

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

Acquisitions of non-controlling interests are accounted for as transactions with owners and therefore no goodwill is recognised as a result of such transactions. Transaction costs incurred in connection with those business combinations, such as legal fees, due diligence fees and other professional fees, are expensed as incurred. The Directors consider these costs to reflect the cost of acquisition and to form a part of the capital transaction, and highlight them separately as exceptional items.

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

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

Other intangible assets

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

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

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

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

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

Class of intangible asset	Amortisation method	Estimated useful life	Valuation method
Brands	Straight-line	8 to 14 years	Applying a royalty rate to the expected future revenue over the life of the brand.
Formats	Straight-line	up to 8 years	Expected future cash flows from those assets existing at the date of acquisition are estimated. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value.
Customer contracts	Straight-line or reducing balance as appropriate	up to 6 years	
Customer relationships	Straight-line	5 to 10 years	
Contractual arrangements	Straight-line	up to 10 years depending on the contract terms	Expected future cash flows from those contracts existing at the date of acquisition are estimated. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value.
Licences	Straight-line	11 to 29 years depending on term of licence	Start-up basis of expected future cash flows existing at the date of acquisition. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value. PSB licences are valued as a start-up business with only the licence in place.
Libraries and other	Sum of digits or straight-line as appropriate	up to 20 years	Initially at cost and subsequently at cost less accumulated amortisation.
Software licences and development	Straight-line	1 to 10 years	Initially at cost and subsequently at cost less accumulated amortisation.

Notes to the Financial Statements

Section 3: Operating Assets and Liabilities continued

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

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

Amortisation

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

Impairment

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

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

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

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

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

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

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

Intangible assets

Intangible assets can be analysed as follows:

	Goodwill £m	Formats and brands £m	Customer contracts and relationships £m	Contractual arrangements £m	Licences £m	Libraries and other £m	Software licences and development £m	Total £m
Cost								
At 1 January 2017	3,835	535	420	11	176	103	117	5,197
Additions	–	–	–	–	–	–	23	23
Acquisitions	85	–	21	–	–	–	–	106
Foreign exchange	(21)	9	(4)	–	–	(2)	–	(18)
Disposals, retirements and impairment	(10)	–	(1)	–	–	–	(5)	(16)
At 31 December 2017	3,889	544	436	11	176	101	135	5,292
Additions	–	–	–	–	–	–	27	27
Acquisitions	–	–	–	–	–	–	–	–
Foreign exchange	15	7	2	–	–	2	2	28
Disposals, retirements and impairment	–	–	–	–	–	–	–	–
At 31 December 2018	3,904	551	438	11	176	103	164	5,347
Amortisation and impairment								
At 1 January 2017	2,654	254	387	10	100	76	92	3,573
Charge for the year	–	46	17	1	6	7	5	82
Foreign exchange	–	3	(4)	–	–	(1)	–	(2)
Disposals, retirements and impairment	–	–	(1)	–	–	–	(5)	(6)
At 31 December 2017	2,654	303	399	11	106	82	92	3,647
Charge for the year	–	43	16	–	6	4	7	76
Foreign exchange	–	3	3	–	–	3	1	10
Disposals, retirements and impairment	–	–	–	–	–	–	–	–
At 31 December 2018	2,654	349	418	11	112	89	100	3,733
Net book value								
At 31 December 2018	1,250	202	20	–	64	14	64	1,614
At 31 December 2017	1,235	241	37	–	70	19	43	1,645

Gurney Productions LLC has been treated as if it would have been wound down, with no further results to be recognised in the accounts. A provision of £13 million was recognised in 2017 against onerous contracts and various assets and liabilities relating to Gurney Productions LLC, which included £3 million write-off of goodwill.

Goodwill impairment tests

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

	2018 £m	2017 £m
Broadcast & Online	386	386
SDN	76	76
ITV Studios	788	773
	1,250	1,235

There has been no impairment charge for any CGU during the year (2017: £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 nominal long-term growth rate of 1.5% (2017: 1.5%). The growth rate used is consistent with the long-term average growth rates for both the industry and the countries in which the CGUs are located and is appropriate because these are long-term businesses.

Notes to the Financial Statements

Section 3: Operating Assets and Liabilities continued

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. Broadcast & Online goodwill also includes the goodwill arising on acquisition of UTV Limited in February 2016.

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

The key assumption in assessing the recoverable amount of Broadcast & Online goodwill is the size of the television advertising market. In forming its assumptions about the television advertising market, the Group has used a combination of long-term trends, industry forecasts and in-house estimates, which place greater emphasis on recent experience. No impairment was identified. Also as part of the impairment review, a sensitivity of up to -10% of growth was applied to 2020 and -3% to 2021 with no subsequent recovery, with no impairment identified. The Directors believe that currently no reasonably possible change in these assumptions would reduce the headroom in this CGU to zero.

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

A pre-tax market discount rate of 8.5% (2017: 9.5%) has been used in discounting the projected cash flows.

SDN

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

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

As part of the impairment review, sensitivity was applied to the main assumptions with no impairment identified (2020: -10% growth, 2021: 0% growth). The Directors believe that currently no reasonably possible change in the cash flow and availability assumptions would reduce the headroom in this CGU to zero.

A pre-tax market discount rate of 10.2% (2017: 11.4%) has been used in discounting the projected cash flows.

ITV Studios

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

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

As part of the impairment review, sensitivity was applied to the main assumptions with no impairment identified (2020: -10% growth, 2021: 0% growth). The Directors believe that currently no reasonably possible change in the cash flow assumptions would reduce the headroom in this CGU to zero.

A pre-tax market discount rate of 9.5% (2017: 10.8%) has been used in discounting the projected cash flows.

Following the acquisitions made by ITV Studios in 2017, the Directors considered how assets and resources are shared across the ITV Studios division and the level of integration within the management structure for the purposes of reporting and strategic decision-making. They concluded that a single ITV Studios CGU continues to remain appropriate.

3.4 Acquisitions

Keeping it simple



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

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

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

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

Acquisitions in the current year – 2018

The Group did not make any acquisitions in the current year.

Acquisitions in the prior year – 2017

In 2017, the Group made payments totalling £54 million for five acquisitions within the ITV Studios operating segment. The businesses fit with the strategy of strengthening the Group's existing position as a producer for major television networks in the UK, Europe, US and OTT platforms.

Tetra Media Studio SAS

On 28 February 2017, the Group purchased 65.04% of the share capital of Tetra Media Studio SAS, a French television production group which specialises in drama, including flagship crime series *Profilage*, and political crime thriller *Les Hommes de l'Ombre*.

Tomorrow ITV Studios LLC

On 1 April 2017, the Group gained control of Tomorrow ITV Studios LLC due to the conversion of its 75% preference share capital into 75% ordinary share capital. The company produced *Aquarius*, a US period crime series, which aired on NBC, and is producing *Snowpiercer*, an action sci-fi drama series, expected to be released in the US in 2019.

World Productions Limited

On 30 April 2017, the Group purchased 92% of the share capital of World Productions Limited, a company which specialises in producing drama series with titles including *Line of Duty*, an award-winning British police crime drama, and *Born to Kill*, a British thriller television mini-series.

Elk Production AB

On 21 June 2017, the Group acquired 96% of the share capital of Elk Production AB. Elk is one of the leading independent production companies in Sweden. Key titles produced by the company include *Ninja Warrior*, an obstacle course competition series, *Dessertmästarna*, a dessert cooking competition, and award-winning TV series *Wahlgrens* and *Parneviks*.

Cattleya S.r.l.

On 11 October 2017, the Group purchased 51% of the share capital of Cattleya Srl, an Italian scripted production company behind international hit TV dramas *Gomorra*, *Romanzo Criminale* and *Suburra*, Netflix's first Italian original TV series.

Acquisition accounting:

Put and call options have been granted over the non-controlling interest of all five acquisitions, exercisable over the next two to seven years. The total maximum consideration for the acquisitions is capped at £418 million (undiscounted). All future payments are dependent on future performance of the business and linked to ongoing employment.

The Group paid total consideration of £35 million with the fair value of previously held preference shares of £29 million, non-controlling interests of £25 million and acquired net assets with a fair value of £4 million resulting in goodwill of £85 million. The present value of the expected liability on put options was £23 million and the present value of the expected earnout payment at acquisition was £11 million. As disclosed in 2017, the contribution to the Group's performance from the date of acquisition to the end of 2017 was Revenue of £59 million and EBITA before exceptionals £nil. The proforma contribution to the Group's performance from January to December 2017 was Revenue £131 million and EBITA before exceptionals £nil.

Notes to the Financial Statements

Section 3: Operating Assets and Liabilities continued

3.5 Investments

Keeping it simple



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

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

Accounting policies

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

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

	2018 £m	2017 £m
Joint ventures	1	2
Associates	41	68
Equity investments	9	4
	51	74

Equity investments have increased during the year due to an investment in Quibi, a US venture aimed at delivering high-quality content to mobile devices. Further smaller investments have been made in line with Group's strategy to grow the international content business.

In the current year, the carrying amount of certain short-form content investments was written down following an impairment review.

3.6 Provisions

Keeping it simple



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

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

Accounting policies

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

Provisions

The movements in provisions during the year are as follows:

	Contract provisions £m	Property provisions £m	Legal and Other provisions £m	Total £m
At 1 January 2018	3	4	16	23
Additions	–	1	–	1
Utilised	(1)	–	–	(1)
Released	–	(3)	–	(3)
At 31 December 2018	2	2	16	20

Provisions of £16 million are classified as current liabilities (2017: £16 million). Unwind of the discount is £nil in 2018 and 2017.

Contract provisions comprise onerous commitments on payout and related services that are not expected to be utilised over the remaining contract period.

Property provisions primarily relate to expected dilapidation costs at rental properties.

Legal and Other provisions totalling £16 million (31 December 2017: £16 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 (FSD) should be issued against certain Group companies, which would require those companies to put in place financial support for the Boxclever Pension Scheme. An FSD does not set out what form any financial support should take, nor its amount. The Group challenged the Regulator's decision in the Upper Tribunal. However, in May 2018, the Upper Tribunal reached a decision to allow the Pension Regulator to issue an FSD. Subsequently the Upper Tribunal gave ITV permission to appeal its decision to the Court of Appeal. Such appeal was made in July 2018 and the appeal has been fixed for May 2019. During the period of the appeal, an FSD cannot be issued.

The Directors, having taken advice, believe that they continue to have a strong case. There are significant points of legal principle at issue and consequently any potential liability may take a considerable period to resolve. While any potential liability might be significant, the Directors continue to believe that the provision held is appropriate.

Notes to the Financial Statements

Section 3: Operating Assets and Liabilities continued

3.7 Pensions

Keeping it simple



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

What are the Group's pension schemes?

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

What is a Defined Contribution scheme?

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

What is a Defined Benefit scheme?

In a Defined Benefit scheme, members receive payments during retirement, the value of which is dependent on factors such as salary and length of service. The Group makes contributions to the scheme, a separate trustee-administered fund that is not consolidated in these financial 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 Group has a Pension Steering Committee, which liaises with the Trustee and has oversight of the management of the pension schemes and underlying risks.

In the event of poor returns, the Group may need 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 but in some cases security is required.

The accounting defined benefit pension deficit (IAS 19) is different from the actuarial valuation deficit as they are calculated on the basis of different assumptions, such as discount rate. The accounting defined benefit pension deficit (IAS 19) figure is calculated as at the balance sheet date, and the actuarial deficit was calculated for the last triennial valuation as of 1 January 2017 for the ITV Pension Scheme and 30 June 2017 for the UTV Pension Scheme.

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 2018, total contributions expensed were £21 million (2017: £18 million).

Defined benefit scheme

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

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

The latest triennial valuation of the ITV Pension Scheme was undertaken as at 1 January 2017 by an independent actuary appointed by the Trustee of the Scheme and agreed in early 2018. The combined funding deficits of the ITV Pension Scheme as at 1 January 2017 amounted to £470 million. The deficit funding contributions for the ITV main scheme will be £60 million per annum. The next triennial valuation will be as at 1 January 2020. This will drive subsequent contribution rates.

An unfunded scheme in relation to four former Granada executives is accounted for under IAS 19 and the Group is responsible for meeting the pension obligations as they fall due. The unfunded scheme has additional security compared with the ITV main scheme, in the form of a charge over gilts held by the Group. Therefore, the £49 million securitised gilts have been classified as other pension assets to reflect the Group's net pension deficit.

Due to the size of the UTV Pension Scheme, the Directors present the results and position of the UTV Scheme within this note combined with the existing ITV Schemes. The latest triennial valuation was undertaken as at 30 June 2017 and was agreed during the second half of 2018. The next triennial valuation will be as at 30 June 2020.

Unless otherwise stated, references to 'the Schemes' within this note refer to the ITV Pension Scheme, the unfunded scheme and the UTV Scheme combined. The sponsoring company of the ITV Pension Scheme is ITV Services Limited, the unfunded scheme is Granada Group Limited and the UTV Scheme is sponsored by UTV Limited.

The defined benefit pension deficit

Net pension deficit of £38 million at 31 December 2018 (2017: £83 million) is stated after including the unfunded scheme security asset of £49 million (2017: £38 million).

The totals recognised in the current and previous years are:

	2018 £m	2017 £m
Total defined benefit scheme obligations	(3,719)	(3,987)
Total defined benefit scheme assets	3,632	3,866
Defined benefit pension deficit (IAS 19)	(87)	(121)
Presented as:		
Defined benefit pension surplus*	19	16
Defined benefit pension deficit	(106)	(137)
Defined benefit pension deficit (IAS 19)	(87)	(121)
Other pension asset	49	38
Net pension deficit	(38)	(83)

* The defined benefit pension surplus relates solely to the UTV Scheme. The defined benefit scheme assets in the UTV Scheme were £126 million as at 31 December 2018 (2017: £130 million) and the defined benefit scheme obligations were £107 million (2017: £114 million).

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 financial statements.

Notes to the Financial Statements

Section 3: Operating Assets and Liabilities continued

Defined benefit scheme obligations

Keeping it simple



What causes movements in the defined benefit pension obligations?

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

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

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

	2018 £m	2017 £m
Defined benefit obligation at 1 January	3,987	4,200
Current service cost	–	2
Past service cost		
– GMP equalisation	6	–
– Changes in relation to pension increases	(15)	–
– Pension increase exchange option	5	–
Interest cost	97	107
Actuarial gain	(166)	(121)
Benefits paid	(195)	(201)
Defined benefit obligation at 31 December	3,719	3,987

Of the above total defined benefit obligation at 31 December 2018, £56 million relates to unfunded schemes (2017: £58 million), including the scheme in relation to the four former Granada executives.

On 26 October 2018, a High Court ruling ('the Lloyds Case') determined that pension schemes need to address inequalities between men and women in Guaranteed Minimum Pension (GMP) earned between 17 May 1990 and 5 April 1997. This is to comply with sex discrimination legislation known as 'GMP equalisation'. In previous years, given the legal uncertainty on the treatment of GMP equality, no allowance had been made in the IAS 19 defined benefit obligation. The court ruling has now clarified how GMPs should be equalised and as a result, a past service cost of £6 million has been recognised in the current period.

In November 2018, the Pension Trustee entered into a bulk annuity insurance contract in respect of the benefits of two sections of the ITV Pension Scheme. This type of deal is also known as a 'Buy-in'. As a result of the buy-in, a past service cost of £5 million has been included in the measurement of the pension scheme liabilities. This is due to the pension increase exchange ('PIE') option no longer being available to members of these schemes. PIE is an option to give up future increases on your pension, in exchange for a higher immediate pension with lower (or no) further increases. Certain members of the sections also had a change of rate of pension increases. This change resulted in a credit of £15 million which has also been recognised as an exceptional past service cost.

Assumptions used to estimate the Scheme obligations

Keeping it simple



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

The main assumptions are:

- An estimate of increases in pension payments
- The life expectancy of members
- The effect of inflation on all these factors
- The discount rate used to estimate the present day fair value of these obligations
- Future salary levels for the UTV Scheme and
- Future pensionable salary levels for the UTV Scheme

How do we determine the appropriate assumptions?

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

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

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

The discount rate has therefore been obtained using the yields available on AA rated corporate bonds, which match projected cash flows. The Group's estimate of the weighted average term of the liabilities is 15 years (2017: 15 years).

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

	2018	2017
Discount rate for:		
Past service liabilities	2.85%	2.50%
Future service liabilities	2.85%	2.50%
Inflation assumption for:		
Past service liabilities	3.20%	3.15%
Future service liabilities	3.20%	3.15%
Rate of pensionable salary increases		
UTV Pension Scheme	3.70%	3.65%
Rate of increase in pension payment (LPI ¹ 5% pension increases)	3.05%	2.95%
Rate of increase to deferred pensions (CPI)	2.20%	2.15%

1. Limited Price Index.

The table below reflects published mortality investigation data in conjunction with the results of investigations into the mortality experience of Scheme members. The assumed life expectations on retirement are:

	2018	2018	2017	2017
Retiring today at age	60	65	60	65
Males	27.2	22.5	27.1	22.5
Females	29.3	24.5	29.2	24.4
Retiring in 20 years at age	60	65	60	65
Males	28.8	24.0	28.7	23.9
Females	30.9	26.0	30.8	25.9

The net pension deficit is sensitive to changes in assumptions. Those are disclosed further in this section.

Notes to the Financial Statements

Section 3: Operating Assets and Liabilities continued

Total defined benefit scheme assets

Keeping it simple



The Scheme holds assets across a number of different classes, which are managed by the Trustee, who consults with the Group on changes to its investment policy.

What are the pension Scheme assets?

At 31 December 2018, the Scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities and insurance policies matching the pensions due to certain members. The tables below set out the major categories of assets.

Financial instruments are in place in order to provide protection against changes in market factors (interest rates and inflation), which could act to increase the net pension deficit.

One such instrument is the longevity swap, which the Scheme transacted in 2011 to obtain protection against the effect of increases in the life expectation of the majority of pensioner members at that date. Under the swap, the Trustee agreed to make pre-determined payments in return for payments to meet the specified pension obligations as they fall due, irrespective of how long the members and their dependants live. The difference in the present values of these two streams of payments is reflected in the Scheme assets. The swap had a nil valuation at inception and, using market-based assumptions, is subsequently adjusted for changes in the market life expectancy and market discount rates, in line with its fair value.

How do we measure the pension Scheme assets?

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

- Interest income on scheme assets – this is determined by multiplying the fair value of the Scheme assets by the discount rate, both taken as of the beginning of the year. This is recognised through net financing costs in the income statement
- Return on assets arise from differences between the actual return and interest income on Scheme assets and are recognised through other comprehensive income
- Employer's contributions are paid into the Scheme to be managed and invested and
- 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:

	2018 £m	2017 £m
Fair value of Scheme assets at 1 January	3,866	3,833
Interest income on Scheme assets	95	98
Return on assets, excluding interest income	(218)	51
Employer contributions	90	90
Benefits paid	(195)	(201)
Administrative expenses paid	(6)	(5)
Fair value of Scheme assets at 31 December	3,632	3,866

How are the Scheme's assets invested?

At 31 December 2018, the Scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities and insurance policies matching pensions due to certain members. The Trustee is responsible for deciding the investment strategy for the scheme's assets, although changes in investment policies require consultation with the Group. The assets are invested in different classes to hedge against unfavourable movements in the funding obligation. When selecting the mix of assets to hold, and considering their related risks and returns, the Trustee will weigh up the variability of returns against the target long-term rate of return on the overall portfolio.

The fair value of the Scheme's assets is shown in the following table by major category:

	Market value 2018 £m		Market value 2017 £m	
Liability hedging assets				
Fixed interest gilts	475		633	
Index-linked interest gilts	1,067		1,456	
Interest rate and inflation hedging derivatives (swaps and repos)	230		279	
	1,772	49%	2,368	61%
Other bonds	834	23%	865	22%
Return seeking investments				
Quoted equities	169		260	
Infrastructure	171		88	
Property	106		109	
Hedge funds/alternatives	172		193	
	618	17%	650	17%
Other investments				
Cash and cash equivalents	183		240	
Insurance policies	530		41	
Longevity swap fair value	(305)		(298)	
	408	11%	(17)	–
Total Scheme assets	3,632	100%	3,866	100%

Included in the above are overseas assets of £725 million (2017: £978 million), comprised of quoted equities of £68 million (2017: £244 million) and bonds of £657 million (2017: £734 million).

In November 2018, the Pension Trustee entered into a bulk annuity insurance contract in respect of the benefits of two sections of the ITV Pension Scheme. This type of deal is also known as a 'Buy-in'. A buy-in is where the Trustee purchases an insurance policy which is effectively a scheme asset which pays the members benefits. The ultimate obligation to pay the members benefits still remains with the scheme.

As the acquisition of the insurance contract is an investment decision and this has been accounted for through the Statement of Other Comprehensive Income. For IAS 19 purposes, the fair value of this insurance contract is set equal to the valuation of the insured member benefits using the IAS 19 assumptions. As these two sections of the ITV Pension Scheme were in a surplus position under IAS 19, this has resulted in an investment loss of £94 million within the Group's Statement of Other Comprehensive Income.

The Trustee entered a longevity swap in 2011, which provides cash flow certainty by hedging the risk of increasing life expectancy over the next 70 years for 11,700 of current pensioners at inception covering £1.7 billion of the pension obligation. The fair value of the longevity swap equals the discounted value of the projected net cash flows resulting from the contract and has reduced in value in 2018.

Notes to the Financial Statements

Section 3: Operating Assets and Liabilities continued

Defined pension deficit sensitivities

Keeping it simple



Which assumptions have the biggest impact on the Scheme?

It is important to note that comparatively small changes in the assumptions used may have a significant effect on the consolidated income statement and statement of financial position. This 'sensitivity' to change is analysed below to demonstrate how small changes in assumptions can have a large impact on the estimation of the defined benefit pension deficit. The Trustee manages the investment, mortality and inflation risks to ensure the pension obligations are met as they fall due.

The investment strategy is aimed at the valuation obligation rather than IAS 19 defined pension deficit value. As such, the effectiveness of the risk hedging strategies on a valuation basis will not be the same as on an accounting basis. Those hedging strategies have significant impact on the movement in the net pension deficit as assumptions change, offsetting the impacts on the obligation disclosed below.

In practice, changes in one assumption may be accompanied by offsetting changes in another assumption (although this is not always the case). Changes in the assumptions may occur at the same time as changes in the market value of Scheme assets, which may or may not offset the changes in assumptions.

Changes in assumptions have a different level of impact as the value of the net pension deficit fluctuates, because the relationship between them is not linear.

The analysis below considers the impact of a single change in principal assumptions on the defined benefit obligation while keeping the other assumptions unchanged and does not take into account any risk hedging strategies:

Assumption	Change in assumption	Impact on defined benefit obligation
Discount rate	Increase by 0.1%	Decrease by £60 million
	Decrease by 0.1%	Increase by £60 million
Rate of inflation (Retail Price Index)	Increase by 0.1%	Increase by £30 million
	Decrease by 0.1%	Decrease by £30 million
Rate of inflation (Consumer Price Index)	Increase by 0.1%	Increase by £10 million
	Decrease by 0.1%	Decrease by £10 million
Life expectations	Increase by one year	Increase by £100 million

The sensitivity analysis has been determined by extrapolating the impact on the defined benefit obligation at the year end with changes in key assumptions that might reasonably occur.

While the Scheme's risk hedging strategy is aimed at a valuation basis, the Directors estimate that on an accounting basis it would significantly reduce the above impact on the defined benefit obligation.

In particular, an increase in assumption of life expectations by one year would benefit from an estimated increase of the value of the longevity swap by £100 million and the value of the bulk annuity insurance contracts by £15 million, resulting in a net reduction in the defined pension deficit of £15 million.

Further, the ITV Pension Scheme invests in UK Government bonds and interest rate and inflation swap contracts and therefore movements in the defined benefit obligation are typically offset, to an extent, by asset movements.

Keeping it simple



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

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

Amounts recognised through the income statement

Amounts recognised through the income statement are as follows:

	2018 £m	2017 £m
Amount charged to operating costs:		
Current service cost	–	(2)
Scheme administration expenses	(6)	(5)
	(6)	(7)
Amount charged to exceptional costs:		
Past service credit	4	–
Amount charged to net financing costs:		
Net interest on defined benefit obligation	(2)	(9)
Total charged in the consolidated income statement	(4)	(16)

Amounts recognised through the consolidated statement of comprehensive income

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

	2018 £m	2017 £m
Remeasurement gains/(losses):		
Return on scheme assets excluding interest income	(218)	51
Actuarial gains/(losses) on liabilities arising from change in:		
– experience adjustments	(6)	138
– financial assumptions	172	12
– demographic assumptions	–	(29)
	166	121
Total recognised in the consolidated statement of comprehensive income	(52)	172

The £166 million actuarial gain on the Scheme's liabilities was principally due to changes in bond yields. The £218 million loss on the Scheme's assets primarily results from increase bond yields and the purchase of the bulk annuity insurance contracts which have led to assets underperforming expectations.

Notes to the Financial Statements

Section 3: Operating Assets and Liabilities continued

Addressing the defined benefit pension deficit

Keeping it simple



The Group works closely with the Trustee to agree appropriate levels of funding for the Scheme. This involves agreeing a Schedule of Contributions at each triennial valuation, which specifies the contribution rates for the employer and, where relevant, scheme members and the date these contributions are due. A recovery plan setting out the steps that will be taken to address a funding shortfall is also agreed.

In the event that the Group's defined benefit scheme is in a net liability position, the Directors must take steps to manage the size of the deficit. Apart from the funding agreements mentioned above, this could involve pledging additional assets to the Scheme, as was the case in the SDN and London Television Centre pension funding partnerships.

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 2019 for UTV Scheme current service and administration expenses are expected to be in the region of £6 million (2018: £6 million) and deficit funding contributions for the main ITV scheme in 2019 are expected to be £60 million (2018: £66 million), assuming current contribution rates continue as agreed with the Trustee.

The Group has two asset-backed pension funding agreements with the Trustee and makes annual payments of £11 million for 12 years from 2011, and also £3 million, increasing by 5% per annum until 2038. In 2019, a payment of £14 million is expected as a result of those agreements.

With the London Television Centre held for sale, we will be reviewing the asset-backed structures.

IFRIC 14 clarifies how the asset ceiling rules should be applied if the Schemes are expected to be in surplus, for example as a result of deficit funding agreements. The Group has determined that it has an unconditional right to a refund of any surplus assets if the Schemes are run off until the last member dies. On this basis, IFRIC 14 rules do not cause any change in the pension deficit accounting or disclosures.

Notes to the Financial Statements

Section 4: Capital Structure and Financing Costs

In this section



This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

The Directors determine the appropriate capital structure of ITV; specifically how much is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's activities both now and in the future. Maintaining capital discipline and balance sheet efficiency remains important to the Group. Any potential courses of action will take into account the Group's liquidity needs, flexibility to invest in the business, pension deficit initiatives and impact on credit ratings.

The Directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results and do so in the context of its ability to continue as a going concern, to execute the strategy and to invest in opportunities to grow the business and enhance shareholder value.

A Tax and Treasury Committee, which oversees governance, recommends policies for approval by the Board and exercises delegated authority to approve certain other tax and treasury related policies and procedures within the business

4.1 Net debt

Keeping it simple



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

Adjusted net debt is also monitored by the Group and more closely reflects how credit agencies see the Group's gearing. To arrive at the adjusted net debt amount, we add our total undiscounted expected contingent payments on acquisitions, our net pension deficit and our undiscounted operating lease commitments. A full analysis and discussion of adjusted net debt is included in the Operating and Performance Review.

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

	1 January 2018 £m	Net cash flow £m	Currency and non-cash movements £m	31 December 2018 £m
Cash	121	(37)	1	85
Cash equivalents	5	5	–	10
Total cash and cash equivalents	126	(32)	1	95
Loans and facilities due within one year	(76)	22	–	(54)
Finance leases due within one year	–	–	–	–
Loans and facilities due after one year	(982)	1	(12)	(993)
Total debt	(1,058)	23	(12)	(1,047)
Currency component of swaps held against euro denominated bonds	20	–	5	25
Net debt	(912)	(9)	(6)	(927)

Notes to the Financial Statements

Section 4: Capital Structure and Financing Costs continued

	1 January 2017 £m	Net cash flow £m	Acquisitions* £m	Currency and non-cash movements £m	31 December 2017 £m
Cash	549	(438)	19	(9)	121
Cash equivalents	12	(7)	–	–	5
Total cash and cash equivalents	561	(445)	19	(9)	126
Loans and facilities due within one year	(161)	115	(26)	(4)	(76)
Finance leases due within one year	(4)	4	–	–	–
Loans and facilities due after one year	(1,035)	100	(9)	(38)	(982)
Total debt	(1,200)	219	(35)	(42)	(1,058)
Currency component of swaps held against euro denominated bonds	2	–	–	18	20
Net debt	(637)	(226)	(16)	(33)	(912)

* Balances as at acquisition date.

Loans and facilities due within one year

At various periods during the year, the Group drew down on the £630 million Revolving Credit Facility ("RCF") to meet short-term funding requirements. At 31 December 2018, the Group had drawings of £50 million under the RCF (2017: £60 million), leaving £580 million available to draw down at year end. The maximum draw down of the RCF during the year was £400 million (2017: £390 million).

Loans and loan notes due after one year

The Group has issued the following Eurobonds:

- A seven year €600 million Eurobond at a fixed coupon of 2.125%, which matures in September 2022; and
- A seven year €500 million Eurobond at a fixed coupon of 2.0%, which will mature in December 2023. The bond issued in December 2016 has been swapped back to sterling using a cross-currency interest rate swap. The resulting fixed rate payable in sterling is c. 3.5%

In June 2017, the Group repaid in full a £100 million bilateral loan facility.

4.2 Borrowings and finance leases

Keeping it simple



The Group borrows money from financial institutions in the form of bonds, bank facilities and other financial instruments. The interest payable on these instruments is shown in the net financing costs note in note 4.4.

There are Board-approved policies in place to manage the Group's financial risks. Macroeconomic market risks, which impact currency transactions and interest rates, are discussed in note 4.3. Credit and liquidity risks are discussed below.

- **Credit risk:** the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations and
- **Liquidity risk:** the risk that the Group will not be able to meet its financial obligations as they fall due

The Group is required to disclose the fair value of its debt instruments. The fair value is the amount the Group would pay a third party to transfer the liability. It is sourced in the capital markets. This estimation of fair value is consistent with instruments valued under level 1 in note 4.5.

Accounting policies

Borrowings

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

Managing credit and liquidity risk

Credit risk

The Group's maximum exposure to credit risk is represented by the carrying amount of derivative financial assets (see note 4.3), trade receivables (see note 3.1.3), and cash and cash equivalents (see note 4.1).

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The majority of trade receivables relate to airtime sales contracts with advertising agencies and advertisers. Credit insurance has been taken out against these companies to minimise the impact on the Group in the event of a possible default. The Group also reviews other significant receivables and will seek to take out credit insurance on an individual basis where appropriate.

In 2016, the Group signed a £100 million non-recourse receivables purchase agreement. As at 31 December 2018, this was fully utilised with £nil remaining available under the agreement (2017: £10 million).

The receivables in relation to the invoices sold were derecognised and the Group collects cash on behalf of the counterparty as payments fall due.

Cash

The Group operates investment guidelines with respect to surplus cash that emphasise preservation of capital. The guidelines set out procedures and limits on counterparty risk and maturity profile of cash placed. Counterparty limits for cash deposits are largely based upon long-term ratings published by the major credit rating agencies. Deposits longer than 12 months require the approval of the Board.

Notes to the Financial Statements

Section 4: Capital Structure and Financing Costs continued

Borrowings

ITV is rated as investment grade by Moody's and S&P. ITV's credit ratings, the cost of credit default swap hedging and the absolute level of interest rates are key determinants in the cost of new borrowings for ITV.

Liquidity risk

The Group's financing policy is to fund itself for the medium to long-term by using debt instruments with a range of maturities and to ensure access to appropriate short-term borrowing facilities with a minimum of £250 million of undrawn facilities available at all times.

Long-term funding comes from the UK and European capital markets, while any short to medium-term debt requirements are provided through bank credit facilities totalling £930 million (see below). Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn bank facilities and cash and cash equivalents) on the basis of expected cash flows. This monitoring includes financial ratios to assess any possible future impact on credit ratings and headroom and takes into account the accessibility of cash and cash equivalents.

The Group has a £630 million Revolving Credit Facility with a group of relationship banks. This facility, which was extended in October 2018, matures in 2023 and is committed with leverage and interest cover financial covenants. In addition, the Group has £300 million of financial covenant free financing, which runs to 2021.

Fair value versus book value

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

	Maturity	Book value		Fair value	
		2018 £m	2017 £m	2018 £m	2017 £m
Loans due within one year					
£630 million Revolving Credit Facility	Various	50	60	50	60
Other short-term loans	Various	4	16	4	16
		54	76	54	76
Loans due in more than one year					
€600 million Eurobond	Sept 2022	536	529	555	560
€500 million Eurobond	Dec 2023	449	444	456	461
Other long-term loans	Various	8	9	8	9
		993	982	1,019	1,030
		1,047	1,058	1,073	1,106

4.3 Managing market risks: derivative financial instruments

Keeping it simple



What is a derivative?

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

The Group is exposed to certain market risks. In accordance with Board-approved policies, which are set out in this note, the Group manages these risks by using derivative financial instruments to hedge the underlying exposures.

Why do we need them?

The key market risks facing the Group are:

- Currency risk arising from:
 - i. Translation risk, that is the risk in the period of adverse currency fluctuations in the translation of foreign currency profits, assets and liabilities ('balance sheet risk') and non-functional currency monetary assets and liabilities ('income statement risk') and
 - ii. Transaction risk, that is the risk that currency fluctuations will have a negative effect on the value of the Group's non-functional currency trading cash flows. A non-functional currency transaction is a transaction in any currency other than the reporting currency of the subsidiary
- Interest rate risk to the Group arises from significant changes in interest rates on borrowings issued at or swapped to floating rates

How do we use them?

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

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

Analysis of the derivatives used by the Group to hedge its exposure and the various methods used to calculate their respective fair values are detailed in this section.

Accounting policies

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the income statement, except where derivatives qualify for cash flow hedge accounting. In this case, the effective portion of a cash flow hedge is recognised in other comprehensive income and presented in the hedging reserve within equity. The cumulative gain or loss is later reclassified to the income statement in the same period as the relevant hedged transaction is realised. Derivatives with positive fair values are recorded as assets and negative fair values as liabilities.

Notes to the Financial Statements

Section 4: Capital Structure and Financing Costs continued

Determining fair value

The fair value of forward foreign exchange contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date from third parties. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and our current creditworthiness, as well as that of our swap counterparties.

Third-party valuations are used to fair value the Group's interest rate derivatives. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs.

How do we manage our currency and interest rate risk?

Currency risk

As the Group expands its international operations, the performance of the business becomes increasingly sensitive to movements in foreign exchange rates, primarily with respect to the US dollar and the euro.

The Group's foreign exchange policy is to use forward foreign exchange contracts to hedge material non-functional currency denominated costs or revenue for up to five years forward.

The Group ensures that its net exposure to foreign currency denominated cash balances is kept to a minimal level by using foreign currency swaps to exchange balances back into sterling or by buying or selling foreign currencies at spot rates when necessary.

The Group also utilises foreign exchange swaps and cross-currency interest rate swaps both to manage foreign currency cash flow timing differences and to hedge foreign currency denominated monetary items.

The Group's net investments in overseas subsidiaries may be hedged where the currency exposure is considered to be material. The Group designated a portion of its euro borrowings into a net investment hedge against its euro denominated assets following the acquisition of Talpa Media.

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

	2018 – post-tax profit	2018 – equity	2017 – post-tax profit	2017 – equity
US dollar	£nil million	£25 million	£1 million	£23 million
Euro	£2 million	£16 million	£3 million	£17 million

The Group's sensitivity to translation risk for revenue and adjusted EBITA is disclosed in the Finance Review on page 39. The key difference between the foreign currency sensitivity for adjusted EBITA and profit after tax is the impact on the US dollar and euro denominated exceptional costs, including acquisition-related costs, acquired intangible amortisation and net financing cost.

Interest rate risk

The Group's interest rate policy is to allow fixed rate gross debt to vary between 20% and 100% of total gross debt to accommodate floating rate borrowings under the Revolving Credit Facility.

At 31 December 2018, the Group's fixed rate debt represented 99% of total gross debt (2017: 98%). Consequently, a 1% movement in interest rates on floating rate debt would impact the 2018 post-tax profit for the year by less than £1 million (2017: £1 million).

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

What is the value of our derivative financial instruments?

The following table shows the fair value of derivative financial instruments analysed by type of contract. Interest rate swap fair values exclude accrued interest.

At 31 December 2018	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	1	(2)
Foreign exchange forward contracts and swaps – fair value through profit or loss	1	(2)
Non-current		
Cross-currency interest swaps – cash flow hedges	26	–
Foreign exchange forward contracts and swaps – cash flow hedges	–	(1)
Foreign exchange forward contracts and swaps – fair value through profit or loss	–	–
	28	(5)

At 31 December 2017	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	4	(1)
Foreign exchange forward contracts and swaps – fair value through profit or loss	2	(1)
Non-current		
Cross-currency interest swaps – cash flow hedges	10	–
Foreign exchange forward contracts and swaps – cash flow hedges	–	(1)
	16	(3)

Cash flow hedges

The Group applies hedge accounting for certain foreign currency firm commitments and highly probable cash flows where the underlying cash flows are payable within the next seven years. In order to fix the sterling cash outflows associated with the commitments and interest payments – which are mainly denominated in AUD or euros – the Group has taken out forward foreign exchange contracts and cross-currency interest rate swaps for the same foreign currency amount and maturity date as the expected foreign currency outflow.

The amount recognised in other comprehensive income during the period all relates to the effective portion of the revaluation loss associated with these contracts. There was less than £1 million (2017: £1 million) ineffectiveness taken to the income statement and £6 million cumulative gain (2017: £20 million gain) recycled to the income statement in the year.

In 2016, on issuing the 2023 Eurobond, the Group entered into a portfolio of cross-currency interest rate swaps, which swapped the euro principal and fixed euro interest rate coupons into fixed sterling interest rate. As a result, the Group makes sterling interest payments at a fixed rate.

Under IFRS 9, the Group has adopted the 'cost of hedging' approach which allows the recognition of the value of the currency basis at inception of the hedge to be recorded on the Consolidated Statement of Financial Position and amortised through net financing costs in the Consolidated Income Statement over the life of the bond. Any mark-to-market change in fair value of the currency basis is recognised in 'cost of hedging' in the Consolidated Statement of Comprehensive Income.

Net investment hedges

The Group uses euro denominated debt to partially hedge against the change in the sterling value of its euro denominated net assets due to movements in foreign exchange rates. The fair value of debt in a net investment hedge was £176 million (2017: £177 million). A foreign exchange loss of £2 million (2017: £6 million) relating to the net investment hedges has been netted off within exchange differences on translation of foreign operations as presented on the consolidated statement of comprehensive income.

Notes to the Financial Statements

Section 4: Capital Structure and Financing Costs continued

Undiscounted financial liabilities

Keeping it simple



The Group is required to disclose the expected timings of cash outflows for each of its financial liabilities (including derivatives). The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the amounts disclosed on the Statement of Financial Position.

	Carrying value £m	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
At 31 December 2018						
Non-derivative financial liabilities						
Borrowings	(1,047)	(1,170)	(76)	(20)	(1,069)	(5)
Trade and other payables	(762)	(762)	(713)	(43)	(6)	–
Contract liabilities	(255)	(255)	(255)	–	–	–
Other payables – non-current	(9)	(9)	–	(7)	(2)	–
Other payables – commitments on acquisitions	(176)	(252)*	(55)	(148)	(46)	(3)
Derivative financial instruments						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	1	220	121	54	45	–
Outflow	(3)	(222)	(122)	(55)	(45)	–
Cross-currency swaps – cash flow hedges						
Inflow	26	524	10	8	506	–
Outflow	–	(502)	(15)	(16)	(471)	–
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	1	238	225	11	2	–
Outflow	(2)	(239)	(225)	(11)	(3)	–
	(2,226)	(2,429)	(1,105)	(227)	(1,089)	(8)
At 31 December 2017						
Non-derivative financial liabilities						
Borrowings	(1,058)	(1,171)	(97)	(21)	(595)	(458)
Trade and other payables	(802)	(802)	(734)	(47)	(16)	(5)
Contract liabilities	(219)	(219)	(219)	–	–	–
Other payables – non-current	(21)	(21)	–	(19)	(1)	(1)
Other payables – commitments on acquisitions	(161)	(292)*	(78)	(19)	(190)	(5)
Derivative financial instruments						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	4	206	148	58	–	–
Outflow	(2)	(204)	(146)	(58)	–	–
Cross-currency swaps – cash flow hedges						
Inflow	10	557	11	11	32	503
Outflow	–	(513)	(15)	(15)	(44)	(439)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	2	136	124	7	5	–
Outflow	(1)	(135)	(123)	(7)	(5)	–
	(2,248)	(2,458)	(1,129)	(110)	(814)	(405)

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

4.4 Net financing costs

Keeping it simple



This section details the interest income generated on the Group's cash and other financial assets and the interest expense incurred on borrowings and other financial liabilities.

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

Our rationale for adjustments made to financing costs is set out in the Finance Review.

Accounting policies

Net financing costs comprise interest income on funds invested, gains / losses on the disposal of financial instruments, changes in the fair value of financial instruments, interest expense on borrowings and finance leases, unwinding of the discount on provisions, unwinding of the discount on liabilities to non-controlling interest, foreign exchange gain/losses, and imputed interest on pension assets and liabilities. Interest income and expense is recognised as it accrues in profit or loss, using the effective interest method.

Net financing costs

Net financing costs can be analysed as follows:

	2018 £m	2017 £m
Financing income		
Interest income	3	4
Financing costs		
Interest expense on financial liabilities measured at amortised cost	(30)	(30)
Net pension interest (see note 3.7)	(2)	(9)
Change in fair value of instruments classified at fair value through profit or loss	–	–
Foreign exchange loss	(2)	(3)
Other finance expense	(12)	(12)
	(46)	(54)
Net financing costs	(43)	(50)

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

Other finance expense includes the amortisation of facility commitment and upfront fees as well as movements in the estimated value of acquisition-related contingent liabilities. This is where estimates of the future performance against stretch targets is reassessed, resulting in adjustments to the related put option liabilities.

Notes to the Financial Statements

Section 4: Capital Structure and Financing Costs continued

4.5 Fair value hierarchy

Keeping it simple



The financial instruments included on the ITV statement of financial position are measured at either fair value or amortised cost. The measurement of this fair value can in some cases be subjective, and can depend on the inputs used in the calculations. ITV generally uses external valuations using market inputs or market values (e.g. external share prices). The different valuation methods are called 'hierarchies' and are described below.

Level 1

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

Level 2

Fair values are measured using inputs, other than quoted prices included within Level 1, which are observable for the asset or liability either directly or indirectly.

Interest rate swaps and options are accounted for at their fair value based upon termination prices. Forward foreign exchange contracts are accounted for at the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date.

Level 3

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

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

	Fair value 31 December 2018 £m	Level 1 31 December 2018 £m	Level 2 31 December 2018 £m	Level 3 31 December 2018 £m
Assets measured at fair value				
Financial instruments				
Other pension assets – gilts (see note 3.7)	49	49	–	–
Equity investments (see note 3.5)	9	–	–	9
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	1	–	1	–
Financial assets at fair value through reserves				
Cash flow hedges	27	–	27	–
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts and swaps	(2)	–	(2)	–
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	(69)	–	–	(69)
Financial liabilities at fair value through reserves				
Cash flow hedges	(3)	–	(3)	–

	Fair value 31 December 2017 £m	Level 1 31 December 2017 £m	Level 2 31 December 2017 £m	Level 3 31 December 2017 £m
Assets measured at fair value				
Financial instruments				
Other pension assets – gilts (see note 3.7)	38	38	–	–
Equity investments (see note 3.5)	4	–	–	4
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	2	–	2	–
Financial assets at fair value through reserves				
Cash flow hedges	14	–	14	–
	58	38	16	4
	Fair value 31 December 2017 £m	Level 1 31 December 2017 £m	Level 2 31 December 2017 £m	Level 3 31 December 2017 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts and swaps	(1)	–	(1)	–
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	(73)	–	–	(73)
Financial liabilities at fair value through reserves				
Cash flow hedges	(2)	–	(2)	–
	(76)	–	(3)	(73)

Refer to note 4.3 for how we value interest rate swaps and forward foreign currency contracts. The equity investments are valued at cost and assessed for impairment.

Notes to the Financial Statements

Section 4: Capital Structure and Financing Costs continued

4.6 Equity

Keeping it simple



This section explains material movements recorded in shareholders' equity, presented in the Consolidated Statement in Changes in Equity, which are not explained elsewhere in the financial statements.

Accounting policies

Fair value reserve

Financial assets are stated at fair value, with any gain or loss recognised directly in the fair value reserve in equity, unless the loss is a permanent impairment, when it is then recorded in the income statement.

Dividends

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

4.6.1 Share capital and share premium

The Group's share capital at 31 December 2018 of £403 million (2017: £403 million) and share premium of £174 million (2017: £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 include the following reserves:

	2018 £m	2017 £m
Merger reserves	98	98
Capital reserves	112	112
Capital redemption reserves	36	36
Revaluation reserves	2	2
Put option liabilities arising on acquisition of subsidiaries	(42)	(49)
Total	206	199

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 and costs of hedging under IFRS 9 (see note 4.3).

4.6.4 Fair value reserve

The fair value reserve comprises all movements arising on the revaluation of gilts accounted for fair value through OCI financial instruments (see note 3.7).

4.6.5 Retained earnings

The retained earnings reserve comprises profit for the year attributable to owners of the Company of £466 million (2017: £409 million) and other items recognised directly through equity as presented in the consolidated statement of changes in equity. Other items include the credit for the Group's share-based compensation schemes and the charge for the purchase of ITV shares via the ITV Employees' Benefit Trust, which are described in note 4.7.

The distributable reserves of ITV plc are disclosed in note viii to the ITV plc Company financial statements. See details on distributable reserves on page 127.

The Directors of ITV plc propose a final dividend of 5.4 pence per share, which equates to a full year dividend of 8 pence per share. In 2018, £315 million of dividend payments were made (2017: £494 million).

4.6.6 Non-controlling interests

Non-controlling interest (NCI) represents the share of non-wholly owned subsidiaries' net assets that are not directly attributable to the shareholders of the ITV Group. The movement for the year comprises:

- The share of profits attributable to NCI of £4 million (2017: £4 million)
- The distributions made to NCI of £8 million (2017: £4 million)
- The share of net assets attributable to NCI relating to subsidiaries acquired or disposed of in the year of £nil million (2017: £25 million)

4.7 Share-based compensation

Keeping it simple



The Group utilises share award schemes as part of its employee remuneration packages, and therefore operates a number of share-based compensation schemes, namely the Deferred Share Award (DSA), Performance Share Plan (PSP), Long Term Incentive Plan (LTIP) and Save As You Earn (SAYE) schemes. The share-based compensation is not pensionable.

A transaction will be classed as share-based compensation where the Group receives services from employees and pays for these in shares or similar equity instruments. If the Group incurs a liability linked to the price or value of the Group's shares, this will also fall under a share-based transaction.

A description of each type of share-based payment arrangement that existed at any time during the period is set out in the Annual Remuneration Report.

Accounting policies

For each of the Group's share-based compensation schemes, the fair value of the equity instrument granted is measured at grant date and spread over the vesting period via a charge to the income statement with a corresponding increase in equity.

The fair value of the share options and awards is measured using either market price at grant date or, for the SAYE scheme, a Black-Scholes model, taking into account the terms and conditions of the individual scheme.

Vesting conditions are limited to service conditions and performance conditions. For performance-based schemes, the relevant Group performance measures are projected to the end of the performance period in order to determine the number of options expected to vest. The estimate is then used to determine the option fair value, discounted to present value. The Group revises its estimates of the number of options that are expected to vest, including an estimate of forfeitures at each reporting date. The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity.

Exercises of share options granted to employees can be satisfied by market purchase or issue of new shares. No new shares may be issued to satisfy exercises under the terms of the DSA. During the year, all exercises were satisfied by using shares purchased in the market and held in the ITV Employees' Benefit Trust.

Share-based compensation charges totalled £10 million in 2018 (2017: £12 million).

Notes to the Financial Statements

Section 4: Capital Structure and Financing Costs continued

Share options outstanding

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

	Number of options ('000)	2018 Weighted average exercise price (pence)	Number of options ('000)	2017 Weighted average exercise price (pence)
Outstanding at 1 January	36,155	69.17	36,533	67.86
Granted during the year – nil priced	14,450	–	7,996	–
Granted during the year – other	8,561	126.23	7,911	145.66
Forfeited during the year	(8,452)	156.99	(5,614)	121.37
Exercised during the year	(4,510)	18.39	(9,883)	44.87
Expired during the year	(2,182)	–	(788)	–
Outstanding at 31 December	44,022	49.33	36,155	69.17
Exercisable at 31 December	1,736	54.32	2,808	110.17

The average share price during 2018 was 158.29 pence (2017: 185.15 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:

	Weighted average exercise price (pence)	Number of options ('000)	2018 Weighted average remaining contractual life (years)	Weighted average exercise price (pence)	Number of options ('000)	2017 Weighted average remaining contractual life (years)
Range of exercise prices (pence)						
Nil	–	28,619	1.62	–	20,417	1.65
20.00 – 49.99	–	–	–	–	–	–
50.00 – 69.99	–	–	–	66.60	34	–
70.00 – 99.99	–	–	–	–	–	–
100.00 – 109.99	–	–	–	–	–	–
110.00 – 119.99	–	–	–	–	–	–
120.00 – 149.99	129.51	10,966	3.08	138.99	5,672	3.06
150.00 – 199.99	165.20	3,993	0.89	168.21	9,447	1.39
200.00 – 249.99	206.83	444	0.14	206.83	585	0.39

Assumptions

DSA, LTIP and PSP options are valued directly by reference to the share price at date of grant.

The options granted in the year 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	29 March 2017	218.90	164.22	30.02	3.25	3.00	0.58	58.50
5 Year	29 March 2017	218.90	164.22	28.61	5.25	3.00	1.28	60.36
3 Year	16 Sept 2017	156.20	138.99	29.35	3.25	3.00	0.51	30.80
5 Year	16 Sept 2017	156.20	138.99	28.55	5.25	3.00	1.12	33.88
3 Year	29 March 2018	144.15	123.82	29.54	3.25	5.55	1.54	26.4
5 Year	29 March 2018	144.15	123.82	27.87	5.25	5.55	1.68	25.06
3 Year	6 Sept 2018	158.75	135.20	29.65	3.25	5.04	1.54	31.02
5 Year	6 Sept 2018	158.75	135.20	27.89	5.25	5.04	1.68	29.94

Notes to the Financial Statements

Section 5: Other Notes

Employees' Benefit Trust

The Group has investments in its own shares as a result of shares purchased by the ITV Employees' Benefit Trust ('EBT'). Transactions with the Group-sponsored EBT are included in these financial statements and primarily consist of the EBT's purchases of shares in ITV plc, which is accounted for as a reduction to retained earnings.

The table below shows the number of ITV plc shares held in the EBT at 31 December 2018 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 2018	26,989,521	2,698,952
LTIP releases		(623,191)	
DSA releases		(715,817)	
PSP releases		(729,742)	
SAYE releases		(561,128)	
Shares purchased		2,571,890	
	31 December 2018	26,931,533	2,693,153

The total number of shares held by the EBT at 31 December 2018 represents 0.67% (2017: 0.67%) of ITV's issued share capital. The market value of own shares held at 31 December 2018 is £34 million (2017: £45 million).

The shares will be held in the EBT until such time as they may be transferred to participants of the various Group share schemes. Rights to dividends have been waived by the EBT in respect of shares held that do not relate to restricted shares under the DSA. In accordance with the Trust Deed, the Trustees of the EBT have the power to exercise all voting rights in relation to any investment (including shares) held within that trust.

5.1 Related party transactions

Keeping it simple



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

To enable users of our financial statements to form a view about the effects of related party relationships on the Group, we disclose the Group's transactions with those related parties during the year and any associated year end trading balances.

Transactions with joint ventures and associated undertakings

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

	2018 £m	2017 £m
Sales to joint ventures	12	15
Sales to associated undertakings	13	10
Purchases from joint ventures	29	28
Purchases from associated undertakings	67	70

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

Sales to associated undertakings include airtime sales to DTV Services Limited. Purchases from associated undertakings primarily relate to the purchase of news services from ITN Limited.

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

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

	2018 £m	2017 £m
Amounts owed by joint ventures	6	6
Amounts owed by associated undertakings	7	6
Amounts owed to joint ventures	3	—
Amounts owed to associated undertakings	5	4

Notes to the Financial Statements

Section 5: Other Notes continued

Amounts owed by joint ventures primarily relate to trading with BritBox LLC. Balances owed by associated undertakings largely relate to loan notes and trading balances with Monumental TV Limited. Balances owed to associated undertakings primarily relate to trading with ITN Limited.

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

Transactions with key management personnel

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

	2018 £m	2017 £m
Short-term employee benefits	12	10
Share-based compensation	3	1
	15	11

5.2 Contingent assets and liabilities



A contingent asset or liability is a liability that is not sufficiently certain to qualify for recognition as an asset or provision where uncertainty may exist regarding the outcome of future events.

Contingent assets

In 2017 Talpa Media took back the licence for The Voice of China due a breach of the agreement by the customer, Talent, for not fulfilling their payment obligations. The Group is pursuing Talent vigorously for the £26 million still due under the agreement, which was recognised as an exceptional cost in 2017. Further, the Group has credit insurance in place and a claim is in progress.

Whilst the Directors are confident of recovering the remaining amounts due, accounting standards set very specific requirements for the recognition of contingent assets, which is how the recovery of the amount due has been accounted for. As discussions with the insurers and the claim against Talent are still in progress, the Group is not able to demonstrate sufficient certainty to be able to recognise a cash receivable at the year end.

Contingent liabilities

In late 2016, the Group initiated legal proceedings against the minority owners of Gurney Productions LLC for alleged breaches of contracts and their fiduciary duties, as well as self-dealing and fraudulent concealment. The minority owners dispute the allegations and they have counter-claimed for damages of at least \$150 million. The action is ongoing and, having taken legal advice, the Directors believe this counter-claim is completely without merit.

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

5.3 Subsidiaries exempt from audit

Keeping it simple



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

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

Company number	Company name	Company number	Company name
10058419	Back Productions Limited	00603471	ITV Pension Scheme Limited
10404493	Big Talk Bliss Limited	03799828	ITV Play Limited
10496857	Big Talk Cold Feet Limited	01565625	ITV Properties (Developments) Limited
10528766	Big Talk Diana Limited	08554937	ITV Shetland Limited
11081338	Big Talk Guilty Limited	11723826	ITV Studios NEWCO 14 Limited
10528952	Big Talk Living the Dream Limited	11723842	ITV Studios NEWCO 15 Limited
11109753	Big Talk Mum Limited	11723851	ITV Studios NEWCO 16 Limited
11109596	Big Talk Goes Wrong Limited	11723881	ITV Studios NEWCO 17 Limited
11723899	Big Talk NEWCO 5 Limited	08516153	ITV Text Santa Limited
11109572	Big Talk Peacock Limited	11107934	ITV The Bay Limited
11109865	Big Talk Time Limited	10602705	ITV The Man Limited
01891539	Broad Street Films Limited	08586211	ITV Thunderbirds Limited
02285229	Campania Limited	09498177	ITV Top Class Limited
05078683	Carbon Media Limited	11107431	ITV Vera Limited
04159249	Carlton Content Holdings Limited	11108813	ITV Wild Bill Limited
00301188	Carlton Film Distributors Limited	05518785	Juice Music UK Limited
01692483	Carlton Finance Limited	00920028	Link Electronics Limited
03984490	Carlton Food Network Limited	11108285	Mammoth Screen (ABC) Limited
03053908	Carlton Programmes Development Ltd	10528851	Mammoth Screen (City) Limited
03210452	Carlton Screen Advertising (Holdings) Ltd	10528827	Mammoth Screen (END5) Limited
03307790	Carltonco 103	11109917	Mammoth Screen (END6) Limited
02625225	Carltonco Forty Investments	11062257	Mammoth Screen (NC) Limited
03210363	Carltonco Ninety-Six	10491117	Mammoth Screen (NOK) Limited
02280048	Castlefield Properties Limited	10062923	Mammoth Screen (NW) Limited
04257248	Channel Television Holdings Limited	10646873	Mammoth Screen (OBJ) Limited
02852812	Cosgrove Hall Films Limited	09660486	Mammoth Screen (Pol2) Limited
11723731	COTR (NEWCO 1) Limited	10031005	Mammoth Screen (Pol3) Limited
10500295	Denipurna Limited	10528763	Mammoth Screen (Pol4) Limited
03209058	DTV Limited	11108289	Mammoth Screen (Pol5) Limited
00290076	Granada Group Limited	09646520	Mammoth Screen (QV) Limited
03962410	Granada Limited	11108327	Mammoth Screen (Serpent) Limited
03106798	Granada Media Limited	11204836	Mammoth Screen (SG) Limited
05344772	Granada Screen (2005) Limited	10528702	Mammoth Screen (VF) Limited
00733063	Granada Television Overseas Limited	11108322	Mammoth Screen (VIC3) Limited
06914987	ITV (HC) Limited	10043079	Mammoth Screen (WFTP) Limited
11423826	ITV (Victor) Limited	11108320	Mammoth Screen (WOF) Limited
11423730	ITV Bancroft 2 Limited	10973979	Mammoth Screen (WOTW) Limited
11667230	ITV Barking Limited	04201477	Morning TV Limited
11107990	ITV Confession Limited	10789616	The Garden Production (Films) Limited
10058008	ITV Dark Heart Limited	06469484	VOD Member (ITVA) Limited
10494684	ITV Enterprises Limited	06469482	VOD Member (ITVB) Limited
11723800	ITV F&B Limited	10796122	WP BodyGuard Limited
10671435	ITV HG Limited	11109437	WP (NEWCO 3) Limited
04159210	ITV Holdings Limited	11109929	WP (NEWCO 4) Limited
04207680	ITV Home Fires Limited	11109744	WP Anne Limited
04206925	ITV Investments Limited	11109287	WP LOD5 Limited
11107681	ITV Leila Limited	04145307	12 Yard Productions Limited
04033106	ITV Mr Selfridge Limited		

Company Balance Sheet

As at 31 December	Note	2018 £m	2018 £m	2017 £m	2017 £m
Non-current assets					
Investments in subsidiary undertakings	iii		2,286		2,191
Derivative financial instruments	vi		26		11
Deferred tax asset			1		1
			2,313		2,203
Current assets					
Amounts owed by subsidiary undertakings	iv	4,167		4,230	
Derivative financial instruments	vi	4		7	
Other receivables		5		5	
Cash and cash equivalents		4		17	
		4,180		4,259	
Current liabilities					
Bank overdrafts		(5)		-	
Borrowings	v	(50)		(60)	
Amounts owed to subsidiary undertakings	iv	(3,209)		(3,237)	
Accruals and deferred income		(13)		(8)	
Current tax liabilities		(1)		(2)	
Derivative financial instruments	vi	(4)		(7)	
		(3,282)		(3,314)	
Net current assets			898		945
Total assets less current liabilities			3,211		3,148
Non-current liabilities					
Borrowings	v	(985)		(973)	
Derivative financial instruments	vi	-		(1)	
		(985)		(974)	
Net assets			2,226		2,174
Capital and reserves					
Share capital	vii		403		403
Share premium	viii		174		174
Other reserves	viii		37		26
Retained earnings	viii		1,612		1,571
Total equity			2,226		2,174

The accounts were approved by the Board of Directors on 27 February 2019 and were signed on its behalf by:

Chris Kennedy
Director

Carolyn McCall
Director

Company Statement of Changes in Equity

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Balance at 1 January 2018		403	174	26	1,571	2,174
Total comprehensive income for the year						
Profit		–	–	–	344	344
Net loss on cash flow hedges and cost of hedging		–	–	11	–	11
Total comprehensive income for the year		–	–	11	344	355
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Equity dividends		–	–	–	(315)	(315)
Movements due to share-based compensation		–	–	–	10	10
Tax on items taken directly to equity		–	–	–	2	2
Total transactions with owners		–	–	–	(303)	(303)
Balance at 31 December 2018	vii/viii	403	174	37	1,612	2,226

	Note	Share Capital £m	Share Premium £m	Other Reserves £m	Retained Earnings £m	Total £m
Balance at 1 January 2017		403	174	28	1,702	2,307
Total comprehensive income for the year						
Profit		–	–	–	351	351
Net loss on cash flow hedges and cost of hedging		–	–	(2)	–	(2)
Total comprehensive income for the year		–	–	(2)	351	349
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Equity dividends		–	–	–	(494)	(494)
Movements due to share-based compensation		–	–	–	12	12
Total transactions with owners		–	–	–	(482)	(482)
Balance at 31 December 2017	vii/viii	403	174	26	1,571	2,174

Notes to the ITV plc Company Financial Statements

Note i Accounting policies

In this section



This section sets out the notes to the ITV plc Company only financial statements. Those statements form the basis of the dividend decisions made by the Directors, as explained in detail in note viii below. The notes form part of the financial statements.

Basis of preparation

The Company is a qualifying entity as it is a member of the ITV plc Group where ITV plc, the ultimate parent prepares publicly available consolidated financial statements. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101') as adopted by the EU. The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and FRS 101 (2015/16) issued in July 2016 have been applied.

Exemptions applied

The Company is taking advantage of the following disclosure exemptions under FRS 101:

- Presentation of a Statement of Cash Flows and related notes
- Disclosure in respect of capital management
- Disclosure of related party transactions between wholly-owned subsidiaries and parents within a group
- Disclosures required under IFRS 2 'Share Based Payments' in respect of group settled share based payments
- Disclosures required by IFRS 7 'Financial Instrument: Disclosure'
- Certain disclosures required under IFRS 13 'Fair Value Measurement'
- Disclosure of information in relation to new standards not yet applied

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

Subsidiaries

Subsidiaries are entities that are directly or indirectly controlled by the Company. Control exists where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The investment in the Company's subsidiaries is recorded at cost.

Foreign currency transactions

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

Borrowings

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

Derivatives and other financial instruments

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

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the profit and loss account within net financing costs, except where derivatives qualify for cash flow hedge accounting. In this case, the effective portion of cash flow hedge is recognised in retained profits within equity. The cumulative gain or loss is later reclassified to the profit and loss account in the same period as the relevant hedged transaction is realised. Derivatives with positive fair values are recorded as assets and negative fair values as liabilities.

The fair value of foreign currency forward contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the balance sheet date.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of swap counterparties.

Third-party valuations are used to fair value the Company's derivatives. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs. For financial assets and liabilities classified at fair value through profit or loss, the fair value change and interest income/expense are not separated.

Current tax

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

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

Deferred tax

The tax charge for the period is recognised in the income statement or directly in equity according to the accounting treatment of the related transaction.

Deferred tax arises due to certain temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and those for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. A deferred tax asset is recognised only to the extent that it is probable that sufficient taxable profit will be available to utilise the temporary difference. Recognition of deferred tax assets therefore involves judgement regarding timing and level of future taxable income.

Share-based compensation

The Company utilises share award schemes as part of its employee remuneration packages, and therefore operates a number of share-based compensation schemes, namely the Deferred Share Award (DSA), Performance Share Plan (PSP), Long Term Incentive Plan (LTIP) and Save As You Earn (SAYE) schemes.

A transaction will be classed as share-based compensation where the Company receives services from employees and pays for these in shares or similar equity instruments. If the Company incurs a liability based on the price or value of the shares, this will also fall under a share-based transaction. The Company recognises the retained earnings impact of the share-based compensation for the Group as awards are settled in ITV plc shares. The cost of providing those awards is recognised as a cost of investment to the subsidiaries that receive the service from employees.

The fair value of the equity instrument granted is measured at grant date and spread over the vesting period via a charge to the income statement with a corresponding increase in equity. The fair value of the share options and awards is measured using either market price at grant date or, for the SAYE scheme, a Black-Scholes model, taking into account the terms and conditions of the individual scheme.

Vesting conditions are limited to service conditions and performance conditions. For performance-based schemes, the relevant performance measures are projected to the end of the performance period in order to determine the number of options expected to vest. The estimate is then used to determine the option fair value, discounted to present value. The Company revises its estimates of the number of options that are expected to vest, including an estimate of forfeitures at each reporting date. The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity.

Exercises of share options granted to employees can be satisfied by market purchase or issue of new shares. No new shares may be issued to satisfy exercises under the terms of the DSA. During the year, all exercises were satisfied by using shares purchased in the market and held in the ITV Employees' Benefit Trust. The Trust is accounted for as a separate entity and therefore is only accounted for in the consolidated financial statements.

Dividends

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

Notes to the ITV plc Company Financial Statements continued

Note ii Employees and share- based payments

Two (2017: two) Directors of ITV plc were employees of the Company during the year, one of whom remains employed at the year end. The costs relating to these Directors are disclosed in the Remuneration Report.

Share-based payments

The weighted average share price of share options exercised during the year was 18.39 pence (2017: 44.87 pence). The options outstanding at the year end have an exercise price in the range of nil to 206.83 pence (2017: nil to 206.83 pence) and a weighted average contractual life of one year (2017: two years) for all the schemes in place for the Group.

Note iii Investments in subsidiary undertakings

The carrying value at 31 December 2018 was £2,286 million (2017: £2,191 million).

In 2018, the Company increased investment in subsidiaries by £95 million mainly due to a subscription of one ordinary share in Carlton Communications Limited for £76 million and a capital contribution of £19 million (€22 million) to ITV (Europe) Holdings BV.

Note iv Amounts owed (to)/from subsidiary undertakings

The Company operates an intra-group cash pool policy with certain 100% owned UK subsidiaries. The pool applies to bank accounts where there is an unconditional right of set off and involves the daily closing cash position for participating subsidiaries whether positive or negative, being cleared to £nil via daily bank transfers to/from ITV plc. These daily transactions create a corresponding intercompany creditor or debtor, which can result in significant movements in amounts owed to and from subsidiary undertakings in the Company balance sheet.

Note v Borrowings



The Directors manage the Group's capital structure as disclosed in section 4 to the consolidated financial statements. Borrowings, cash and derivative financial instruments are mainly held by ITV plc and disclosed in these Company financial statements.

Loans and facilities due within one year

At various periods during the year, the Group drew down on the £630 million Revolving Credit Facility ("RCF") to meet short-term funding requirements. At 31 December 2018, the Group had drawings of £50 million under the RCF (2017: £60 million), leaving £580 million available to draw down at year end. The maximum draw down of the RCF during the year was £400 million (2017: £390 million).

Loans and loan notes due after one year

The Company has issued the following Eurobonds:

- A seven year €600 million Eurobond at a fixed coupon of 2.125%, which matures in September 2022 and
- A seven year €500 million Eurobond at a fixed coupon of 2.0%, which will mature in December 2023. The bond issued in December 2016 has been swapped back to sterling using a cross-currency interest rate swap. The resulting fixed rate payable in sterling is c. 3.5%

In June 2017, the Company repaid in full a £100 million bilateral loan facility.

Note vi
Managing
market risks:
derivative
financial
instruments

What is the value of our derivative financial instruments?

	Assets 2018 £m	Liabilities 2018 £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	3	(3)
Foreign exchange forward contracts and swaps – fair value through profit or loss	1	(1)
Non-current		
Cross-currency interest swaps – cash flow hedges	26	–
Foreign exchange forward contracts and swaps – fair value through profit or loss	–	–
Foreign exchange forward contracts and swaps – cash flow hedges	–	–
	30	(4)
	Assets 2017 £m	Liabilities 2017 £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	5	(5)
Foreign exchange forward contracts and swaps – fair value through profit or loss	2	(2)
Non-current		
Cross-currency interest swaps – cash flow hedges	10	–
Foreign exchange forward contracts and swaps – cash flow hedges	1	(1)
	18	(8)

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

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

Currency risk

The Company's foreign exchange policy is to use forward foreign exchange contracts to hedge material non-functional currency denominated costs or revenue for up to five years forward. The Company also utilises foreign exchange swaps and cross-currency interest rate swaps both to manage foreign currency cash flow timing differences and to hedge foreign currency denominated monetary items.

Cash flow hedges

The Company applies hedge accounting for certain foreign currency firm commitments and highly probable cash flows where the underlying cash flows are payable within the next seven years. In order to fix the sterling cash outflows associated with the commitments and interest payments – which are mainly denominated in AUD or euros – the Company has taken out forward foreign exchange contracts and cross-currency interest rate swaps for the same foreign currency amount and maturity date as the expected foreign currency outflow.

The amount recognised in other comprehensive income during the period all relates to the effective portion of the revaluation loss associated with these contracts. There was less than £1 million (2017: £1 million) ineffectiveness taken to the income statement and £5 million cumulative gain (2017: £17 million gain) recycled to the income statement in the year.

In 2016, on issuing the 2023 Eurobond, the Company entered into a portfolio of cross-currency interest rate swaps, which swapped the euro principal and fixed euro interest rate coupons into fixed sterling interest rate. As a result, the Company makes sterling interest payments at a fixed rate.

Under IFRS 9, the Company has adopted the 'cost of hedging' approach which allows the recognition of the value of the currency basis at inception of the hedge to be recorded on the Consolidated Statement of Financial Position and amortised through net financing costs in the Consolidated Income Statement over the life of the bond. Any mark-to-market change in fair value of the currency basis is recognised in 'cost of hedging' in the Consolidated Statement of Comprehensive Income.

Notes to the ITV plc Company Financial Statements continued

Undiscounted financial liabilities

The Company is required to disclose the expected timings of cash outflows for each of its derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the amounts disclosed on the statement of financial position.

At 31 December 2018	Carrying value £m	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-current and current						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	3	441	243	109	89	–
Outflow	(3)	(441)	(243)	(109)	(89)	–
Cross-currency swaps – cash flow hedges						
Inflow	26	524	10	8	506	–
Outflow	–	(502)	(15)	(16)	(471)	–
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	1	386	362	19	5	–
Outflow	(1)	(386)	(362)	(19)	(5)	–
	26	22	(5)	(8)	35	–

Restated *						
At 31 December 2017	Carrying value £m	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-current and current						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	6	399	283	116	–	–
Outflow	(6)	(399)	(283)	(116)	–	–
Cross-currency swaps – cash flow hedges						
Inflow	10	501	10	10	30	451
Outflow	–	(513)	(15)	(15)	(44)	(439)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	2	193	168	15	10	–
Outflow	(2)	(193)	(168)	(15)	(10)	–
	10	12	(5)	(5)	(14)	12

* The company re-analysed contractual cash-flows to present them in the correct categories of derivative instruments. There has been no impact on the carrying value of the financial liabilities

Note vii Share capital

		Authorised 2018 & 2017 £m	Allotted, issued and fully paid 2018 & 2017 £m
Authorised ordinary shares of 10 pence each	8,000,000,000	800	
Allotted, issued and fully paid ordinary shares of 10 pence each	4,025,409,194		403
Total			

The Company's ordinary shares give shareholders equal rights to vote, receive dividends and to the repayment of capital.

Note viii Equity and dividends

Keeping it simple



ITV plc is a non-trading investment holding company and derives its profits from dividends paid by subsidiary companies.

The Directors consider the Company's capital structure and dividend policy at least twice a year ahead of announcing results and do so in the context of its ability to continue as a going concern, to execute the strategy and to invest in opportunities to grow the business and enhance shareholder value.

The dividend policy is influenced by a number of the principal risks as identified on pages 42 to 45 that could have a negative impact on the performance of the Company.

In determining the level of dividend in any year, the Directors follow the dividend policy and also consider a number of other factors that influence the proposed dividend, including:

- The level of retained distributable reserves in ITV plc the Company
- Availability of cash resources (as disclosed in note 4.1 to the consolidated financial statements) and
- Future cash commitments and investment plans, in line with Company's strategic plan

Equity

The retained earnings reserve includes profit after tax for the year of £344 million (2017: £351 million), which includes dividends of £400 million from subsidiaries in 2018 (2017: £426 million). Other reserves of £37 million (2017: £26 million) relate to share buybacks in prior periods and foreign currency translation net of cash flow hedging.

Dividends

The Directors of the Company propose a final dividend of 5.4 pence per share, which equates to a full year dividend of 8 pence per share.

Distributable reserves

The distributable reserves of ITV plc approximate to the balance of the retained earnings reserve of £1,612 million (2017: £1,571 million) as at 31 December 2018.

Note ix Contingent liabilities

Keeping it simple



A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty may exist regarding the outcome of future events.

Under a Group registration, the Company is jointly and severally liable for VAT at 31 December 2018 of £39 million (31 December 2017: £45 million). The Company has guaranteed certain finance and operating lease obligations of subsidiary undertakings.

Notes to the ITV plc Company Financial Statements continued

Note x Capital and other commitments

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

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

There are no capital commitments at 31 December 2018 (2017: none).

Note xi Related party transactions

Keeping it simple



The related parties identified by the Directors include solely key management, as ITV plc is a holding company with no commercial activity.

To enable the users of the financial statements to form a view about the effects of related party relationships on the Company, we disclose the Company's transactions with those during the year.

Transactions with key management personnel

Key management consists of ITV plc Executive Directors.

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

	2018 £m	2017 £m
Short-term employee benefits	5	4
Share-based compensation	1	–
	6	4

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

	2018 £m	2017 £m
Emoluments	4	2
Gains on exercise of share options	–	1
Gains on release of restricted share awards	1	2
	5	5