



Delivering growth through Transformation

ITV plc Annual Report and Accounts
for the year ended 31 December 2012

Stock code: ITV

Inside this report

Overview

Who We Are	
Our Investor Proposition	
2012 Key Highlights	
Chairman's Statement	

Directors' Report

02	Strategy & Operations	
04	CEO Review	10
05	Performance Dashboard	14
06	Strategic Priority 1	16
	Strategic Priority 2	20
	Strategic Priority 3	24
	Strategic Priority 4	28
	Performance & Financials	
	Key Performance Indicators	34
	Financial and Performance Review	36
	Risks and Uncertainties	48
	Responsibility	
	Operating Responsibly	52
	Governance	
	Board of Directors	58
	Management Board	60
	Chairman's Governance Statement	62
	Corporate Governance	63
	Audit Committee Report	70
	Remuneration Report	75
	Other Governance and Statutory Disclosures	89
	Statement of Directors' Responsibilities	91

Financial Statements

Independent Auditor's Report	94
Introduction and Table of Contents	95
Consolidated Income Statement	96
Consolidated Statement of Comprehensive Income	97
Consolidated Statement of Financial Position	98
Consolidated Statement of Changes in Equity	99
Consolidated Statement of Cash Flows	101
Notes to the Accounts	102
Section 1: Basis of Preparation	102
Section 2: Results for the Year	107
Section 3: Operating Assets and Liabilities	115
Section 4: Capital Structure and Financing Costs	136
Section 5: Other Notes	150
ITV plc Company Financial Statements	152
Notes to the ITV plc Company Financial Statements	153
Shareholder Information	157
Financial Record	160
Glossary	IBC

Look out for these icons



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Corporate Website

We maintain a corporate website at www.itvplc.com containing a wide range of information of interest to institutional and private investors including:

- Latest news and press releases
- Annual reports and investor presentations



See further content for the 2012 Annual Report online at ar2012.itvplc.com



Scan the QR Code to take you directly to our corporate website



Directors' Report

The Directors' Report explains in detail how we have performed this year and sets out a fair review of the business, a balanced and comprehensive analysis of our performance, the use of financial and non-financial key performance indicators to explain how much progress we have made, a description of the principal risks and uncertainties facing the Company, and an indication of likely future developments.

The Directors' Report is prepared in line with the relevant provisions of the Companies Act 2006. In preparing the Directors' Report the Company has had regard to the guidance issued by the Accounting Standards Board in its Reporting Statement on narrative reporting. The Directors' Report is intended to provide shareholders with a greater understanding of the Company, of its position in the markets within which it operates, and of its prospects.

In setting out the Company's main risks and uncertainties, an indication of likely future developments, and in other content, this report and accounts contains statements which, by their nature, cannot be considered indications of likelihood or certainty. The statements are based on the knowledge and information available at the date of preparation of the Directors' Report, and what are believed to be reasonable judgements. A wide range of factors may cause the actual outcomes and results to differ materially from those contained within, or implied by, these various forward-looking statements. None of these statements should be construed as a profit forecast.

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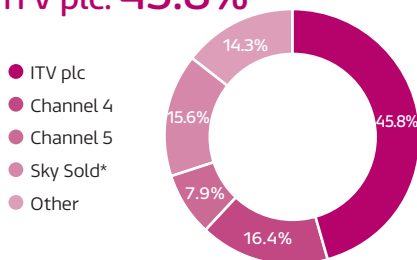
Overview

Who We Are

ITV is an integrated producer broadcaster. It is the largest commercial television network in the UK operating a family of channels including the rebranded ITV. It also delivers content across multiple platforms either directly or via itv.com and ITV Player. ITV Studios is an international production and distribution business which produces and sells programmes and formats in the UK and worldwide.

UK Share of Broadcast (SOB)

ITV plc: **45.8%**



* Includes sales by Sky for non-Sky owned channels.

Broadcast & Online

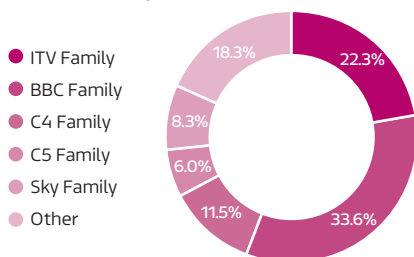
The ITV broadcast network is made up of ITV – the largest commercial channel in the UK – and the digital channels ITV2, ITV3, ITV4 and CITV. ITV2 and ITV3 are the largest digital channels in the UK. The ITV Family of channels attracts the largest audience of any UK broadcaster other than the BBC, with a 22.3% Share of Viewing, and has the largest share of the UK television advertising market at 45.8%.

its share of total advertising spend, whilst the Internet, which is growing rapidly, continues to take share from Press.

ITV also delivers programming across multiple platforms either through ITV Player which allows users to access catch up services, for example on Virgin and Sky, or through content deals, for example Netflix and LoveFilm. ITV content is now available on 15 platforms. Online, Pay and Interactive revenues are sourced through advertising and through pay deals for either our entire schedule or for selected programmes within our catalogue.

UK Share of Viewing (SOV)

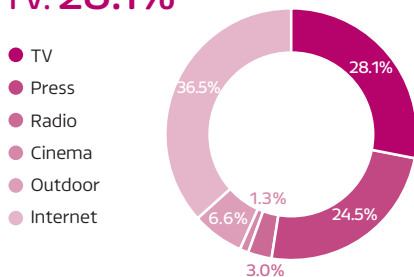
ITV Family: **22.3%**

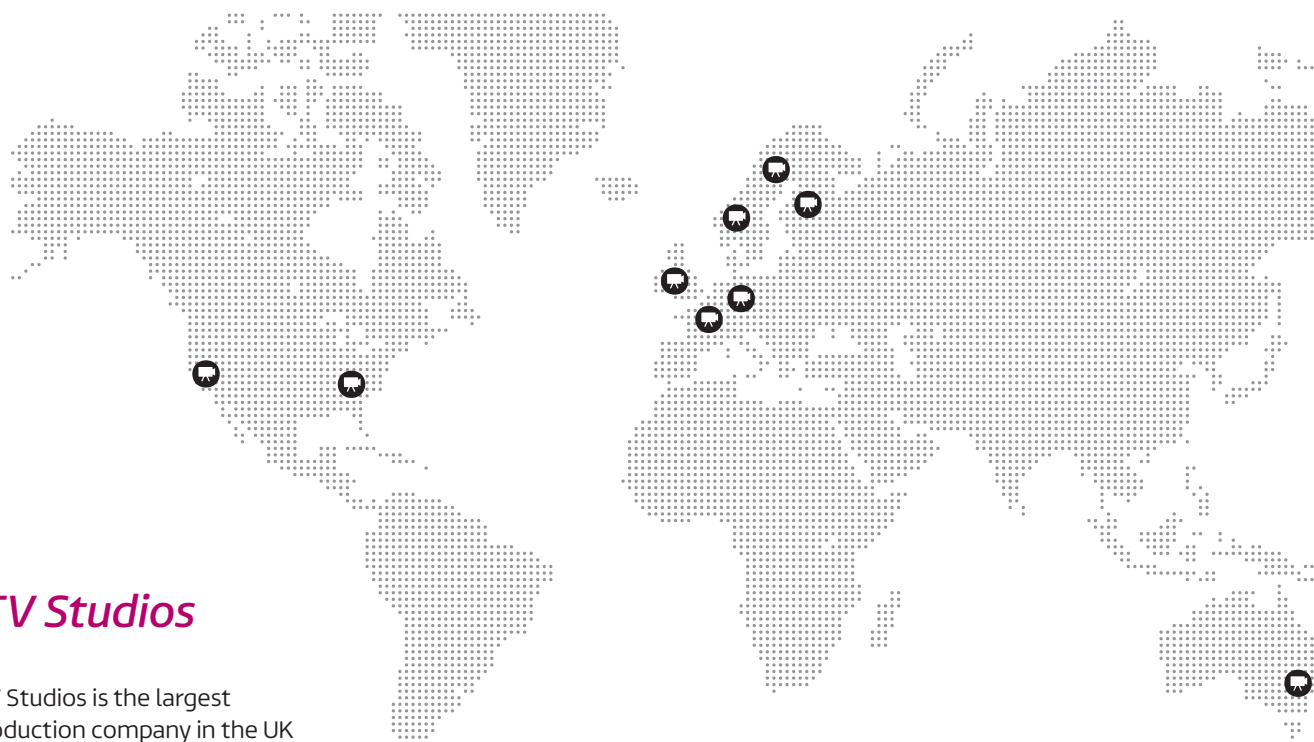


For viewers, ITV competes with the BBC and other commercial broadcasters – predominantly C4, C5 and Sky. For advertising revenue, ITV competes with commercial broadcasters and other advertising media, such as the Internet and Press. Over the last few years television has broadly maintained

Total UK Advertising

TV: **28.1%**






ITV Studios

ITV Studios is the largest production company in the UK producing over 3,000 hours of original content each year featuring Drama, Factual and Entertainment, and has an archive of around 35,000 hours. It comprises ITV's UK and International production companies and Global Entertainment – ITV's international distribution business. In 2012 we made a number of strategic acquisitions to strengthen these businesses.

ITV Studios UK produces programming for ITV's own channels and for other UK broadcasters – such as BBC, C4, C5 and Sky. ITV's International production business has five bases – US, Australia, Germany, France and the Nordics, who produce for local broadcasters in these regions. Global Entertainment licenses ITV's finished programmes and formats and third party content internationally.

In the UK and internationally we compete with a large number of independent producers, which range in size from the super-indies such as Fremantle and Endemol, to a large number of small independent producers. They are largely privately owned and do not have the advantage that ITV has of being an integrated producer broadcaster.

Key to icons  **International production bases:**
 ITV Studios UK ITV Studios France
 ITV Studios America ITV Studios Germany
 ITV Studios Australia ITV Studios Nordic

Media environment and our strategy

Our vision remains to create world class content which we can make famous on our channels, before exploiting its value across multiple platforms, free and pay, in the UK and internationally.

ITV operates in an evolving digital market in which advances in technology are changing the way people consume media. In spite of the rapid increase in online viewing,

linear viewing remains robust. The proliferation of entertainment platforms and the increasingly competitive nature of the broadcasting industry is creating demand for quality and proven content and formats that travel. As an integrated producer broadcaster, with strong channel brands and the ability to create content, we are in a unique position to be able to execute on our strategy.

 Read more in our **Glossary** on the **Inside Back Cover**



Overview

Our Investment Proposition

Delivering growth through Transformation

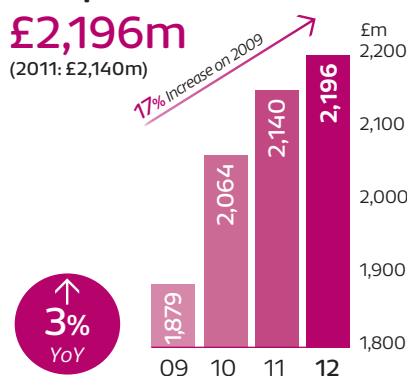
- *We are now three years into the Transformation Plan and are delivering real growth across all parts of the business, with double digit earnings growth for the third year in a row.*
- *Through our clear and consistent strategy we are creating a stronger, more efficient and balanced business. As a producer broadcaster we are in a unique position to exploit the increasing demand for proven content globally.*
- *Our Broadcasting business is robust and growing and our new Online, Pay & Interactive revenue streams are increasing rapidly and are now a material part of the business. We believe there are significant opportunities as digital media continues to develop.*
- *Our focus on creativity and content is building strong sustainable organic growth in our UK and International Studios business, which we are enhancing through targeted acquisitions and partnerships in key creative markets.*
- *We have a strong and flexible balance sheet, which can support the investment required to deliver our strategy, drive future growth and grow shareholder returns. In the short term we remain cautious about the television advertising market but the strength of our 2012 results and of our balance sheet gives the Board confidence to propose a final dividend of 1.8p, giving a full year dividend of 2.6p, and a special dividend of 4.0p.*

2012 Key Highlights

Group external revenues

£2,196m

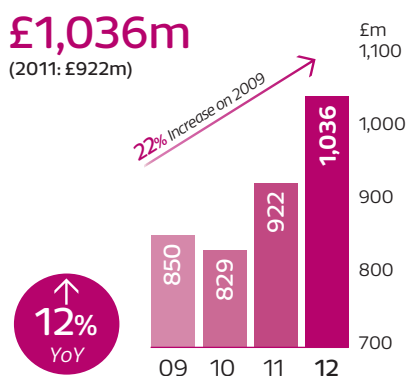
(2011: £2,140m)



Non-NAR revenues*

£1,036m

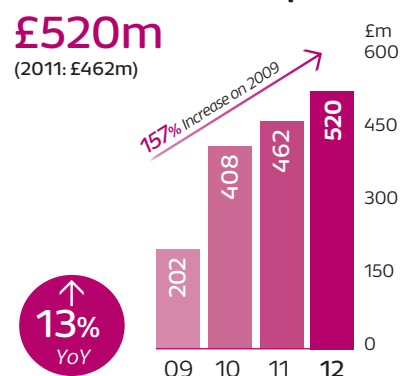
(2011: £922m)



EBITA before exceptionals

£520m

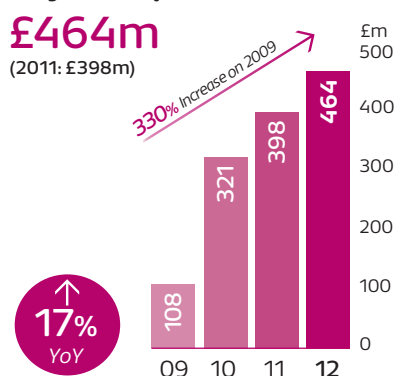
(2011: £462m)



Adjusted profit before tax

£464m

(2011: £398m)

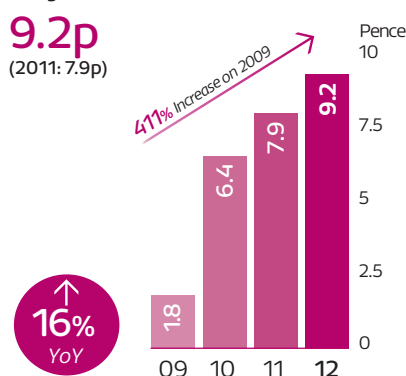


Reported profit before tax is £348 million

Adjusted EPS

9.2p

(2011: 7.9p)

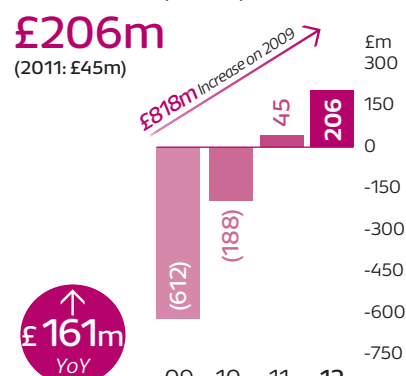


Reported EPS is 6.9p

Net cash/(debt)

£206m

(2011: £45m)



Facts and Figures – 2012 vs 2011



3%

Increase in digital channel's Share of Viewing (SOV)



26%

Increase in Online, Pay and Interactive revenue



22%

Growth in long form video requests



16%

Increase in ITV Studio's revenues

* Non-NAR revenues include all ITV revenues, both internal and external, except net advertising revenues.

Overview

Chairman's Statement

Archie Norman

Delivering growth



Dear Shareholder

It is now over three years since I joined ITV as Chairman. Adam Crozier took over as Chief Executive shortly afterwards and set out the Transformation Plan to make ITV a more robust, better balanced business with longer term growth potential.

Since that time, much has been achieved, and the plan is still as relevant today as it was then and the transformation programme is far from over.

The business has delivered good progress in profit, cash and shareholder returns. This is clearly a result of better operating performance, tighter management of costs and more effective execution. But perhaps even

more importantly, a new balance to the business is emerging with strong growth in the ITV Studios UK and international content business, and the development of a significant growing online and pay business. Whilst the traditional UK 'free to air' broadcast business is looking much more robust than it did three years ago, ITV is increasingly developing other profit growth opportunities and is less dependent on the UK advertising market.

The changing media technology landscape means it is imperative that the pace of change continues. Although viewer appetite for great television is as strong as ever, the way in which people are watching has changed and will continue to change in years to come with more "catch up", more mobile viewing, more multi screen viewing and the roll out of connected television. These developments present opportunities for exploiting our content in different

Our people remain key to ITV and to the delivery of the Transformation Plan

Pictured:
Paul O'Grady: For the Love of Dogs (left)
For the Love of Dogs won Most Popular Factual Entertainment programme at the 2013 NTA awards.



ways as well as challenges to conventional broadcasting. Good progress has been made but there remains much work to be done to ensure ITV is well placed to grow in this new landscape.

The strong progress in reshaping the business has been driven by far reaching changes in people, management and organisation. ITV's competitiveness depends on its ability to attract and integrate strong creative and commercial talent.

Over the last three years the top team has been greatly strengthened and the pace of change continues throughout the organisation. With that there is emerging a new ITV culture, more forward looking, more "One ITV" and more international than in the past.

We have made a number of very targeted acquisitions, notably Gurney Productions in the USA and we will continue to look at selective

Pictured:
Endeavour (above)

Endeavour was the third most watched new drama in 2012 with 8.2 million viewers.

opportunities in line with our global content strategy. Our approach to assessing whether to acquire new businesses is driven by both strict financial criteria and an assessment of the creative pipeline potential and cultural fit with our organisation.

As a result of the improvement in the operational performance of ITV, cost reduction and tight cash management, our balance sheet is unrecognisable from three years ago. Given the uncertain UK advertising market and the potential need to invest to secure future growth, we intend to retain a conservative balance sheet. At the same time we are committed to driving shareholder value. These considerations informed the Board's decision to increase substantially the dividend and to pay a special dividend this year.

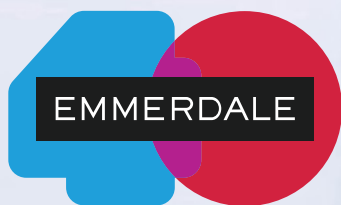
ITV is, after the BBC, the UK's largest investor in original UK programming and a huge employer and developer of creative talent. We are also one of the UK's most regulated businesses. It is therefore very important that the Secretary of State has announced her intention to renew our licence for

another ten years. The growth of the internet will pose many challenges to the future regulation of visual media in the UK but it is important that the licensing and regulatory framework for the existing business is now more secure.

We continue to develop the Board. I am keen to ensure we keep a relatively small, high calibre Board close to the business, including both diversity of talent and the particular skills and experience required to help provide stewardship to our transformation programme. I am delighted therefore that Roger Faxon has joined us with his international perspective and experience of the digital transformation in the music industry, and his track record in creative industries.

I would like to thank all the colleagues in ITV for their contribution to a year of great change and progress. And finally our shareholders for their continuing support during a remarkable few years.

Archie Norman
Chairman



Emmerdale celebrated 40 years in October 2012 with its first ever live episode. Attracting a peak of 10.7 million viewers, it was its highest audience in nearly three years. The ITV2 follow-up show achieved similar success and was watched by 1.9 million.

Pictured:
Emmerdale

Photo by Matt Frost/ITV/Rex Features





itv

CEO Review
Strategy & Operations

Strategy & Operations

Chief Executive's Review

Adam Crozier

ITV delivering growth

The Transformation Plan is delivering growth across all parts of the business, as we create a better, more efficient and more balanced business.



We have a clear, consistent strategy that our people support and are driving forward through our four priorities.

Over the last three years we have consistently grown our revenues, delivered double digit earnings growth and converted that earnings growth to cash to strengthen our financial position. During that time we have increased our EBITA before exceptional items (EBITA) by 157% to £520m, our adjusted EPS by 411% to 9.2p and we have improved our cash position by over £800m.

Our Broadcast business is robust and growing and our Online, Pay & Interactive revenue streams are now a material part of the business with significant opportunities as digital media continues to develop. Our focus on creativity and content is building strong sustainable organic growth in our UK and International Studios business, which we are enhancing through targeted acquisitions and partnerships in key creative markets.

While there is still much to do this is clear evidence that ITV is transforming into a more robust, efficient and balanced company.

Our vision

Our vision remains to create world class content which we can make famous on our channels, and exploit across multiple platforms, both free and pay,

in the UK and internationally. As an integrated producer broadcaster we are in a unique position to be able to do this. Our aim remains to rebalance the business to reduce our reliance on advertising. The progress we are making is now clearly evident in our financial and operating results.

2012 Group financial performance

In 2012 we delivered another strong financial performance with growth across all parts of the business. Group external revenues were up 3% and total revenues up 5%. This, in line with our strategy, was driven by growth in non net advertising (non-NAR) revenues. These were up £114 million (12%) to £1,036 million (2011: £922 million), particularly in Studios and Online, Pay & Interactive. EBITA increased 13% to £520 million (2011: £462 million) and adjusted EPS was up 16% to 9.2p (2011: 7.9p).

This builds on the significant progress we have already achieved since we announced the Transformation Plan:

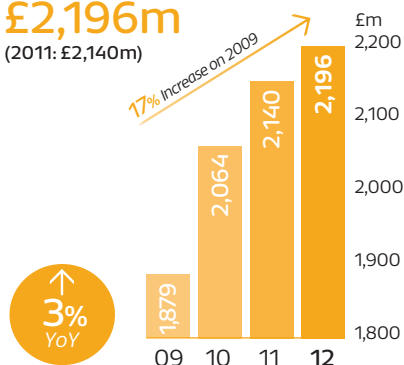
- Total revenues have grown 19% since 2009 from £2,141 million to £2,546 million
- Non-NAR revenues have grown 22% from £850 million to £1,036 million
- EBITA has grown 157% from £202 million to £520 million
- Adjusted EPS has grown 411% from 1.8p to 9.2p.

Group External Revenues

Group External Revenues grow by 3%

£2,196m

(2011: £2,140m)



In 2012 we maintained our focus on cash and costs and delivered £30 million of cost savings, £10 million ahead of our initial target. Our profit to cash conversion remains high and we ended the year with £206 million of net cash, having been in a net debt position of £612 million in 2009.

The Board has proposed a final dividend of 1.8p (2011: 1.2p) giving a full year dividend of 2.6p (2011: 1.6p). The Board is committed to a progressive dividend, taking into account the outlook for the business, while balancing the need to invest and to maintain a robust financial position against the backdrop of an uncertain economic environment.

In addition to the final dividend, the Board is proposing a special dividend of 4p per share (£156 million). Over the last three years we have made significant progress in transforming the Group – commercially, creatively and financially. While only part way through the Transformation Plan, ITV is now becoming a better business, delivering good revenue and profit growth and generating significant levels of cash

which can be reinvested to drive growth and deliver shareholder returns.

This cash distribution reflects the significant progress made and our need to retain a conservative and flexible balance sheet while continuing to invest to deliver the Transformation Plan. Going forward we will balance capital discipline with the need to invest for future growth and maintain flexibility.

2012 Strategic and operational performance

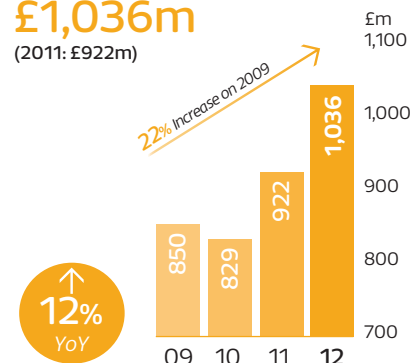
Broadcast & Online revenues increased £14 million (1%) to £1,834 million (2011: £1,820 million) and EBITA was up £34 million (9%) to £413 million (2011: £379 million) in a broadly flat advertising market driven by the good growth in our higher margin non-NAR revenues. We again outperformed the television advertising market but our on-screen viewing performance was, as expected, negatively impacted by the extraordinary year for UK television. In 2012 there were many unique events such as the Queen's Jubilee and the London Olympics – largely on the BBC – which will not return in 2013. We do

Non-NAR revenue growth

Non-NAR revenues grow over £100m

£1,036m

(2011: £922m)



The changing media environment highlights the importance of creating and owning intellectual property.

Pictured:
Hell's Kitchen USA

ITV Studios America delivered its 10th series of Hell's Kitchen to Fox in 2012, with commissions secured for an 11th and 12th series.



Strategy & Operations

Chief Executive's Review *continued*

Pictured:

Surprise Surprise

Surprise Surprise returned to our screens 11 years after the last series aired, this time presented by Holly Willoughby.



not expect this performance to impact our advertising share in 2013 and the deals we have done support this view. We are focused on growing our share of viewing in 2013.

Broadcast & Online non-NAR revenues were driven by our Online, Interactive and Pay revenues which grew by 26% to £102 million (2011: £81 million). We have further improved the quality of our online offering and made it available on more platforms, which led to a 22% increase in long form video requests.

Our Studios business delivered strong organic growth across all three divisions as we continue to invest in the creative pipeline. Total Studios revenues were up £100 million (16%) to £712 million (2011: £612 million) and we delivered over £100 million of EBITA for the first time in ITV's history. We have also made a number of small strategic acquisitions in the UK and internationally to strengthen our global Studios business.

We track our performance against a number of operating metrics as well as the financial indicators, which are set out in more detail over the following pages. Over the last few years, the

significant progress we have made is evident.

We have:

- Increased employee engagement each year of the Plan;
- Delivered £90 million of cost savings over the last three years;
- Outperformed the television advertising market each year since we launched the strategy;
- Stabilised SOV after years of decline;
- Grown Online, Pay and Interactive revenues by over 104% since 2009;
- Grown long form video requests by over 200% since 2009;
- Grown ITV Studios' revenues by almost 20% since 2009;
- Grown ITV Studios' share of ITV output from 50% in 2009 to 58% (including ITV Breakfast) in 2012.

Our strategy is the right strategy for the changing media environment

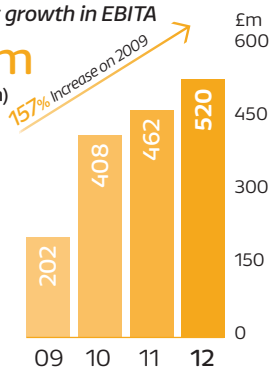
The media environment in which we operate is dynamic and we must ensure that we adapt with it. Digital media continues to grow rapidly with many new ways of watching television and being entertained, which presents great opportunities for content owners

EBITA before exceptional items

Double digit growth in EBITA

£520m

(2011: £462m)



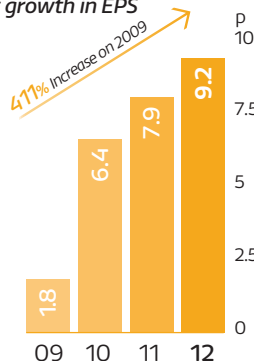
13%
YoY

Adjusted EPS

Double digit growth in EPS

9.2p

(2011: 7.9p)



16%
YoY

such as ITV. Despite the significant growth of digital media, it still remains a relatively small part of total viewing at less than two percent and linear television viewing remains robust. It is therefore imperative that while we drive new revenue streams our Broadcast business remains strong.

The changing media environment highlights the importance of creating and owning intellectual property. All new platforms need quality content to be a success and we have over 35,000 hours of new and archive content to distribute to them. We must ensure that we continue to invest in a healthy content pipeline and take advantage of our integrated producer broadcaster model by making the programmes famous on our network.

2013 and beyond

We remain focused on delivering the Transformation Plan and building on the momentum achieved over the last three years. We will continue to improve the efficiency of the business, with another £20 million of non-Network Programme Budget (non-NPB) cost savings. Together with a strong balance sheet this gives us the strength and flexibility to invest in the business. These savings will fund incremental non-NPB investments of £20-25 million.

In 2013 we will focus on improving our on-screen performance and we have already had success with programmes such as Mr Selfridge and Splash!. We will reinvest £20 million of our Champions League and FA Cup sports rights savings and therefore deliver a saving on the NPB of £15 million. Our objective remains to outperform the television advertising market and look at ways to further increase the value of the 30-second spot. We are cautious on television advertising in 2013 but ITV Family NAR in Q1 is expected to be up 5%.

We will continue to exploit opportunities in digital media as we grow our Online, Pay and Interactive revenues, using our advantage as a producer and owner of intellectual property. Key to this is a strong creative pipeline and therefore it is imperative that we continue to strengthen our UK and international production capability. We will continue to make selected acquisitions or partnerships if they fit our strategy and strict financial criteria.

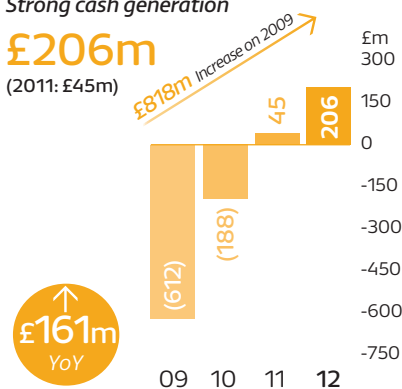
Delivering our strategy is driving improved results, enhanced shareholder returns and future growth prospects and we are focused on building on this progress in 2013.

Net Cash/(Debt)

Strong cash generation

£206m

(2011: £45m)



Transforming ITV

Our strategy to transform ITV focuses on our four strategic priorities.

- 1 Create a lean, creatively dynamic and fit-for-purpose organisation**
Go to pages 16 – 18
- 2 Maximise audience and revenue share from our existing free-to-air broadcast business**
Go to pages 20 – 22

- 3 Drive new revenue streams by exploiting our content across multiple platforms, free and pay**
Go to pages 24 – 26
- 4 Build a strong international content business**
Go to pages 28 – 31

Strategy & Operations

Performance Dashboard

Reporting progress against our five year Transformation Plan



Create a lean, creatively dynamic and fit-for-purpose organisation

Milestones achieved

- Record employee engagement at 88%
- Announced rebrand
- £30m cost savings
- Driving value from integrated producer broadcaster model
- Third year double digit EBITA growth
- Net cash £206m
- 15-year pension funding plan agreed

Focus for 2013

- Take benefits of the rebrand through the business
- Drive complexity out of the business
- £20m cost saving target
- Relentless focus on cash
- Maintain a robust, efficient and flexible balance sheet



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

Milestones achieved

- Again outperformed the TV ad market
- Increased variety and quality of schedule
- ITV2 and ITV3 remain largest digital channels
- Won 7 NTAs
- Innovative partnerships with advertisers
- Government support for licence renewal

Focus for 2013

- Improve ITV family SOV
- Reinvest some of sports rights cost savings
- Maximise value of large audiences
- Objective to outperform the TV ad market
- Drive further value from 30 second spot and related revenues
- Finalise agreement for new 10 year licence



Drive new revenue streams by exploiting our content across multiple platforms, free and pay

Milestones achieved

- Improved quality of ITV Player
- ITV content available on 15 platforms
- Long form video requests up 22%
- Launched pay proposition on ITV Player and third party pay deals
- Innovative ad formats
- Online, Pay and Interactive revenues over £100m

Focus for 2013

- Growing online from increased distribution and consumer behaviour
- Roll out pay VOD opportunities on mobile
- Increase number of third party pay deals and renegotiate existing deals
- Develop further innovative and targeted advertising opportunities



Build a strong international content business

Milestones achieved

- Strong organic revenue growth across all businesses, up £100m
- EBITA over £100m
- ITV Studio's share of ITV output – 58%
- Investing in creative – 103 new commissions, 108 recommissions
- Creating programmes that travel
- Strategic acquisitions

Focus for 2013

- Invest in creative talent and pilots to maintain a healthy pipeline
- Focus on long running returnable series
- Exploit programmes that travel internationally
- Further strengthen international production capability
- Scale international distribution business

KPI – Non-Financial

- Employee Engagement
- ITV Family Share of Viewing (SOV)
- ITV Family Share of Commercial Impacts (SOCI)
- ITV Family Share of Broadcast (SOB)
- Total long form video views
- Number of new commissions for ITV Studios
- Percentage of ITV output from ITV Studios

KPI – Financial

- EBITA before exceptional items
- Adjusted earnings per share
- 'Profit to cash' conversion
- Non-NAR revenues



**Create a lean, creatively
dynamic and fit-for-purpose
organisation**



Strategy & Operations

Strategic Priority 1

Create a lean, creatively dynamic and fit-for-purpose organisation

Our people are key to the Transformation Plan and we can't change the business without them. Record employee engagement, at 88%, is up for the third year in a row which is encouraging as we look to the plans we have for growth into 2013 and beyond.

Making ITV a lean, creatively dynamic and fit-for-purpose organisation was a key priority when we announced the Transformation Plan in 2010 and it remains so today. We have made great strides in driving out waste and complexity in the business, developing our people, delivering cultural change at all levels of the organisation and investing in our technology, infrastructure and brand.

One ITV

People are at the heart of our success and we continue to invest in them and their development to help drive the Transformation Plan. We are pleased to see our engagement survey score again rise in 2012 to 88% (2011: 85%) – up for the third year in a row with company participation in the survey over 80%.

We continue to focus on simplicity within the business – working as OneITV – to make it easy for our people to do their jobs, ensure that businesses do not work in silos and that externally we are easy to deal with. Through this we can maximise the benefit from being an integrated producer broadcaster, driving revenue from all

our brands by making our content famous on our channels before selling it internationally. This has helped us drive strong revenue and earnings growth across all parts of the business.

In autumn 2012 we began the move of our people at the Manchester office to MediaCity. This provides new state-of-the-art offices and studio facilities and will be completed with the move of Coronation Street in late 2013/early 2014.

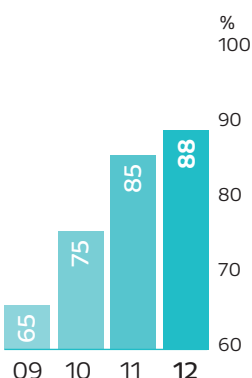
ITV at the heart of popular culture

In January 2013 we rebranded ITV to better reflect ITV as a modern and unified company and to improve our relationship with our viewers. Developed in-house by ITV Creative, it stretches across all our channels, Online and Studios businesses globally.

Employee Engagement Survey

Record employee engagement

88%
(2011: 85%)



Pictured:
Downton Abbey
The award winning Downton Abbey was the highest rated drama in 2012.



Strategy & Operations

Strategic Priority **1** continued

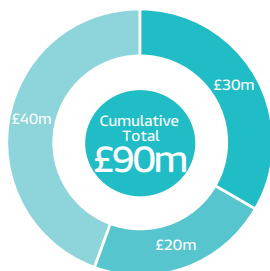
Cost Efficiency Savings

£90m of cost savings delivered in three years

£30m

(2011: £20m)

- 2012
- 2011
- 2010



Relentless focus on efficiency

We need to ensure that we have the right cost base for the Company, balancing efficiency with the need to invest for the long-term growth of the business. In 2012 we achieved £30 million of cost savings which was £10 million ahead of the target we set at the start of the year. These savings follow on from £60 million delivered across 2010 and 2011.

This focus on costs and cash over the last three years, along with the action we have taken to buy back debt, has helped to significantly strengthen and improve the efficiency of the balance sheet and returns to shareholders. Our cash generation is strong and with a robust balance sheet this gives us flexibility to invest in our strategic goals. We have also put in place a new pension agreement with the Trustees which gives us more certainty about our pension contributions over the next 10 to 15 years.

2013 and beyond

Our people will always be key to our success. In 2012 employee engagement was at record levels and we want to continue to build on this to attract and retain the best talent and skills at ITV.

We will continue to challenge how we do things across ITV to drive out complexity and focus on efficiencies. We have identified a further £20 million of non-NPB cost savings in 2013 and will deliver a £15 million reduction in NPB after reinvesting £20 million of sports cost savings into the schedule.

Our cost savings will fund £20-25 million of incremental investment in 2013. In addition to this in January we bought our head office – the London Television Centre, to give us flexibility in our property strategy as prior to the acquisition we were locked into a 56 year lease. It is essential that while we remain operationally and financially fit-for-purpose, we must balance cost and cash discipline with the need to invest in the business and to drive future growth and improve shareholder returns.

Pictured:

I'm A Celebrity ... Get Me Out Of Here!

The 2012 series was the second best ever with an average audience of 10.5 million.



2

**Maximise audience and
revenue share from
our existing free-to-air
broadcast business**

itv

Strategy & Operations

Strategic Priority 2

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

A strong broadcast business is an integral part of the Transformation Plan as it provides a showcase on which to make our content famous and deliver significant profit and cash generation.

Our Broadcast business is core to the Transformation Plan. As an integrated producer broadcaster, ITV and our digital channels provide a showcase for ITV Studios content, on which we can make our programming famous before distributing it around the world.

The Broadcast business also drives significant revenue, profit and cash, which are essential to the delivery of the plan and to increasing shareholder returns. Maintaining a healthy Broadcast business, maximising our audience share of free-to-air television viewing and our revenue share from it is therefore key to the delivery of our strategy.

ITV again outperformed the television advertising market

Our core Broadcasting business remains robust and has performed well in a challenging market. In 2012 we have again outperformed the television advertising market with ITV Family NAR flat against the television market which, based on our estimates, was down around 1%. We have outperformed the television advertising market every year since we launched the Transformation Plan and have grown our Share of Broadcast

(SOB) from 44.7% in 2009 to 45.8% in 2012.

We have achieved this through the increased variety and quality of our schedule and through the unrivalled reach that we offer. Our main channel, now rebranded ITV, is the UK's strongest marketing platform delivering mass audiences, which are highly valued by advertisers. Our digital channels ITV2, ITV3 and ITV4 deliver more targeted demographics, which together with ITV ensures that we deliver both mass and targeted reach.

Our broadcast performance has helped drive a 9% growth in Broadcast & Online EBITA to £413 million (2011: £379 million), which is a 272% increase on 2009.

2012: an unprecedented year for UK television

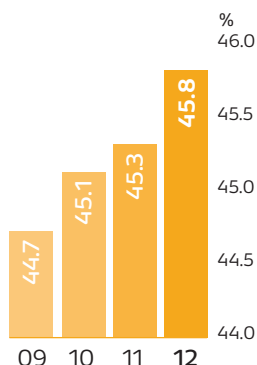
For on-screen viewing we compete with other public service broadcasters and with a large number of digital channels. Over the last few years we have stabilised our Share of Viewing (SOV) after years of decline.

Share of Broadcast (SOB)

Continue to grow SOB year on year

45.8%

(2011: 45.3%)



However, 2012 was an unprecedented year for UK television with many unique events including the Queen's Jubilee and the London Olympics, which was broadcast solely on the BBC, and the Paralympics on Channel 4. In fact, 9 out of the top 10 programmes aired in 2012 will not return in 2013. The extraordinary nature of 2012 impacted our viewing share with ITV Family Share of Viewing (SOV) down 3% and ITV Family Share of Commercial Impacts (SOCi) down by a similar amount and on the main ITV channel SOV and SOCi were down 6% and 5% respectively. The ITV digital channels continued to grow well with SOV up 3% and SOCi up by 2%.

ITV had many on-screen successes in 2012. Based on series average, ITV broadcast the highest-rating drama in Downton Abbey, the highest-rating soap in Coronation Street and in Britain's Got Talent, the highest-rating entertainment show. In 2012 ITV broadcast 99% of all commercial audiences over 5 million.

New and returning drama in 2012 also included Mrs Biggs, The Bletchley Circle, A Mother's Son, Vera and Lewis. Many of our entertainment programmes continued to deliver very significant audiences, for example I'm A Celebrity ... Get Me Out Of Here!, and while some saw their audiences decline year on year, for example The X Factor, they remain a key part of our schedule and we continually look at ways to refresh these shows to improve their on-screen performance.

The soaps – Coronation Street and Emmerdale – continue to regularly drive very large audiences. While year on year their performance was slightly down, they outperformed their rivals on other channels, with Emmerdale celebrating its 40th anniversary year with a live performance that attracted a peak audience of 10.7 million.

News, Sport and our Daytime programmes continue to be important parts of our schedule. Euro 2012 was a great success for ITV in terms of viewing and advertising performance. We remain committed to providing high quality, impartial news both national and international as well as in the nations and regions. We have refreshed part of our Daytime schedule with the relaunch of Daybreak and This Morning continues to deliver strong regular audiences. Our afternoon schedule has performed very strongly, in particular The Chase which regularly delivers audiences of over three million. In 2012 we also saw the successful return of our hard-hitting investigative series, Exposure, and our politics and current affairs show, The Agenda.

ITV2 and ITV3 remain the UK's two largest digital channels and ITV4 continues to grow well. We have further invested in brand defining content for our digital channels, which has helped to drive valuable audiences in key demographics. The Only Way is Essex and Celebrity Juice both delivered strong audiences on ITV2.

The Tour de France and French Open, as well as the Europa League, IPL Cricket and the Isle of Man TT drove good audiences on ITV4.

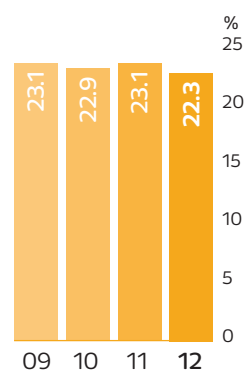
Our programming is aimed at the heart of popular culture and therefore it is very encouraging that at the National Television Awards, which are voted for by the public, we won seven awards including:

- Best serial drama for Coronation Street
- Best drama for Downton Abbey
- Best entertainment show for I'm a Celebrity
- Best daytime programme for This Morning

ITV Family Share of Viewing (SOV)

2012: an unprecedented year for UK television

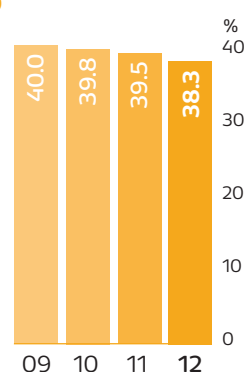
22.3%
(2011: 23.1%)



ITV Family Share of Commercial Impacts (SOCi)

2012: an unprecedented year for UK television

38.3%
(2011: 39.5%)



Strategy & Operations

Strategic Priority **2** continued

Although we had many successes on-screen, overall 2012's viewing performance was below where we would like it to be and we are working to improve this. In 2013 we have already achieved some initial success with programmes such as Splash! and Mr Selfridge.

Television broadcast industry remains stable

While the media environment continues to develop rapidly the traditional linear Television business model remains robust. Television advertising as a share of UK total advertising is at a similar level to 2009 at 28.1% in 2012 as the Internet takes share from Press and direct mail. Levels of linear viewing remain relatively flat with the number of hours viewed in 2012 at 28.1 hours per week, at a similar level to 2009. Online viewing is growing fast, creating significant opportunities for us; however, this type of viewing is currently incremental to linear viewing and remains a relatively small percentage of total viewing at less than 2%.

Increasing the value of the 30 second spot and driving related revenues

We compete with other commercial broadcasters for television advertising and with other media across the wider market for share of total advertising. We continue to develop our commercial offering across our Broadcast & Online business, looking at ways to strengthen and increase the value of our advertising and drive related revenue streams to ensure we take as much share as possible, for example with sponsorship and product placement.

ITV Commercial has been working more closely with clients and agencies to innovate and enhance the value of the traditional 30 second spot. In 2012 we reached an agreement with audio recognition provider Shazam to be the exclusive UK distributor for Shazam functionality in broadcast advertising.

This enables us to offer clients the chance for their spot ads to become interactive experiences where viewers who have the Shazam app on their smartphones can interact with the enabled adverts to enter competitions, get additional information about a brand or product, view special content or download free music.

Regulation

A key positive development towards the end of 2012 was the announcement by the Secretary of State for Culture, Media and Sport that the Government has agreed that ITV's Public Service Broadcasting licences should be renewed for a full ten year term from their expiry at the end of 2014. This decision paves the way for the final phase of the renewal process, which is overseen by Ofcom, to go ahead and should be finalised in 2013.

2013 and beyond

Looking to 2013 we will continue to focus on improving our Share of Viewing and drive through the benefits of the ITV Rebrand in our channels and programme strategy. We will reinvest £20 million of our sports cost savings and therefore deliver a saving on the programme budget of around £15 million.

We do not expect our viewing performance in 2012 to impact our advertising performance in 2013 and the deals we have in place support this view. Our objective remains to outperform the television advertising market over the full year. In Q1 2013 ITV Family NAR is expected to be up 5%, again outperforming the television advertising market; however, we remain cautious for the television advertising market over the full year.

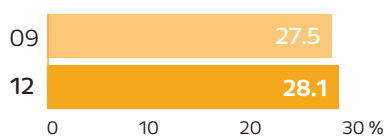
We also continue to look at ways of enhancing our broadcasting revenues through innovative ways of working with our advertisers, extending the value of our programme brands and growing other non-NAR revenues.

TV advertising as a share of total advertising market

TV advertising share remains broadly stable

28.1%

(2009: 27.5%)

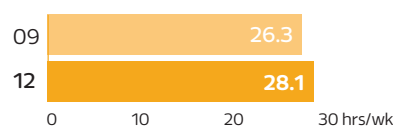


Linear viewing levels

Average number of hours watched per week per person

28.1 hrs/wk

(2009: 26.3hrs/wk)



Video on Demand (VOD) catch up

< 2%

of our total viewing.

3

**Drive new revenue streams
by exploiting our content
across multiple platforms,
free and pay**

itv

Strategy & Operations

Strategic Priority 3

Drive new revenue streams by exploiting our content across multiple platforms, free and pay

Creating and owning more of our own content enables us to drive new revenue streams by making it available across a range of channels and platforms.

The explosion in new technology platforms over the last few years has driven a rapid increase in Video on Demand (VOD) viewing, most recently driven by mobile viewing. VOD is measured separately to linear viewing and currently is incremental to it as people are given more opportunities to watch content. The growth in new platforms has made it clearer than ever that their success depends on having content – whether current or archive – which people want to watch whenever and wherever on a range of platforms. This represents a huge ongoing opportunity for ITV as we have highly demanded content that these platforms need.

As it becomes clearer that what viewers want is video content online – which is our strength. The investment in quality and distribution over the last few years has delivered rapid growth in long form video requests, which were up 22% year on year in 2012 to 458 million, an increase of over 200% since 2009. This has driven online revenues up 40% in 2012.

Pay and Interactive

Our Pay and Interactive revenues have also grown as it has now become clearer that people want access to great content anywhere, through whichever device they choose, with the option of interacting with the content directly or through second screen engagement. This growth and the increase in online advertising has helped drive strong growth in our total Online, Pay and Interactive revenues up £21 million (26%) to £102 million in 2012. This is now a material revenue stream to ITV making up around 10% of our non-NAR revenues.

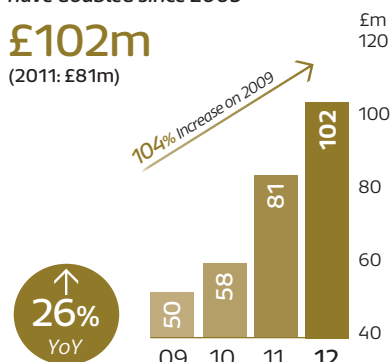
Online advertising

Over the last few years we have significantly increased the distribution of our content, from two platforms in 2009 to 15 in 2012, including iOS, Android, PS3, Freesat and YouView following its successful launch this summer. We have also enhanced the quality and reliability of our ITV Player and relaunched our News and Sports

Online, Pay & Interactive Revenues

Online, Pay & Interactive revenues have doubled since 2009

£102m
(2011: £81m)



Pay revenues are generated from content deals with third party platform owners and in the future will come from online transactions directly with the consumer through the ITV Player. Pay revenues grew again in 2012 with the first year's contribution from the Netflix, Lovefilm and Sky archive video VOD deals, which launched early in the year, and the catch up deal with Sky which launched in the autumn.

In Autumn 2012 we successfully rolled out our direct-to-consumer pay proposition on PCs which is integrated into our ITV Player. It is early days and we continue to explore how to develop these transactional VOD services further as we roll them out across mobile devices.

We continue to look for new ways that viewers can interact with our programmes, deepening our relationship with them, increasing

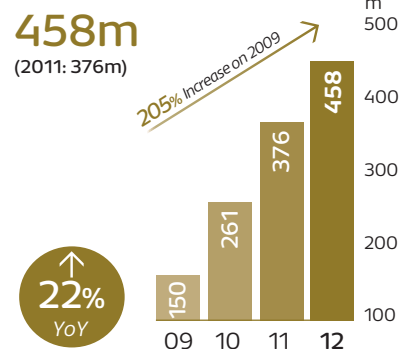
programme loyalty and driving value for our advertisers. We now have 4.4 million contactable email addresses and across the official pages of shows broadcast on ITV there are over 22 million Facebook 'likes' as we further interact with our viewers through social media.

Enhancing the value of our online offering

In addition to making our traditional linear spot ads work harder through deals such as the one we signed with Shazam, we have also been running an ad innovation programme in which we have trialled and launched several new online ad formats to make VOD advertising more engaging for our viewers and more valuable for our advertisers.

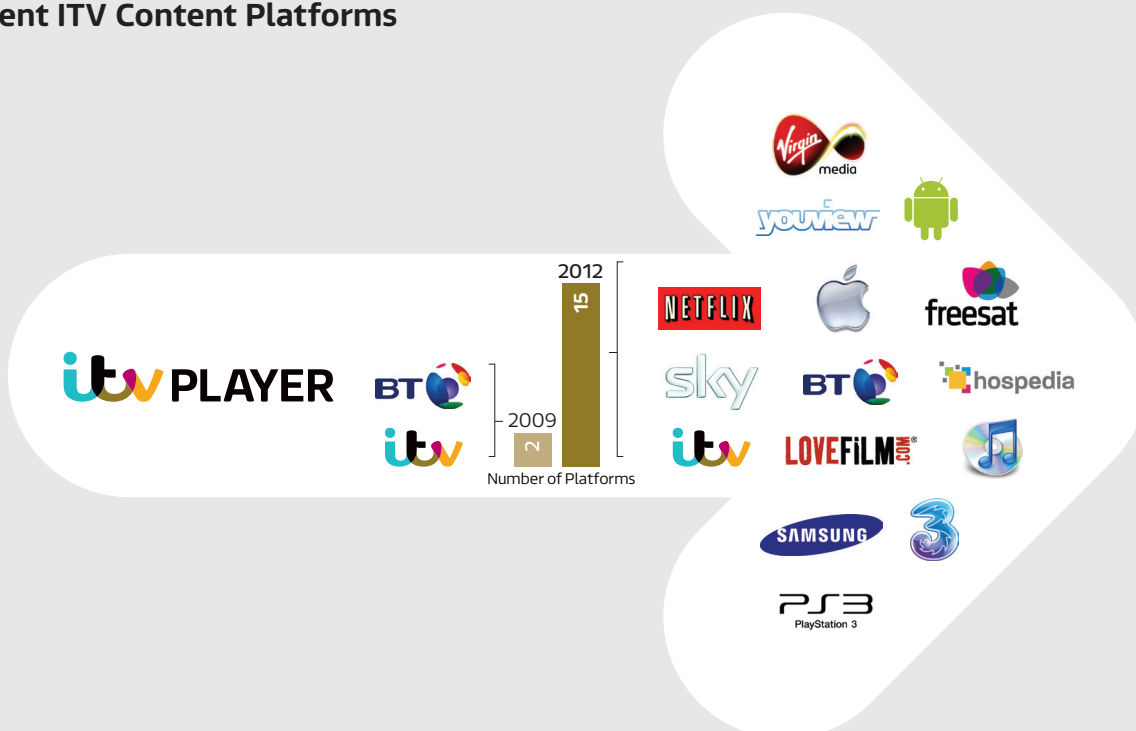
Long Form Video Requests

Grown by over 200% since 2009



22%
YoY

Current ITV Content Platforms



Strategy & Operations

Strategic Priority **3** continued

These include Ad Play, which poses a multiple choice question about the product or brand; Ad Sync, which provides a synchronised second screen experience for broadcast advertisers during our live entertainment shows; and Ad Explore, which allows users to explore more about the advertiser's product or service.

Developing online market

The way people are watching digital media is evolving. Mobile and tablet viewing is growing the fastest and is closing the gap on itv.com as the largest ad funded platform in terms of views. We are continuing to explore opportunities for mobile viewing, building on the 7.1 million downloads of the ITV Player app since launch.

2013 and beyond

In 2013 we will continue to invest in our online offering to further drive viewing and build advertising revenues in line with increasing audiences. We will also further enhance the value of our online advertising and seek to use our increasing data knowledge to build targeted opportunities.

We are platform agnostic and the key remains to deliver video content to the largest and fastest growing platforms and then either serve advertising to them or develop our pay opportunities around them. The content deals we have done to date are largely non-exclusive which give us flexibility as we renegotiate current deals, allowing us to consider other pay opportunities, including pay channels.

Pictured:

The Only Way Is Essex

The Only Way Is Essex was the third most watched ITV show online in 2012 after Coronation Street and Emmerdale, attracting 39 million views.





**Build a strong international
content business**



Strategy & Operations

Strategic Priority 4

Build a strong international content business

A strong international content business lies at the heart of our strategy. Our goal is to create and own more of our own content, make it famous in the UK on our channels and exploit it across multiple platforms in the UK and internationally.

Over the last few years there has been increasing global demand from Broadcasters and platform owners for proven content, which provides great opportunities for ITV as a leading content creator and producer.

Since 2010 we have been transforming ITV Studios commercially and creatively in the UK and overseas, investing in creative talent and in the programme pipeline to exploit these opportunities. The progress we have made is now coming through in the financial and operating performance indicators.

We delivered strong organic growth across all three businesses within Studios in 2012, with total revenue up £100 million (16%) to £712 million and EBITA over £100 million for the first time in ITV's history. UK Productions which produces content for ITV and other UK broadcasters grew 18%, International Productions which produces content in certain local countries, including local versions of UK formats, grew 21%, and Global Entertainment which distributes ITV's and third party content globally grew 6%. Since 2009 revenues and EBITA have increased 19% and 18% respectively.

The investment we have made in a strong and healthy creative pipeline is reflected in the level of new commissions and recommissions. In 2012 we have again delivered over 100 new commissions while, crucially, the number of recommissions has grown from 101 to 108 as we focus on formats that return and deliver more value. This is also reflected in the number of hours of programming delivered which increased 10% in the UK and 47% internationally.

UK production

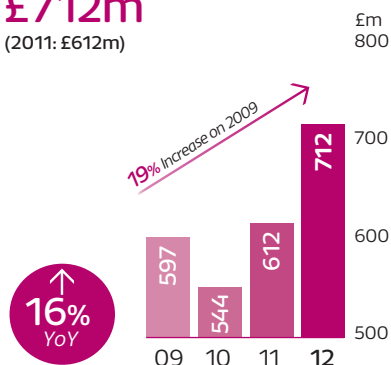
In the UK we have grown our revenues on and off ITV. We have increased the level of content we own through the growth in ITV Studios' share of ITV output which increased again to 58%, up from 50% in 2009 including the impact of ITV Breakfast. On ITV we have delivered new commissions including Surprise Surprise, Fool Britannia, Mrs Biggs and Titanic and recommissions of Vera, Lewis, The Chase and The Agenda.

Studios Revenues

Growth across all divisions

£712m

(2011: £612m)





Off ITV our new commissions included Shetland for BBC and Special Ops Cops for Channel 5 and recommissions such as Come Dine With Me, Countdown and University Challenge.

International production

Our international production business is growing organically through our production bases in the US, Australia, Germany, France and the Nordics with almost 50% more hours delivered in 2012. Many of our UK formats are also being produced internationally, for example May the Best House Win, Come Dine With Me, The Audience and The Chase. In fact we have ten formats that are produced in three or more territories – up from four in 2011. The success of 2012 is as a result of growth across all our territories but particularly in the US where programmes such as Hell's Kitchen and The Bill Cunningham Show have performed well and new commissions such as Kentucky Fried Action and Car Brokers have been secured.

Global Entertainment

The strong production growth in the UK and internationally is strengthening the catalogue for international sales for our distribution business, Global Entertainment. In 2012 this was driven particularly through the sale of Titanic to 290 territories and Prime Suspect to 213 territories. This growth more than offset the decline in DVD sales and delivered a 6% increase in revenues in 2012.

Acquisitions – building on our strong organic growth

We have built on our organic growth as we work in a variety of ways – through acquisitions, partnerships and joint ventures. In 2012 we agreed terms with Reshet, the Israeli broadcaster, to jointly develop formats and programmes for their local network and the international market whereby ITV will then distribute them globally.

Number of New Commissions

2012: 103

(2011: 111)

Number of Recommissions

2012: 108

(2011: 101)

Pictured:

Come Dine With Me

Come Dine With Me continues to go from strength to strength with the format now being produced in 36 countries.

Strategy & Operations

Strategic Priority 4 continued

In the second half of the year we made a number of acquisitions in key creative markets with companies that produce in genres that travel and return. These acquisitions were made against strict strategic and financial criteria including a proven creative track record, ownership of IP, return on capital employed and discounted cash flow.

We bought Mediacircus and Tarinatalo to extend ITV's presence in the Nordic region and we bought So Television, to help build our entertainment capability in the UK. We have structured the deals in a way to lock in creative talent and align incentives.

In December 2012 we acquired 61.5% of Gurney Productions, a US factual entertainment company, to build on our strength and complement ITV's existing position as a producer for major television networks in the US. There are put and call options in place over the remaining 38.5%.

Given the timing of these acquisitions they have not had a material impact on the 2012 results.

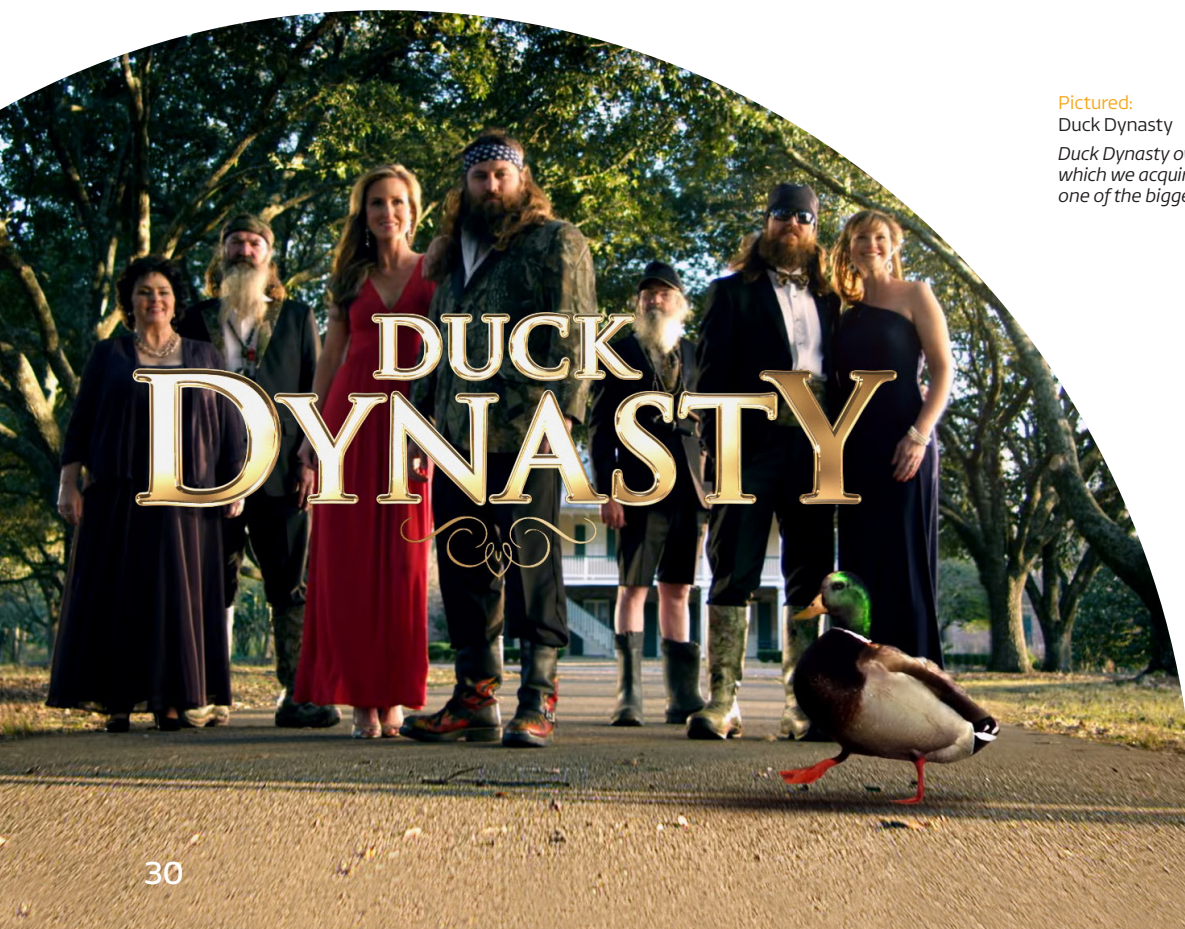
Our content strategy

Our goal remains to create and produce more great content in the UK and internationally and to distribute it through Global Entertainment. We will focus on strong returning programme brands that travel in genres such as Entertainment, Factual Entertainment and Drama.

To enable us to do this we need to further enhance our creative capability by focusing our growth and investment in three areas where we believe we can drive the most value:

- Key creative markets in the UK and US which have a track record for creating IP,
- Production centres, i.e. Australia, Germany, France and the Nordics; and,
- Emerging creative markets, e.g. Israel who have had some early successes in creating IP.

As we continue to grow internationally we are focused on how we can optimise value from our quality content. We have different opportunities depending on the type of content we produce. We sell dramas such as Titanic or Mr Selfridge through Global Entertainment.



Pictured:
Duck Dynasty

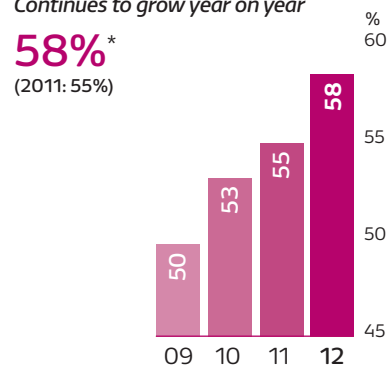
Duck Dynasty owned by Gurney Productions, which we acquired in December 2012, is currently one of the biggest cable TV shows in the US.



% of ITV Output from ITV Studios

Continues to grow year on year

58%*
(2011: 55%)



* Includes ITV Breakfast.

With formats such as *The Chase* or *Come Dine With Me* we can sell through Global Entertainment either as a finished programme, or as a format which can then be produced by a local broadcaster or producer. Alternatively we can produce it ourselves in that territory for a local broadcaster. The margins vary with each option – the percentage margin is highest if we sell the format or the finished programme but the absolute margin is higher if we produce it locally.

2013 and beyond

In 2013 we will further invest in our creative talent and development to maintain a healthy pipeline in the key genres that travel to ensure we can take advantage of the expected increase in global demand for quality content.

We will continue to drive strong organic growth in the UK and internationally as well as build on our growing strength and capability with selective partnerships, joint ventures or acquisitions in key creative markets.

Adam Crozier

Chief Executive

Pictured:
Mrs Biggs

ITV Studios produced drama Mrs Biggs achieved an average audience of 5.2 million viewers across its five episodes.

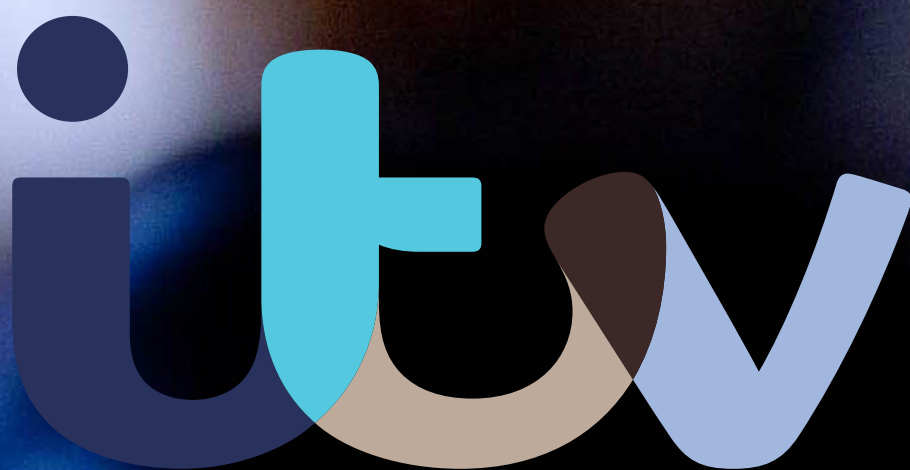


View the Adam Crozier interview online @ ar2012.itvplc.com/adamcrozierinterview





Pictured:
Behind the scenes of Titanic
Photo by ITV/Rex Features



Directors' Report

Performance & Financials

Performance & Financials

Key Performance Indicators

We have defined our Key Performance Indicators (KPIs) to align performance and accountability to the Transformation Plan. These KPIs will be the key measures of success over the life of the Transformation Plan and cover all four strategic priorities.

Related Priority	KPI	Performance		
1 2 3 4	<p>EBITA before exceptional items</p> <p>This is the key profitability measure used across the whole business. Earnings before interest, tax and amortisation before exceptional items ('EBITA') reflects our performance in a consistent manner and in line with how the business is managed and measured on a day-to-day basis.</p>	<p>2012 £520m</p>	<p>% Change 13%</p>	<p>2011 £462m</p>
		<p>13% is a £58 million increase in EBITA and is primarily due to a 3% increase in external revenues, driven by non-NAR revenues – particularly high margin Online, Pay and Interactive revenues – and £100 million increase in Studios revenue. This and the delivery of cost savings has increased profitability.</p>		
1 2 3 4	<p>Adjusted earnings per share</p> <p>Adjusted earnings per share represents the adjusted profit for the year attributable to equity shareholders.</p> <p>Adjusted profit is defined as profit for the year attributable to equity shareholders before exceptional items, amortisation and impairment of intangible assets acquired through business combinations, financing cost adjustments and prior period and other tax adjustments.</p> <p>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.</p>	<p>2012 9.2p</p>	<p>% Change 16%</p>	<p>2011 7.9p</p>
		<p>Adjusted earnings per share has increased to 9.2p, a 16% increase, reflecting the improvement in revenue and profits and the reduction in adjusted financing costs as we improve the efficiency of the balance sheet.</p>		
1 2 3 4	<p>'Profit to cash' conversion</p> <p>'Profit to cash' conversion represents the proportion of EBITA before exceptional items converted into a measure of adjusted cash flow (defined as cash generated from operations before exceptional items less cash related to the acquisition of property, plant and equipment and intangible assets).</p> <p>A key priority is to keep tight control on cash and costs and this measure primarily reflects our working capital management and capital expenditure control. As such, it remains ITV's aim to keep this 'profit to cash' conversion as high as possible, and in excess of 90% on a rolling three-year basis.</p>	<p>2012 95%</p>	<p>Absolute Change (8)%</p>	<p>2011 103%</p>
		<p>Profit to cash conversion is again over our 90% rolling three-year target despite the step up in capex in 2012. This demonstrates our continued focus on working capital management which has helped drive a significant improvement in our cash position.</p>		
1	<p>Employee Engagement</p> <p>To turn ITV into a world class organisation that is lean, creatively dynamic and fit-for-purpose requires high quality employees who are engaged in the work that they do, and are committed to the Transformation Plan.</p> <p>Employee engagement measures pride in the work we do, pride in working for ITV and also what we say about our programmes and services.</p>	<p>2012 88%</p>	<p>Absolute Change 3%</p>	<p>2011 85%</p>
		<p>Employee engagement has again improved year on year which indicates employees' pride in ITV and their commitment to supporting change across the business. Company participation in the survey was also high at 80%.</p>		
2	<p>ITV Family Share of Viewing (SOV)</p> <p>Strategic priority 2 aims to maximise audience share from our existing free-to-air broadcast business, and ITV Family Share of Viewing (SOV) is the clearest indicator of this. ITV Family SOV is ITV's share of the total viewing audience over the year achieved by ITV's family of channels as a proportion of total television viewing, including the BBC family. ITV aims to at least maintain the ITV Family SOV.</p>	<p>2012 22.3%</p>	<p>% Change (3)%</p>	<p>2011 23.1%</p>
		<p>2012 was an extraordinary year for television, with many unique events that will not return, for example the Queen's Jubilee and the London Olympics. This impacted ITV Family SOV which was down 3% year on year.</p> <p>The movement in SOV can be split between viewing performance on each platform and the change in usage of each of these platforms during the year ('platform mix'). Removing the impact of change in platform mix, 2011's SOV adjusted for the 2012 platform mix was 23.1%.</p>		

1 Create a lean, creatively dynamic and fit-for-purpose organisation

2 Maximise audience and revenue share from our existing free-to-air broadcast business

3 Drive new revenue streams by exploiting our content across multiple platforms, free and pay

4 Build a strong international content business

Related Priority	KPI	Performance		
2	<p>ITV Family Share of Commercial Impacts (SOCl) Strategic priority 2 aims to maximise audience share from our existing free-to-air broadcast business, and ITV Family Share of Commercial Impacts (SOCl) is another key indicator of this. SOCl is the trading currency in the television advertising market, and since it only covers commercial television it does not include the BBC. This is the share of total UK television commercial impacts which is delivered by ITV's family of channels. An impact is one viewer watching one 30 second commercial. We aim to maximise our SOCl.</p>	<p>2012 38.3%</p>	<p>% Change (3)%</p>	<p>2011 39.5%</p>
		<p>ITV Family SOCl was down 3% year on year. ITV's SOCl was down 5% year on year but this was partly offset by 2% growth on the digital channels. ITV's SOCl was also impacted by the extraordinary year for UK television viewing.</p>		
2	<p>ITV Family Share of Broadcast (SOB) ITV's share of UK television advertising revenues is known as its Share of Broadcast (SOB). To maximise revenues from our free-to-air business, which is a key component of strategic priority 2, we aim to continue to maximise our SOB and to outperform the UK television advertising market.</p>	<p>2012 45.8%</p>	<p>Absolute Change 0.5%</p>	<p>2011 45.3%</p>
		<p>In 2012, we outperformed the television advertising market again, increasing SOB to 45.8%. This was due to strong performances by the sales team and key shows continuing to deliver the big audiences and brands that are most demanded by advertisers. C4 lost share in 2012.</p>		
3	<p>Total long form video requests The Transformation Plan looks to drive new revenue streams by exploiting our content across multiple platforms, and long form video requests are a key measure of this. Long form video requests are a measure of the total number of videos viewed across all platforms (such as itv.com, Virgin and mobile devices). A long form video is a programme that has been broadcast on television and is available to watch online and on demand in its entirety. We have rearticulated our video views KPI as 'video requests'. This is simply to have a consistent term across new platforms where some providers count the consumer VOD requests rather than the views. Our total long form video requests in 2011 equalled our total long form video views, so there has been no change to the prior year comparatives.</p>	<p>2012 458m</p>	<p>% Change 22%</p>	<p>2011 376m</p>
		<p>Long form video requests were up 22% to 458 million as we have improved the quality of the ITV Player and increased the distribution of our content. ITV content is now available on 15 platforms. Growth in long form video requests has been driven by mobile viewing.</p>		
3 4	<p>Non-NAR revenues Growing non-NAR revenues is key to the Transformation Plan as we aim to rebalance the business away from our reliance on television advertising revenues. Non-NAR revenues include all ITV revenues, both internal and external, except net advertising revenues (NAR).</p>	<p>2012 £1,036m</p>	<p>% Change 12%</p>	<p>2011 £922m</p>
		<p>We now have over £1 billion non-NAR revenues. These have grown by over £100 million in 2012 as we continue to rebalance the business. Non-NAR growth has been driven by Studios revenues – particularly UK and International Productions – and Online, Pay and Interactive revenues.</p>		
4	<p>Number of new commissions for ITV Studios A key indicator of the creative renewal pipeline is the number of new commissions won. This figure includes programmes shown both on ITV and on other broadcasters, and both in the UK and internationally.</p>	<p>2012 103</p>	<p>Absolute Change (8)</p>	<p>2011 111</p>
		<p>In 2012 we again delivered over 100 new commissions. The total number is down year on year, but the number of recommissions has increased as we focus on formats that return.</p>		
4	<p>Percentage of ITV* output from ITV Studios This represents the proportion of the total spend on original commissions on ITV transmitted in the year, delivered by ITV Studios. In order to build a strong international content business, ITV Studios needs to increase its supply of programmes to ITV, where we aim to make them famous and then sell them around the world. * Excludes ITV2, 3 and 4.</p>	<p>2012 58%</p>	<p>Absolute Change 3%</p>	<p>2011 55%</p>
		<p>The percentage of ITV output from ITV Studios has increased again in the year to 58%. This has benefited from the inclusion of ITV Breakfast, now that Daybreak and Lorraine are produced by ITV Studios. Excluding the impact of ITV Breakfast, it was up at 56%.</p>		

Performance & Financials

Financial and Performance Review

Ian Griffiths

In 2012 we have delivered revenue growth in all parts of the business, and another year of double digit profit growth.



	2012 £m	2011 £m	Change £m	Change %
Net Advertising Revenue ('NAR')	1,510	1,510	–	–
Total non-NAR revenue	1,036	922	114	12
Total revenue	2,546	2,432	114	5
Internal supply	(350)	(292)	(58)	(20)
Total external revenue	2,196	2,140	56	3
EBITA before exceptional items	520	462	58	13
Adjusted earnings per share	9.2p	7.9p	1.3p	16
Dividend per share	2.6p	1.6p	1.0p	63
Special dividend	4.0p	–	–	–
Net Cash as at 31 December	206	45	161	358

Adjusted earnings per share represent the adjusted profit for the year attributable to equity shareholders; adjusted profit is defined as profit for the year attributable to equity shareholders, before exceptional items, impairment and amortisation of intangible assets acquired through business combinations, financing cost adjustments and prior year and other tax adjustments.

Historically, the financial performance of ITV has been largely dependent on the advertising market. Whilst still incredibly important, these results demonstrate that ITV can deliver strong profit growth even in a flat advertising market.

Overall, we delivered external revenue growth of 3% and total revenue growth of 5%. This was driven by non-NAR revenues, which were up £114 million (12%) as we continued to deliver on our strategy of growing and rebalancing the business. For the first time over £1 billion of our total revenue is non-NAR.

Studios revenues were up £100 million (16%) and Online, Pay and Interactive grew £21 million (26%). This good revenue growth, in particular from higher margin Online, Pay and Interactive, together with our continued focus on costs enabled us to report a 13% increase in EBITA and 16% growth in adjusted EPS.

We delivered £30 million of cost savings in 2012, £10 million ahead of the initial forecast. We are doing this by challenging our cost base line by line. These cost savings have funded the £25 million of investment we made across the business in Online, technology, the rebrand and in creatives and the creative pipeline, in line with our four strategic priorities. The focus on costs will remain in 2013 and we will once again expect savings to fund our investments in key initiatives aligned to the strategy.

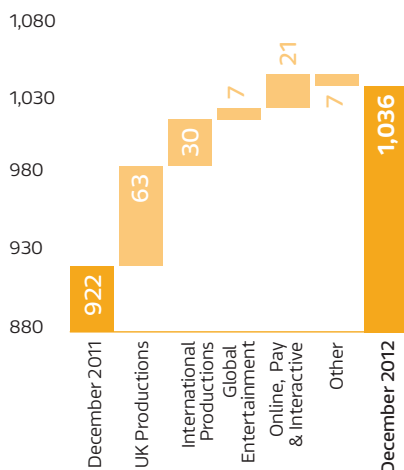
Managing our working capital continues to be a focus and even with increased capex we have delivered profit to cash conversion of 95%. This has led to a further improvement in our net cash, finishing the year in a positive net cash position of £206 million. Interest costs continue to reduce as we improve the efficiency of our balance sheet with the bond buybacks in June 2012.

Non-NAR revenue

£1,036m

(2011: £922m)

£m



The Board has proposed a final dividend of 1.8p (2011: 1.2p) giving a full year dividend of 2.6p (2011: 1.6p). The Board is committed to a progressive dividend, taking into account the outlook for the business, while balancing the need to invest and to maintain a robust financial position against the backdrop of an uncertain economic environment.

In addition to the final dividend, the Board is proposing a special dividend of 4p per share (£156 million). Over the last three years we have made significant progress in transforming the Group – commercially, creatively and financially. While only part way through the Transformation Plan, ITV is now becoming a better business, delivering good revenue and profit growth and generating significant levels of cash which can be reinvested to drive growth and deliver shareholder returns.

Broadcast & Online

	2012 £m	2011 £m	Change %
Net Advertising Revenue ('NAR')	1,510	1,510	-
SDN external revenues	62	59	5
Online, Pay & Interactive	102	81	26
Other commercial income	160	170	(6)
Broadcast & Online non-NAR revenue	324	310	5
Total Broadcast & Online revenue	1,834	1,820	1
Total schedule costs	(996)	(1,004)	1
Other costs	(425)	(437)	3
Total Broadcast & Online EBITA before exceptional items	413	379	9

Total Broadcast & Online revenues grew £14 million (1%) to £1,834 million (2011: £1,820 million) even in a television advertising market that we estimate was down 1%. This growth was driven by non-NAR revenues, particularly Online, Pay and Interactive.

ITV Family NAR was flat, again outperforming the TV advertising market. While the television advertising market remains broadly flat, as it has done over the last few years, there continues to be volatility on a month by month basis and between sectors

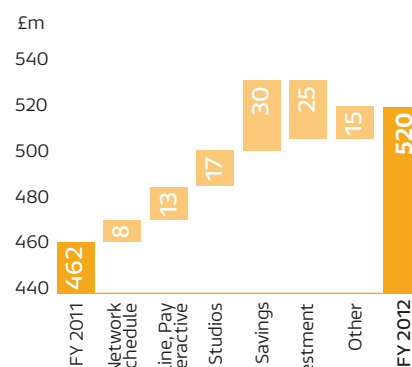
This cash distribution reflects the significant progress made and our need to retain a conservative and flexible balance sheet while continuing to invest to deliver the Transformation Plan. Going forward we will balance capital discipline with the need to invest for future growth and maintain flexibility.

The remainder of the Financial and Performance review focuses on the adjusted results, which in management's view shows our business performance in a more meaningful and consistent manner and reflects how the business is managed and measured on a daily basis. A reconciliation to the statutory results is set out in the earnings per share section.

EBITA before exceptional items

£520m

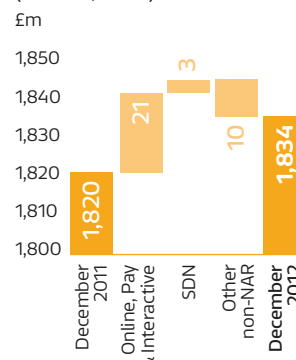
(2011: £462m)



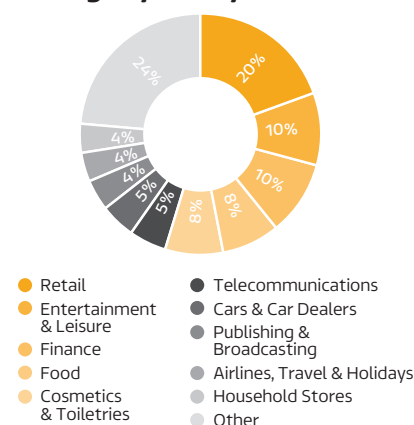
Broadcast & Online revenue

£1,834m

(2011: £1,820m)



Category analysis



Category data based on total ITV Sold.

Performance & Financials

Financial and Performance Review *continued*



Our cost management and our growth in non-NAR revenues has enabled us to deliver a 9% increase in Broadcast & Online EBITA with advertising flat.



Moving Annual Total of NAR Revenues



SDN external revenues grew by 5% in line with contractual increases as there were no new contracts in 2012. However, we have created a twelfth video stream which went live in January 2013.

Online, Pay and Interactive revenues grew strongly, up £21 million (26%). Within this, Online revenues have grown at around 40% as we have continued to drive increases in long form video requests through improving the quality of itv.com, widening distribution and enhancing its offering with the launch of the News and Sports sites.

Pay revenues have grown significantly with the archive deals with Netflix, Lovefilm and Sky which launched towards the start of 2012 and the catch up deal with Sky which launched in the Autumn. These build on the deals already in place with Sky for HD versions of the digital channels and catch up and archive deals with BT and Virgin.

Other commercial income, which includes sponsorship, minority revenues and media sales, are marginally down year on year.

Margins have continued to improve as we manage the cost base tightly. Schedule costs are broadly flat year on year and other costs are down 3%. We continue to challenge our costs across the business and during the year reorganised the Online division. In 2013 we expect to deliver further efficiencies in our News operations.

Our tight cost management and our growth in non-NAR revenues has enabled us to deliver a 9% increase in Broadcast & Online EBITA.

ITV Studios

	2012 £m	2011 £m	Change %
UK Productions	408	345	18
International Productions	171	141	21
Global Entertainment	133	126	6
Total Revenue	712	612	16
Total Studios costs	(605)	(529)	14
Total EBITA before exceptional items	107	83	29
Sales from ITV Studios to Broadcast & Online	350	292	20
External Revenue	362	320	13
Total Revenue	712	612	16

In 2012 ITV Studios again delivered strong organic growth across all parts of the business. Total revenue grew £100 million to £712 million (2011: £612 million) and EBITA was £107 million.

This reflects the investments made in creative talent over the last couple of years.

UK Production revenues grew 18% with growth on and off ITV. While there was good underlying growth, internal sales now include £33 million from the inclusion of ITV Breakfast. This reflects the fact that Daybreak and Lorraine are now produced by ITV Studios.

On ITV, the delivery of programmes such as Titanic, Mrs Biggs, Surprise Surprise, Vera and The Chase drove the number of new and returning drama and entertainment commissions. The number of original hours delivered has continued to grow, up 23%. Off ITV, UK revenues have grown with the delivery of new programmes, for example Shetland for BBC and Special Ops Cops for C5.

International revenues grew very strongly in 2012, up 21% to £171 million (2011: £141 million). All our production bases delivered growth but it was particularly significant in the US driven by Hell's Kitchen, The Bill Cunningham Show, Jeremy Kyle and America Now. Australia and France also grew strongly.

The number of hours of original content delivered increased 47% with shows such as Come Date with Me in Australia, and Four Weddings in France.

Global Entertainment revenues grew £7 million (6%) to £133 million (2011: £126 million), driven by international television sales of dramas such as Titanic and Prime Suspect, which more than offset the decline in DVD sales. The strong growth in UK and International Production is feeding into revenue for Global Entertainment, by improving the quality of the programme catalogue.

The majority of costs in the Studios business vary with the levels of production and therefore have increased in line with activity. We continue to run all our productions as efficiently as possible and maintain a tight focus on overhead costs to improve margins even after the investment in creatives we have made.

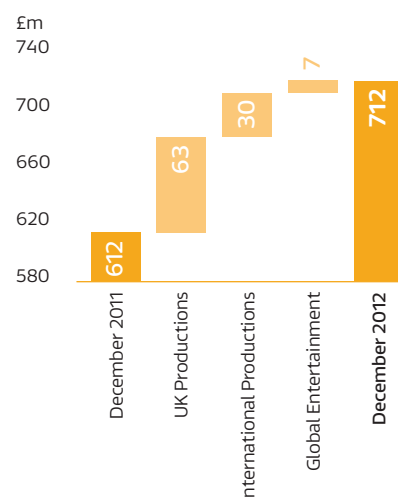
This tight focus on costs, the change in programme mix and the increase in the level of recommissioned programmes has helped increase EBITA to reach over £100 million this year.

In the second half of 2012, ITV made a number of acquisitions aligned to our strategy to strengthen our international Studios business and build upon the good organic growth already achieved.

Studios Revenue

£712m

(2011: £612m)



Performance & Financials

Financial and Performance Review *continued*

These acquisitions were made against strict strategic and financial criteria including ownership of intellectual property, return on capital employed and discounted cash flow.

We bought 100% of Mediacircus AS in Norway for £2 million upfront cash and Tarinatalo in Finland for £1 million upfront cash to extend ITV's presence in the Nordic region. In August we bought So Television for £10 million to help build our entertainment capability in the UK. In December 2012 we acquired 61.5% of Gurney Productions,

a US factual entertainment company for \$40 million (£25 million), to build on our strength and complement ITV's existing position as a producer for major television networks. There are put and call options in place over the remaining 38.5% from years 3 to 5 following the acquisition. As part of the consideration for all these acquisitions, we have agreed to future payments on top of the initial consideration based upon the performance of the businesses over a number of years to align incentives and lock in creative talent.

The total maximum consideration is £96 million (undiscounted) for all these acquisitions which is dependent on the future growth performance of the business. This includes the initial consideration and all deferred consideration and earnouts. Given the timing of these acquisitions, they have not had a significant impact on the 2012 results.

Acquisitions

Company	Geography	Genre	Initial consideration (£m)	Total maximum consideration (undiscounted) (£m)	Expected Payment Date
Gurney Productions	US	Factual Entertainment	25	69	2016-18
So TV	UK	Comedy and Entertainment	10	17	2016
Mediacircus	Norway	Factual and Entertainment	2	4	2016
Tarinatalo	Finland	Factual Entertainment	1	6	2016
Total			38	96	

Net financing costs

In 2012 adjusted financing costs were £6 million lower than the previous year as a result of the full year impact of the bonds bought back in 2011 and the impact of the bonds bought back in June 2012. These savings have more than offset the contractual step up in the rate on our 2019 bilateral loan. Cash-related net financing income has decreased by £5 million due to a reduction in gross cash balance as a result of the bond buybacks.

Net financing costs are £24 million higher primarily due to movements in swap valuations. In 2011 ITV recorded a £16 million increase in the value of its swaps primarily reflecting the impact of lower implied interest rates on the floating rate portion of the swaps. In September 2011 ITV swapped these to fixed rate swaps thereby moving to a 100% fixed rate position and locking in a net gain on its swaps portfolio which accrued during 2011 and previous years. During 2012 these gains partially

unwound as cash was realised from the swaps and hence their value reduced by £11 million as a result.

The losses on buybacks relate to the exceptional loss on the £275 million bond buyback completed in 2012. In 2011 similar losses were incurred on the buyback of certain bonds.

	2012 £m	2011 £m
Financing costs directly attributable to loans and bonds	(38)	(45)
Cash-related net financing income	3	8
Cash-related financing costs	(35)	(37)
Amortisation of bonds	(9)	(13)
Adjusted financing costs	(44)	(50)
Mark-to-market on swaps and foreign exchange	(11)	16
Imputed pension interest	(9)	(5)
Losses on buybacks	(36)	(39)
Other net financing costs	1	3
Net financing costs	(99)	(75)

Tax

The effective rate of tax applied to adjusted profits is lower than the statutory rate. This is a result of the consistent application of our policy to adjust the tax charge for losses utilised in the year to more closely reflect the cash tax paid in the year. The effective tax rate of 23% in 2012 is lower than the standard tax rate of 24.5% due to adjustments made for prior periods and the recognition of overseas deferred tax credits (2011: due to settlement of outstanding matters in our overseas business). The total reported tax charge is £80 million (2011: £79 million).

	2012 £m	2011 £m
Profit before tax as reported	348	327
Exceptional items (net)	12	(1)
Amortisation and impairment of intangible assets*	49	47
Adjustments to net financing costs	55	25
Adjusted profit before tax	464	398
	2012 £m	2011 £m
Tax charge as reported	(80)	(79)
Net charge for exceptional items	(2)	-
Charge in respect of amortisation and impairment of intangible assets*	(12)	(12)
Charge in respect of adjustments to net financing costs	(13)	(7)
Other tax adjustments	2	7
Adjusted tax charge	(105)	(91)
Effective tax rate on adjusted profits	23%	23%

* In respect of intangible assets arising from business combinations.

Cash tax paid of £62 million (2011: £68 million) arises as a result of making payments for taxable profits, partially offset by the use of losses and tax treatment of allowable pension contributions.

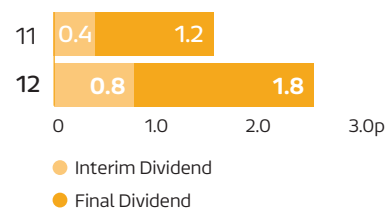
Dividend and shareholder returns

The Board has proposed a final dividend of 1.8p (2011: 1.2p) giving a full year dividend of 2.6p (2011: 1.6p). The Board is committed to a progressive dividend, taking into account the outlook for the business, while balancing the need to invest and to maintain a robust financial position against the backdrop of an uncertain economic environment.

In addition to the final dividend, the Board is proposing a special dividend of 4p per share (£156 million).

Dividend

2.6p
(2011: 1.6p)



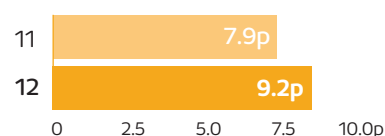
Performance & Financials

Financial and Performance Review *continued*

Adjusted Earnings per Share

9.2p

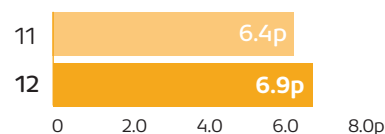
(2011: 7.9p)



Basic Earnings per Share

6.9p

(2011: 6.4p)



Earnings per share

Adjusted earnings per share is 9.2p (2011: 7.9p). Basic earnings per share is 6.9p (2011: 6.4p). The main differences between reported and adjusted earnings per share are exceptional items, the losses incurred in net financing costs from the bond buybacks, adjustment for the amortisation of intangible assets acquired through business combinations and the tax effects of these.

Reconciliation between reported and adjusted earnings

	Reported £m	Adjustments £m	Adjusted £m
EBITA before exceptional items	520	–	520
Operating exceptional items	(7)	7	–
Amortisation and impairment of intangible assets	(60)	49	(11)
Net financing costs	(99)	55	(44)
Share of losses of JVs and Associates	(1)	–	(1)
Loss on sale and impairment of non-current assets (exceptional)	(6)	6	–
Gain on sale and impairment of subsidiaries and investments (exceptional)	1	(1)	–
Profit before tax	348	116	464
Tax	(80)	(25)	(105)
Profit after tax	268	91	359
Non-controlling interest	(1)	–	(1)
Earnings	267	91	358
Number of shares (million)	3,888		3,888
Earnings per share (pence)	6.9p		9.2p

The adjustments shown above remove the impact of those items that, in management's view, do not show the performance of the business in a consistent manner and do not reflect how the business is managed and measured on a day to day basis.

Amortisation and impairment of intangible assets acquired through business combinations is not included within adjusted earnings. Amortisation of software licences and development is included as management considers these assets to be core to supporting the operations of the business.

Exceptional items are restructuring costs and acquisition related expenses, including professional fees and contingent consideration, in relation to the strategic acquisitions we made in the Studios business. The tax and net financing costs sections of this review show the adjustments to these balances.

Cash flow, working capital management and positive net cash

Cash flow and working capital management

	2012 £m	2011 £m
EBITA before exceptional items ('profit')	520	462
Decrease in programme rights and other inventory and distribution rights	29	-
Decrease in receivables	17	52
Decrease in payables	(45)	(34)
Working capital movement	1	18
Depreciation	27	26
Share-based compensation	9	11
Cash flow generated from operations before exceptional items	557	517
Acquisition of property, plant and equipment and intangible assets	(61)	(43)
Adjusted cash flow	496	474
'Profit to cash' ratio	95%	103%

* Before exceptional items

Over the last three years tight cash and working capital management has been a real focus for ITV.

In 2012 we generated £496 million of cash from £520 million of EBITA before exceptional items, even after a significant increase in capex.

The 'profit to cash' ratio of 95% was again ahead of the KPI target of 90% on a three-year rolling basis for the third year in a row. This performance was primarily through further improvements in inventory management and a decrease in our receivables balance. This is due to changes in the timing of broadcast infrastructure payments and revised agreements with non-consolidated licensees resulting in a reduction in receivables. This was partly offset by a decrease in payables from reduction in programme and sports rights creditors at the year end.

Cash spend on acquisition of property, plant and equipment and intangible

assets was higher this year due to the investment in technology, particularly the desktop refresh, and moving the Manchester site to MediaCityUK. It was not as high as originally planned as we negotiated some of the cash costs into 2013. As a result of moving these cash payments into 2013, Capex is likely to be at a similar level to 2012.

Free cash flow

	2012 £m	2011 £m
Adjusted cash flow	496	474
Net cash interest paid	(33)	(37)
Cash tax	(62)	(68)
Pension funding	(72)	(48)
Free cash flow	329	321

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

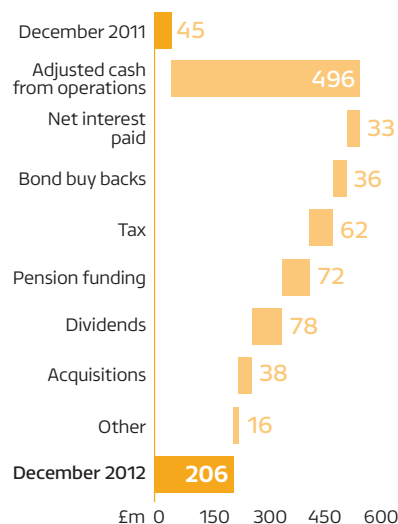
Free cash flow before dividends remains strong despite the step up in pension funding contributions.

The free cash flow reflects our underlying cash generation and gives us flexibility to invest in the business.

Net cash tracker

£206m

(2011: £45m)



Performance & Financials

Financial and Performance Review *continued*

Positive net cash and adjusted net debt

We ended this year in a positive net cash position of £206 million (2011: £45 million), as a result of our strong free cash flow generation.

There is no IFRS definition of net debt and our net cash figures represent our measure of this metric, which is consistent with previous years; this can be seen in section 4.1 of the Financial Statements.

We have our own definition of adjusted net debt, along similar lines to the rating agencies. It is an important measure of the health of the business as it captures our net cash position but also other significant cash commitments we have to settle at some point in the future.

Our adjusted net debt is as follows:

Adjusted net debt

	2012 £m	2011 £m
Net cash	206	45
Contingent consideration on acquisitions	(58)	–
Pension deficit	(551)	(390)
Operating leases	(518)	(569)
Adjusted net debt	(921)	(914)

The ratio of adjusted net debt to adjusted EBITDA is 1.7x.

As can be seen from the table adjusted net debt includes the maximum total contingent consideration in relation to the acquisitions we have made in the year (undiscounted), IAS 19 pension deficit and operating lease commitments (undiscounted) for transponder and property. Of the property lease commitments, £82 million is in relation to the London Television Studios which no longer exist following our acquisition of the building in January 2013 for £56 million.

Liquidity risk and funding

We have further strengthened and improved the efficiency of our balance sheet in 2012. We have delivered strong cash generation, we have put in place a revolving credit facility and we have bought back more bonds.

We continue to look at opportunities to improve the efficiency of the balance sheet while maintaining flexibility to invest in the Transformation Plan. Given the significant progress we have already made, it is becoming harder. For ITV efficiency is measured by the difference in the returns we receive for our cash on deposit and the cost of interest on gross debt outstanding. Currently we are net cash positive but have adjusted financing costs of £44 million. We have attempted to address this with £937 million of bond buybacks and early loan repayments since October 2009 but further step changes are becoming harder to achieve.

Debt structure

In June we bought back £275 million nominal of bonds comprising €138 million of the 2014 bonds, £75 million of the 2015 bonds and £89 million of the 2017 bonds. The bonds were repurchased at prices above par, resulting in an exceptional interest charge of £36 million, but will improve adjusted financing costs going forward. In 2013 we expect adjusted financing costs to be around £35 million.

Gross debt repayable is £496 million at 31 December 2012, having reduced primarily as a result of the bond repurchases.

In July 2012 we improved our financial flexibility following the bond tender through obtaining a committed £250 million Revolving Credit Facility, provided by a handful of long-term

relationship banks, which remains undrawn. The facility has a three-year maturity but is, subject to agreement by the banks, extendible by a further two years.

The facility contains leverage and interest cover covenants as is normal for a facility of this nature.

Financing

Our debt is financed using instruments with a range of maturities. Borrowings at 31 December 2012 (net of currency hedges and secured gilts) are repayable as follows:

Amount repayable	£m	Maturity
€50 million Eurobond*	15	June 2014
£78 million Eurobond	78	Oct 2015
£135 million Convertible bond	135	Nov 2016
£161 million Eurobond	161	Jan 2017
£200 million Bank loan†	62	Mar 2019
Finance leases	45	Various
Total repayable	496	

* Net of Cross Currency Swaps.

† Net of £138 million (nominal) Gilts secured against the loan.

There are no financial covenants on any of the debt instruments above.

Ratings

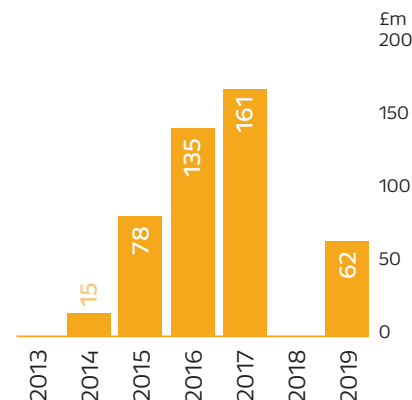
In 2012 our credit ratings continued to improve. In March Fitch, Standard & Poor's ('S&P') and Moody's Investors Service ('Moody's') upgraded our long-term credit ratings from BB / Ba2 (Stable Outlook) to BB+ / Ba1 (Stable Outlook). In August Moody's changed the outlook on ITV's ratings to positive and in October S&P also changed the outlook to positive.

Despite improvements in the credit ratings from all three agencies, we remain sub-investment grade and would require a notch upgrade from each agency in order to restore investment grade.

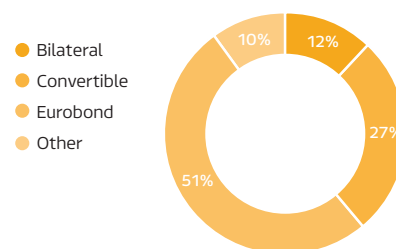
The factors that are taken into account in assessing our credit rating include our degree of operational gearing, exposure to the economic cycle, and business and geographical diversity. Executing the Transformation Plan should see us continue to strengthen our position against all of these metrics.

Becoming investment grade would reduce the coupon we paid on the 2017 bond by around £2 million and may positively impact our ability to raise capital in the future.

Debt Maturity Profile



Debt Instruments



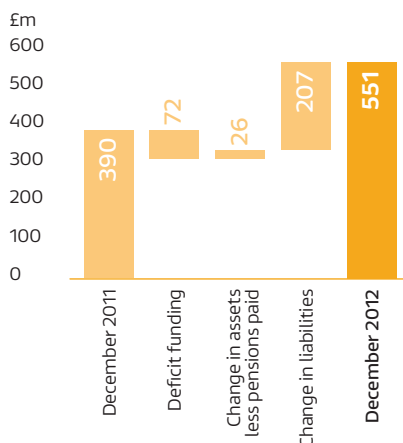
Performance & Financials

Financial and Performance Review *continued*

IAS 19 Pension deficit

£551m

(2011: £390m)



Pensions

IAS 19 – the accounting deficit

The aggregate IAS 19 deficit on our defined benefit schemes at 31 December 2012 was £551 million (31 December 2011: £390 million). The most significant reason for the increase was the continued fall in corporate bond yields (discount rate) which are used to value the liabilities. This has added £240 million to liabilities, although this was partly offset by a reduction in the rate of market implied inflation.

The IAS 19 deficit is sensitive to changes in assumptions, for example a 0.5% fall in the discount rate increases liabilities by £290 million. Over the last three years the decline in the discount rate has added £681 million to the deficit, partially offset by a decrease in the rate of market implied inflation.

The value of the assets of the ITV Pension Scheme ('the Scheme') increased during the year. This gain has been reduced by the impact of the adjustment in relation to the longevity swap, which is reflected as an actuarial loss on the assets.

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

Revised IAS 19 Accounting Standard

Effective from 1 January 2013, IAS 19 has been revised and this has two impacts. Firstly on the service cost, as the revised standard requires the inclusion of the Trustee's administration fees of £4.5 million and this will be reflected in our operating costs. Secondly it impacts the expected pension charge reflected in financing costs which is forecast to increase from £16 million in 2012 to approximately £21 million as the expected rate of return applied to assets has been brought in line with the discount rate applied to liabilities. As is our current policy, this will not impact adjusted financing costs, as we adjust this out to focus on cash costs.

Actuarial valuations

Full actuarial valuations are carried out every three years with the latest complete actuarial valuations of all three sections of the main defined benefit scheme carried out as at 1 January 2011 and, on the bases adopted by the Trustee, the combined funding deficits amounted to £587 million, of which:

- Section A deficit was £531 million or 20% of the liabilities in that section;
- Section B deficit was £17 million or 13% of the liabilities in that section;
- Section C deficit was £39 million or 11% of the liabilities in that section.

Deficit funding contributions

The Group has agreed with the Trustee that the level of contributions to the Section A of the ITV Pension Scheme will be a combination of fixed and performance related payments.

The fixed payments will be as follows:

2013 – 2014

£35 million per annum plus an additional £5 million if there are no initiatives in the previous year which materially reduce the deficit. This has not changed from the previous funding plan.

2015 – 2019

£48 million per annum in 2015 increasing by £0.5 million per annum to £50 million per annum in 2019.

2020 – 2025

£50 million per annum, but may be reduced by the impact of additional profit-related contributions (set out below).

The performance related contributions will be calculated as follows:

2012 – 2020

If the Group's reported EBITA pre-exceptional items exceed £300 million, the Group will increase the fixed contributions in the following year by an amount representing 10% of EBITA pre-exceptional items over the threshold level. This is subject to an annual cap which averages to £70 million per annum over the period 2015-2020.

If the additional profit-related contributions are paid at the expected rate then the £50 million per annum fixed contributions scheduled to be paid between 2021 and 2025 (inclusive) may not be required.

In addition to the agreed deficit funding contributions, the SDN partnership established in 2010 provides an annual distribution of £11 million to this section of the Scheme for 12 years from 2011.

Following completion of actuarial valuations of Sections B and C as at 1 January 2011 the Group has agreed with the Trustee to make deficit funding contributions of £5.5 million per annum in order to eliminate the deficits in these sections by 31 March 2021.

In 2013 we expect to make total deficit funding contributions of £79 million, which is £7m higher than 2012 reflecting the increase in EBITA year on year.

Post balance sheet events

On 25 January 2013, we acquired the freehold of London Television Centre for £56 million, the Company's headquarters and studios in London. If there is any substantial redevelopment of the site in the next ten years, additional payments up to a maximum of £6.5 million could be made to the sellers. Prior to the purchase, we were locked into a 56 year lease with no breaks. The purchase gives us flexibility in our property strategy as we continue to transform and rebalance the Company.

Ian Griffiths

Group Finance Director

Performance & Financials

Risks and Uncertainties

Risk management process

ITV's risk management approach is dynamic and continues to be reviewed and developed.

Our approach covers risks at all levels of the organisation and examines business risks on both a top down and bottom up basis. The approach considers risks in three core groups:

- High Impact, Low Likelihood (HILL) risks – of low inherent likelihood but where there would be major consequences were the risk to materialise;
- Strategic risks – would impact the successful execution of the strategy; and
- Process level risks – embedded into everyday activity within the organisation.

The Board regularly reviews the risk management framework, its content and its operations. The Board is responsible for establishing a robust and appropriate process, including regularly reviewing the risks themselves. The Audit Committee keeps the effectiveness of the risk management process under review.

The Board continues to review the appropriate risk appetite for certain risk types to ensure ITV is carrying an acceptable level of risk.

The Management Board has overall responsibility for the content and operation of the risk management framework and performs regular reviews of both strategic and HILL risks. Each strategic risk has been mapped to one of the four key strategic priorities and, where possible, assigned key risk indicators. Where appropriate, the key risk indicators are aligned to our key



The strategic risks are mapped to the strategic priorities 1 2 3 4

performance indicators. All strategic risks are owned by a member of the Management Board.

In 2012 all the HILL and strategic risks were reassessed and refined to further improve our risk management. Process level risks are subject to ongoing review by internal audit.

ITV's risk monitoring and mitigation process is embedded in the running and review of the business. Risks are primarily controlled through the risk management process in place. Mitigating actions have also been identified for each of the risks.

High Impact, Low Likelihood risks

Risk Theme	Risk
Financial	ITV loses its credit status or lines of funding with existing lenders or there is a collapse of a major bank impacting financial arrangements/availability of credit.
Financial	There is a major collapse in investment values leading to a material impact on the pension deficit.
Operational	A significant event removes key management from the business on a long-term or permanent basis.
Reputation	An event with public interest that causes significant reputational and brand damage.
Reputation	There is a major health and safety incident that results in a significant loss of human life.
Reputation	A major incident results in ITV being unable to continue with scheduled broadcasting for a sustained period.
Reputation	There is a significant or unexpected change in regulation or legislation.

1 Create a lean, creatively dynamic and fit-for-purpose organisation

2 Maximise audience and revenue share from our existing free-to-air broadcast business

3 Drive new revenue streams by exploiting our content across multiple platforms, free and pay

4 Build a strong international content business

Strategic risks

The key strategic risks are those that impact the successful execution of the strategy and as a result require regular Management Board monitoring. All of the strategic risks identified have been mapped to the four strategic priorities of the Transformation Plan and have been grouped by key risk themes.

Risk Theme	Risk	Strategic Priorities
The Market	There is a major decline in advertising revenues and ITV does not build sufficient non-NAR revenue streams thereby significantly impacting ITV's overall financial performance.	2 3 4
The Market	The television market moves significantly towards pay television as a preferred model, negatively impacting ITV's free-to-air revenues.	2 3
The Market	A faster than expected shift to Video on Demand, catch up or other new technologies causes a sustained loss of advertising revenue.	2 3 4
People	ITV lacks adequate management capability and creative talent.	1 2 3 4
People	ITV employees are not sufficiently engaged in the business to deliver the strategy.	1 2 3 4
People	The extensive degree of change that the business will undergo will overload a small number of key people.	1 2 3 4
Organisation/Structure/Processes	The business continues to work in silos, resulting in sub-optimal decisions being made which impacts execution of the strategy.	1 2 3 4
Organisation/Structure/Processes	A significant and high profile incident (e.g. a transmission incident/major regulatory breach) causes significant reputation damage to ITV.	1
Organisation/Structure/Processes	There is a significant loss of programme rights or ITV fails to identify and obtain the optimal rights packages.	2 3 4
Organisation/Structure/Processes	ITV fails to create and own a sufficient number of hit programmes/formats.	2 3 4
Organisation/ Structure/Processes	ITV fails to invest in, develop or operate effectively international businesses.	4
Organisation/Structure/Processes	ITV loses a significant volume of personal or sensitive data due to an internal breach.	1
Technology	Late delivery of new technology platforms, and heavy reliance placed on legacy technologies, negatively impacts ITV's ability to achieve its strategic aims.	1 2 3
Technology	Current technological environment and business processes are not sufficient to support the growth in Online, Pay and Interactive services.	1 3
Technology	ITV fails to ensure appropriate business continuity planning and resilience within its core systems, processes, platforms and technology infrastructure.	1 2 3
Technology	There is a sustained cyber/viral attack causing prolonged system denial or major reputational damage.	1



Pictured:
Vera

Photo by ITV / Rex Features



itv

Directors' Report
Responsibility

Responsibility

Operating Responsibly

Signed Stories

Our Access Services team, SignPost, have delivered an award winning website – SignedStories.com, making books accessible to deaf and hearing children.



**Stonewall
TOP 100
EMPLOYERS
2013**

In 2013's Workplace Equality Index we remain in the top 100 index and feature as the only Broadcaster.

Our Corporate Responsibility strategy aims to grow our business by strengthening stakeholder pride and loyalty in ITV, whilst continuing to broadcast and operate responsibly. Our visibility and reach comes with significant responsibility and our actions impact the lives of millions of viewers and users of our services, therefore it is imperative that we operate responsibly as a company.

At a minimum we aim to comply with our regulators, fulfil our legal obligations and our own policies and procedures. However, as well as mitigating risks to the business we are also looking for opportunities to benefit our wider community and contribute to the sustainability of the industry for ITV and others. We have an internal Corporate Responsibility governance structure and company wide policies to provide a strategic and consistent approach to our responsibilities. Specific performance targets and indicators are used alongside external benchmarking tools to review progress.

Priorities

Our approach to Corporate Responsibility is to utilise our position in the heart of our communities to drive our key priorities:

Responsible reach:

- Utilising ITV's unique position as a regional and national broadcaster and the reputation of well-known programmes as a vehicle to raise awareness and change consumer behaviour, through national campaigns and regional stories.

Operating responsibly:

- Being seen as a responsible industry leader by demonstrating the link between responsibility and a sustainable future. In particular:
 - Utilising external benchmark tools to improve ITV's position and working cross-industry to share best practice;

- Setting performance targets where feasible and ensuring transparency on results;
- Supporting new and diverse talent and improving access to the industry; and
- Recognising and rewarding employees' individual contributions and impact on the community and environment.

For information demonstrating the impact of our Corporate Responsibility in the year, the drivers of these priorities, and specific aims and measures around the strategy, please visit our Corporate Responsibility website: www.itvplc.com/responsibility

Performance summary

We recognise the importance of understanding and evaluating the impact our Company's operations have on its people, customers, suppliers, the community and the environment. Below is a brief summary of some of our policies, performance indicators, achievements and impact in 2012. For further details please see the Corporate Responsibility website.

People and diversity

Retaining and attracting talent is key to the success of ITV and as such it is both a risk and a priority. It is therefore imperative that we provide rewards and opportunities for work and development as well as protection from harm and discrimination. By making our people feel proud of ITV, they are ultimately more engaged and committed to working for us.

We continue to measure and listen to our people through our employee survey and employee engagement has increased again in 2012 to 88% from 85% in 2011.

Diversity in skills, experience and in the make-up of our workforce is essential to produce creative content and quality programmes that appeal to as wide an audience as possible. It is in our interest to invest in programme making outside London and to ensure we proactively seek to build an inclusive workforce that reflects our potential viewership.

Our diversity policy reflects the Equality Act 2010 and aims for equality around gender, Marital and Civil Partnership, race, religion and belief, disability, age, sexual orientation and gender reassignment. ITV is recognised as a positive employer, holding the 'Two-Tick' disability symbol and maintaining its status as the only broadcaster in Stonewall's Top 100 Workplace Equality Index.

Workplace profile (%)

	2012	2011
Ethnic minority employees	10.8	9.1
Employees with a disability	2.4	2.9
Employees aged over 50	16	15
Lesbian, gay and bisexual employees	9.7	4.9

Percentages based on those who declared relevant information (approximately 75% of workforce).

Pictured: We invest significantly in opportunities and development of new talent. 62% of ITV's apprentices who completed their training in 2012 gained employment with us

Health and safety

The Health and Safety (H&S) of employees, contractors and visitors at ITV is always a high priority. The significant loss of human life as the result of a major H&S incident has been identified as a specific risk to the organisation. The H&S team continue to use a management system that meets the specific risk profile of the business which is supported by a comprehensive training programme and communicated across the business.

Health and safety – performance indicators

	2012	2011
Lost time accidents reported under RIDDOR*	5	8
Major accidents (as defined by RIDDOR)	3	2
Fatal accidents	0	0

* As of 6 April 2012, RIDDOR's over-three-day injury reporting requirement changed to over-seven-day reporting our figures reflect this change.

For more detail on ITV's training and new talent programmes, diversity and equal opportunities activities, health and safety management system and implementation visit the Corporate Responsibility website.



Two Tick Disability symbol awarded for the sixth year running — demonstrating our commitment around Disability in recruitment and people.



This year we were awarded a 'Big Tick' by Business in the Community for our Work Inspiration programme for young people.

Responsibility

Operating Responsibly *continued*

Customers

Our key customers are our viewers – across various platforms, – our advertisers and other broadcasters who buy our content.

We seek to maximise audience and revenue share from our free-to-air business, as laid out in Priority 2 of the Transformation Plan. To manage the risk and grow our revenue it is essential that we understand our viewers, meet their expectations and deliver maximum value both to them and the advertisers.

All UK programmes comply with the Ofcom Broadcasting Code in relation to their content and scheduling.

In 2012 Ofcom found 6 breaches of the code compared to 12 in 2011. All breaches are responded to and where breaches reveal shortcomings in our editorial or compliance processes we will ensure changes are implemented.

We continue to use a formal approach to gathering feedback through a Vision Panel and regional audience panels. We also have a structured viewer feedback process. All queries are escalated to the person accountable and responded to.

We continue to deliver access services across our family of broadcast channels beyond the targets set by Ofcom for subtitling, signing and audio description. For more information on our services, targets and how ITV has maximised its in-house facility SignPost to provide award-winning community services, visit the Corporate Responsibility website.

Access services for ITV (% of programmes)

	2012	2011
Subtitling	90%	98%
Audio description	10%	19%
Signing	5%	6%

Suppliers

We conduct business with a large variety of suppliers and endeavour to do business on terms that are considered fair and reasonable. To ensure we trade responsibly, we draw up contracts with suppliers, which incorporate industry-standard environmental and H&S standards. It is in the Company's best interest to ensure we have transparent and effective relationships with

suppliers, in particular those with whom we work regularly, such as suppliers of outsourced services and key suppliers of programming and broadcasting programme rights. Managing supplier relationships is a key part of our business strategy and is the responsibility of both the commissioning and commercial teams and our central procurement team.

We have a variety of suppliers who are key to the business. A number of the Company's major suppliers are involved in the broadcast of ITV's family of channels and include Arqiva, SES Astra and BT. Other key suppliers include: Mace Group, Gerald Eve LLP, Accenture and Ericsson.

Key suppliers of programming and broadcasting programme rights include ITN, who provide ITV's national news programmes, Fremantle who produce Britain's Got Talent and The X Factor for ITV, the Football Association, NBC Universal Studios and Arena Television.



Pictured:
Text Santa

Text Santa is also a true example of 'One ITV' where ITV Broadcast, ITV Studios and colleagues come together to build awareness for certain charities and inspire social action within our community.

Community and Charitable giving

As a broadcaster and producer of some of the nation's most popular programmes, we recognise the power of our brand, our mass audience appeal and our ability to champion issues on a national level.

During 2012, our activities have ranged from charitable giving to donations for specific programmes and campaigns. In all, ITV has contributed £1.7 million in cash (2011: £1.5 million) and £3.3 million in kind (2011: £3.4 million).

In 2012, we have used our ability to engage viewers to help to create visibility, loyalty and profile for a selected number of charities who we work in partnership with. This helped to raise over £10.5 million for independent charities, through our call to action campaigns such as Text Santa, which we launched in 2011, and Soccer Aid. Text Santa is also a true example of 'One ITV' where ITV Broadcast, ITV Studios and colleagues come together to build

awareness for certain charities and inspire social action within our local communities.

More information on activity within the community, charitable giving, donations raised and the organisations which we support can be found on our Corporate Responsibility website.

It is the Company's policy not to make cash contributions to any political party. However, within the normal activities of the Group's national and regional news-gathering operations there may be occasions when an activity may fall within the broader definition of 'political expenditure' contained within the Companies Act 2006. Shareholder authority for such expenditure was given at the 2011 Annual General Meeting. However, during 2012 the Group made no payments falling within this definition (2011: nil).

Environment

Our offices and productions have a direct impact on the environment through energy consumption, water use and waste production. We are also indirectly responsible for the environmental impacts of commissioned programmes, and of the suppliers that provide us with goods and services.

In compliance with the Government's Carbon Reduction Commitment Energy Efficiency Scheme we are committed to reducing our environmental footprint. Year on year our environmental performance indicators have improved, except for our CO₂ emissions from business travel which has increased as we have become a more international business.

Our aim is to responsibly work towards a more sustainable future, reducing cost and building our brand reputation in this area. Our Environmental policy and plans on how we are working to achieve our aim can be found on the Corporate Responsibility website.

Environmental performance indicators¹

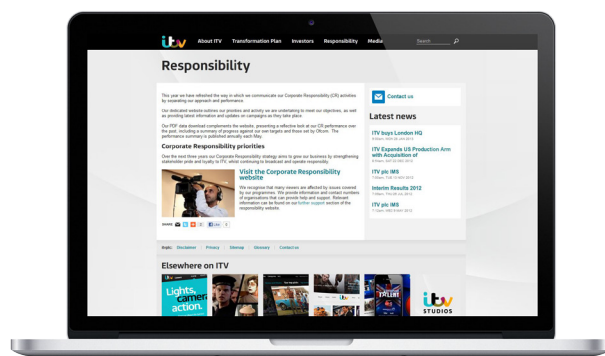
	2012	2011	2010	2009
Total CO ₂ emissions from business travel (tonnes)	7,884	4,921	5,774	6,831
Total CO ₂ emissions (tonnes) ²	36,748	43,051	44,427	46,383
Total waste (tonnes)	1,256	1,724	1,807	2,195
Total waste recycled	72%	85%	60%	65%
Total water use (m ³)	60,502	81,891	87,017	86,656

¹ UK only, assistance with data completion by Utiylx Ltd (independent energy consultants).

² Calculated in accordance with the WRI/WBCSD Greenhouse Gas Protocol methodology.



Visit the Corporate Responsibility website @ www.itvplc.com/responsibility





Pictured:
Dancing On Ice

Photo by ITV/Rex Features



itv

Directors' Report
Governance

Governance

Board of Directors



1 Archie Norman
Chairman

Appointment to the Board
1 January 2010

Age 58

Committee membership
Nomination (Chairman),
Remuneration

Key areas of prior experience
Business turnaround, consumer
marketing, international business
and corporate finance

External appointments

- Director of Target Ltd (2011)
- Adviser to Wesfarmers Limited (2009)
- Director of Coles Group (2007)
- Founder, Aurigo Management Partners LLP (2006)
- Senior Adviser to Lazard (2003)
- Governor, National Institute of Economic and Social Research (1997)

Previous experience

- Chairman, HSS Hire Services Group (2007 - 2012)
- Chairman, Energis (2002–2005)
- Shadow Secretary of State for Department of Environment, Transport and the Regions (2000–2001), Shadow Minister for Europe (1999–2000), Chief Executive and Deputy Chairman of the Conservative Party (1998–1999), Member of Parliament (1997–2005)
- Founder, Policy Exchange (2001)
- Chief Executive (1991–1996) and Chairman (1996–2000), ASDA Group plc
- Finance Director, Kingfisher plc (1986–1991)
- Chairman, Chartwell Land plc (1987–1991)
- Non-executive director of British Rail (1992–1994), Railtrack plc (1994–2000), and Geest plc (1988–1991)
- Partner, McKinsey and Co (1979–1986)



2 Adam Crozier
Chief Executive

Appointment to the Board
26 April 2010

Age 49

Committee membership
General Purpose

Key areas of prior experience
Business turnaround and change
management

External appointments

- Non-executive director of G4S plc (2013)

Previous experience

- Non-executive director of Debenhams plc (2006–2012)
- Group Chief Executive, Royal Mail Group (2003–2010)
- Non-executive director of Camelot Group plc (2007–2010)
- Chief Executive of the Football Association (2000–2002)
- Joined Saatchi & Saatchi Advertising in 1988, Joint Chief Executive (1995–1998)



3 Ian Griffiths
Group Finance Director

Appointment to the Board
9 September 2008

Age 46

Committee membership
General Purpose

Key areas of prior experience
Corporate finance and financial
restructuring

External appointments

None

Previous experience

- Group Finance Director of Emap plc (2005–2008)
- Senior Finance roles held within Emap plc including director of financial control (2000–2005) and head of finance at Emap Business Communications (1995–2000)
- Manager in audit and corporate finance, Ernst & Young (1988–1994)



4 Mike Clasper CBE
Senior Independent Director

Appointment to the Board
3 January 2006

Age 59

Committee membership
Audit, Nomination, Remuneration

Key areas of prior experience
Business services, logistics and risk
management

External appointments

- Chairman of Which? Ltd (2008)
- Governor of RSC (2011)

Previous experience

- Chairman of HM Revenue & Customs (2008–2012)
- Member of the Investor Board of EMI Group (2007–2008)
- Operational managing director of Terra Firma (2008)
- Member of the National Employment Panel (2006–2008)
- Founder member of the Corporate Leaders Group on Climate Change
- Chief executive of BAA plc (2003–2006), deputy chief executive of BAA plc (2001–2003)
- President of Global Home Care, Procter & Gamble (1999–2001)
- Chairman of the West London Consortium (2006–2011)



5 Roger Faxon

Non-executive Director

Appointment to the Board
31 October 2012

Age 64

Committee membership
Nomination

Key areas of prior experience
Broad commercial, digital and media rights experience, development of business strategy and finance

External appointments

- Director of EMI Global Group (2011)
- Director of The John Hopkins University
- Director of the Songwriters Hall of Fame

Previous experience

- Chief Executive Officer of EMI Group Limited (2010–2012)
- Chairman and CEO of EMI Music Publishing (2007–2010)
- Director of EMI Group Plc (2002–2008)
- 1994 to 2007 various roles at EMI including Senior VP, Business Development and Strategy; President of EMI Music Publishing
- Prior to 1994 held finance, operations and general management positions with Sotheby's, Lucas Films, Tri-Star and Columbia Pictures. Overseas appointments at Music Choice (Digital Cable Radio) (chairman of Remuneration Committee), the American Society of Composers and Authors and Lancit Media Entertainment Ltd in the US, Chairman of VIVA Television in Germany and a director of Channel V Networks in Asia



6 Andy Haste

Non-executive Director

Appointment to the Board
11 August 2008

Age 51

Committee membership
Audit, Nomination, Remuneration (Chairman)

Key areas of prior experience
International and emerging markets, change management, restructuring and business turnaround

External appointments

- Senior Independent Deputy Chairman, Council of Lloyd's (2012)

Previous experience

- Group Chief Executive of RSA Insurance Group plc (2003–2011)
- Chief Executive of AXA Sun Life plc (1999–2003)
- Director of AXA UK plc (life and pensions) (1999–2003)
- President and CEO, GE Capital Global Consumer Finance UK, Western Europe and Eastern Europe (1998–1999)
- CEO, GE Capital Global Consumer Finance UK (1996–1998)
- President of National Westminster Bank US Consumer Credit Business (1995–1996), senior vice-president and head of US Consumer Loan Products Division (1992–1995)



7 Dame Lucy Neville-Rolfe DBE, CMG

Non-executive Director

Appointment to the Board
3 September 2010

Age 60

Committee membership
Nomination

Key areas of prior experience
International retail, communications, legal and regulatory issues

External appointments

- Member, PwC Advisory Board (2013)
- President, Euro Commerce, Brussels (2012)
- Member of the Coalition Government's Efficiency and Reform Board (2010)
- Member of China-Britain Business Council (2007), UK-India Business Council (2008)
- Member of UK Trade and Investment Strategic Advisory Group (2011)
- Governor, London Business School

Previous experience

- Non-executive director, The Carbon Trust (2008–2013)
- Executive Director, Corporate and Legal Affairs, Tesco plc (2006–2013)
- Deputy Chair, British Retail Consortium (1998–2012)
- Chairman, Dobbies Garden Centres (2007–2011)
- Group Director of Corporate Affairs (1997–2006) and Company Secretary (2004–2006), Tesco plc
- Director of Deregulation Unit, BIS and Cabinet Office (1995–1997)
- Member of Prime Minister's Policy Unit (1992–1994)
- Ministry of Agriculture, Fisheries and Food (1973–1992)



8 John Ormerod

Non-executive Director

Appointment to the Board
18 January 2008

Age 64

Committee membership
Audit (Chairman), Nomination, Remuneration

Key areas of prior experience
Financial experience, developing strategy and growth

External appointments

- Non-executive Chairman of Tribal Group plc (2010, director from 2009)
- Non-executive director and chairman of audit committee of Gemalto NV (2006) and Computacenter plc (2006)

Previous experience

- Senior independent director and chairman of audit committee at Misyis plc (2005–2012)
- Trustee of the Design Museum (2006–2012)
- Non-executive director and chairman of Merlin Claims Services Holdings Limited (2007–2010)
- Non-executive director of Negative Equity Protection Holdings Limited (2007–2009), Millen Group Limited (2007–2009) and BMS Associates Limited (2004–2008)
- Member of audit and retail risk control committees and HBOS plc (2005–2008)
- Trustee of The Roundhouse Trust (2003–2008)
- Chairman of Walbrook Group (2004–2007)
- Chairman of audit committee, Transport for London (2004–2006)
- Practice senior partner, London, Deloitte & Touche (2002–2004)
- Regional managing partner, UK and Ireland and senior partner, UK, Arthur Andersen (2001–2002)
- Held various positions within Arthur Andersen from 1970

Governance

Management Board



1 Paul Dale
Chief Technology Officer

Appointed
January 2011

Age 43

Previous experience

Paul joined ITV in 2011 having spent two years in Malaysia as Chief Technology Officer of Astro, Asia's leading PayTV operator and cross media company. Prior to Astro Paul was Future Media and Technology Controller for BBC Vision and has held several roles during his 9 years at BSkyB including Technology Director and Development and Operations Director.



2 Andy Doyle
Group HR Director

Appointed
January 2009

Age 45

Previous experience

Andy became Group HR Director in 2009, having joined ITV as HR Operations Director in 2007. Prior to joining ITV, Andy was HR Director of Morrison plc and held a series of HR and general management roles in organisations experiencing significant change, including UNITE Group and Tricon Restaurants International.



3 Mary Fagan
Group Communications and
Corporate Affairs Director

Appointed
January 2011

Age 55

Previous experience

Mary joined ITV from the Royal Mail Group, where she was Corporate and Government Affairs Director from December 2003. A senior City and Business journalist with more than 20 years' experience, Mary's previous roles included Deputy City Editor of the Sunday Telegraph, Industrial Correspondent for the Independent and City Reporter at the Evening Standard.



4 Peter Fincham
Director of Television, Channels and Online

Appointed
May 2008

Age 56

Previous experience

Peter joined ITV from the BBC where he was Controller of BBC One. He began his career in broadcasting at independent production company, Talkback Productions, where he became Managing Director in 1986. In 2001 Talkback Productions was sold to Fremantle Media and in 2003 Peter became Chief Executive of the newly merged company TalkbackThames.



5 Andrew Garard
Group Legal Director and Company Secretary

Appointed
November 2007

Age 46

Previous experience

Andrew joined ITV as Group Legal Director in 2007 and took on the additional role of Company Secretary in 2009. Previously Andrew was a Partner in the corporate department of LeBoeuf Lamb's London office. Prior to joining LeBoeuf Lamb, Andrew was Group General Counsel and Company Secretary at Cable & Wireless PLC where he was a member of the Group Executive responsible for Global Legal. Prior to that he was Global Head of Legal and Deputy General Counsel of Reuters Group Plc in the UK, and before that, General Counsel Asia.



6

6 Fru Hazlitt

Managing Director, Commercial, Online and Interactive

Appointed
August 2010

Age 49

Previous experience

Prior to joining ITV, Fru was Chief Executive of GCap Media Plc until it was sold to Global Radio in 2008. Her previous positions include Chief Executive of Virgin Radio, Managing Director of Yahoo UK and European Commercial Director of Yahoo Europe.



7

7 Kevin Lygo

Managing Director, ITV Studios

Appointed
August 2010

Age 57

Previous experience

Before joining ITV Kevin spent much of his career at Channel 4 most recently as Director of Television and Content which included responsibility for Channel 4 Group's portfolio of channels. Kevin's previous roles include Director of Programmes at Channel 5 as well as a number of positions at the BBC, including Head of Independent Commissioning for Entertainment.



8

8 Simon Pitts

Director of Strategy and Transformation

Appointed
January 2011

Age 37

Previous experience

Simon joined ITV in 2000 and has held roles in ITV's Public Affairs, Regulatory and New Media departments before joining the Strategy Team in 2007. He was promoted into his current role in January 2011, the main focus of which is to manage ITV's five year Transformation Plan and run SDN, ITV's digital multiplex business. Prior to ITV, Simon worked in the European Parliament in Brussels where he specialised in media issues.



Governance

Chairman's Governance Statement



Dear Shareholder,

The Board of ITV believes that corporate governance is important in ensuring its effectiveness. It has an established framework of policies and processes that are regularly reviewed against developments in the legislative, regulatory and governance landscape.

This governance report comprises the following sections:

- How the Board works
- Effectiveness
- Accountability
- Relations with shareholders
- Audit Committee Report
- Remuneration Report

The role of the Board

The Board's main role is to work with the executive team, providing support and advice to complement and enhance the work undertaken. The Board consistently challenges processes, plans and actions in order to promote continuous and sustained improvement across the business.

The UK Corporate Governance Code

As a listed company, ITV is required to report on how it has complied with the principles of governance set out in The UK Corporate Governance Code 2010 (the Code).

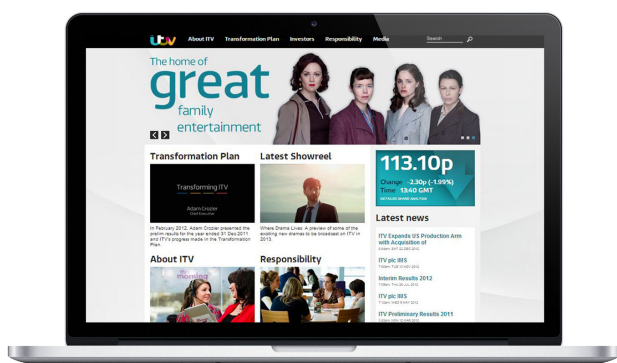
I am pleased to report that ITV has complied with the provisions of the Code throughout the year ended 31 December 2012.

Archie Norman

Chairman
27 February 2013



The Board believes that Corporate Governance is important in ensuring its effectiveness.



Corporate Website

We maintain a corporate website at www.itvplc.com containing a wide range of information for institutional and private investors including:

- Latest news and press releases
- Annual reports and investor presentations
- Governance documents

Further information for shareholders is set out on pages 157 to 159.

Corporate Governance

How the Board works

Our role

The Board as a whole is collectively responsible for delivering the long-term success of the Company by:

- providing entrepreneurial leadership within a framework of prudent and effective controls which enable risk to be assessed and managed;
- supporting the executive team to formulate and execute the Company's long-term objectives and strategy, ensuring that the necessary financial and other resources are in place for the Company to meet its objectives, and reviewing management performance; and
- setting the Company's values and standards and ensuring that its obligations to its shareholders and others are understood and met.

There is a schedule of specific matters reserved to the Board for decision which is available on our website at www.itvplc.com/about/governance.

Our meetings

The number of meetings held during the year and attendance of Directors is set out in the table on page 65. The Board agrees an annual schedule of matters it wishes to consider at each of its meetings and those of its committees. The schedule ensures that all relevant matters for the Board are considered and receive appropriate attention. Meetings are normally held at one of the London sites and at least once a year they are held at one of the regional or international offices. In 2012 the Board met colleagues in Manchester where they were able to see the developments at Media City.

Board meetings are structured around the following areas:

- Operational and functional updates
- Financial updates
- Strategy and risk
- Progress against Transformation Plan priorities
- Other reporting and items for approval
- Feedback from committees

Senior executives and other colleagues are regularly invited to attend meetings for specific items. In addition to formal Board and Committee meetings, meetings take place between:

- Board members and Management Board members
- Chairman and non-executive Directors (the Chief Executive is sometimes invited to attend)
- Senior Independent Director and non-executive Directors (without the Chairman present)

What we have done in 2012

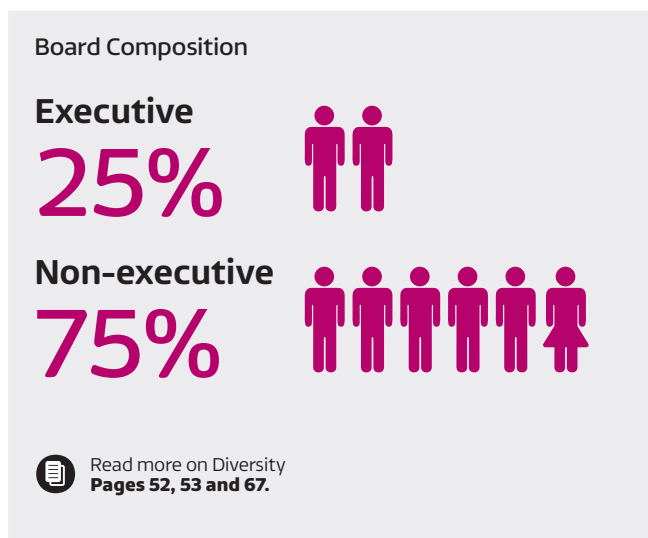
Some of the things the Board has focused on during 2012 include:

- UK and international content strategy
- Pay strategy
- Further review of news strategy
- Rebrand
- Succession planning
- Governance and board performance

Plans for 2013

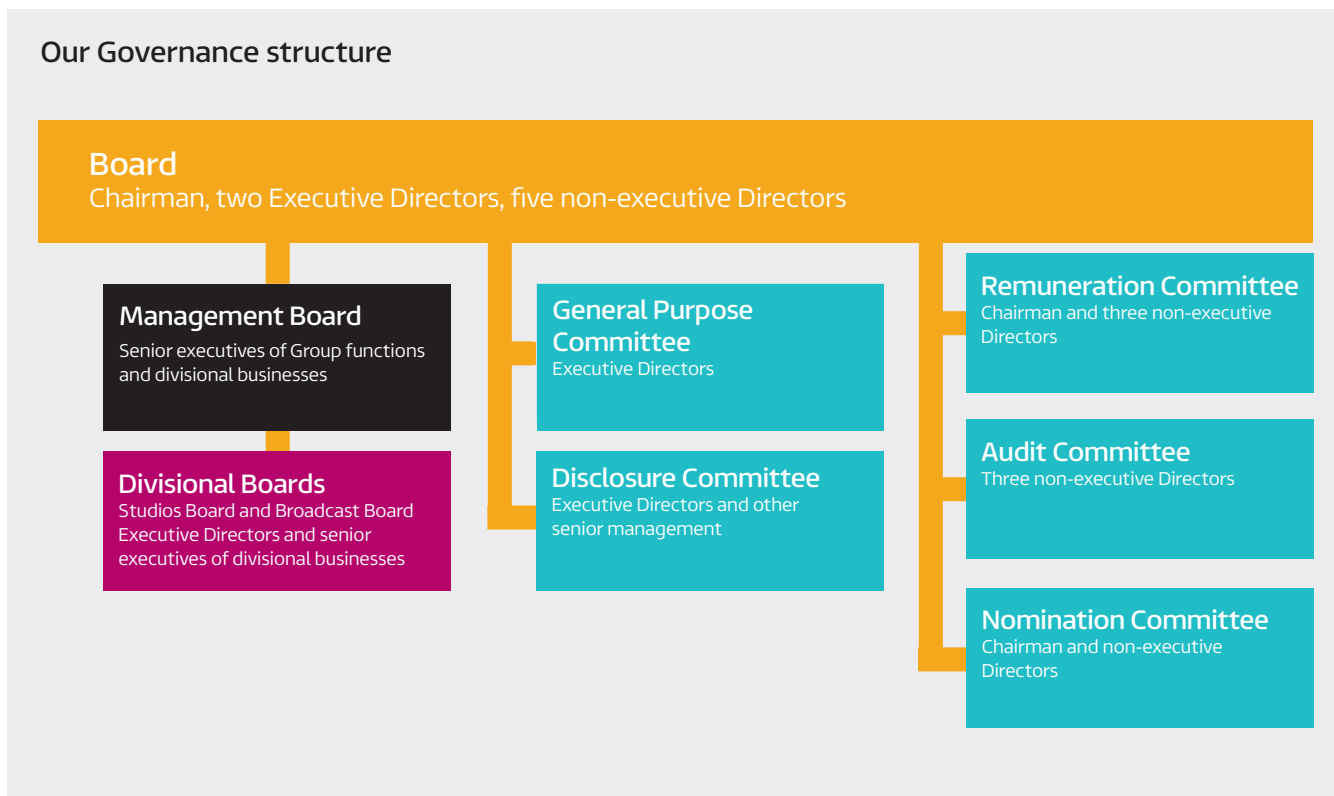
Some of the things the Board is planning for 2013 include:

- Broadcast strategy
- Risk appetite, profile and mitigation
- Five year plan review



Governance

Corporate Governance *continued*



The diagram above shows ITV's governance structure.

Details of membership of the Management Board can be found on pages 60 and 61.

The Board has approved a formal framework for the approval of expenditure within the Company around this governance framework.

Who is on our Board and how we work as a team

Composition and appointments

Details of Board membership during 2012 is set out in the table on page 65.

In October 2012 the Board appointed Roger Faxon as a non-executive Director. Roger was selected from a number of potential candidates. The Board felt that Roger's wealth of experience in the adaptation of media and rights management business to the digital world would be an asset to the Board and assist with the execution of the Transformation Plan. Executive search firm, JCA Group, were engaged to assist with the rigorous selection process. JCA Group have no other connection with ITV.

Mike Clasper completed seven years as a non-executive Director in January 2013 and has been asked by the Board to continue in this position for a further twelve month period.

Archie Norman has served as Chairman of ITV for three years and the Board has agreed that he should serve a further three year term as Chairman.

As recommended by the Code, there will be resolutions to re-elect each of the Directors at the AGM in May 2013.

Non-executive Directors are expected to commit at least 18 to 20 days per annum to the Company and the Board is satisfied that each of the non-executive Directors commits sufficient time to the business of the Company. An outline of the terms of engagement for the non-executive Directors can be found on our website at www.itvplc.com/about/governance.

Skills and experience

Biographical details, including prior experience, for each of the Directors are set out on pages 58 and 59.

There are job descriptions in place for each of the Chairman, the Chief Executive, and the Senior Independent Director which have been agreed by the Board.

The Board is still of the view that the non-executive Directors are independent in both character and judgement. They constructively challenge and help develop proposals on strategy, scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

The Board works well together bringing strong, independent, balanced judgement, knowledge, and experience to the Board's deliberations. Each non-executive Director has appropriate skills and experience that their views carry significant weight in the Board's decision making.

Board and Committee membership and attendance at meetings in 2012

Scheduled meetings shown in black and ad hoc meetings shown in orange.

			Board	Nomination Committee	Remuneration Committee	Audit Committee
	Status	Date of appointment to the Board	9 1	1 2	4 3	4 4
Mike Clasper	Independent SID	3 January 2006	9 1	1 2	4 3	4 4
Adam Crozier	Executive	26 April 2010	9 1	– –	– –	– –
Roger Faxon	Independent	31 October 2012	1 0	1 2	– –	– –
Ian Griffiths	Executive	9 September 2008	9 1	– –	– –	– –
Andy Haste	Independent	11 August 2008	9 1	1 2	4 3	4 4
Lucy Neville-Rolfe	Independent	3 September 2010	9 0	1 2	– –	– –
Archie Norman	Independent Chairman	1 January 2010	9 1	1 2	4 1	– –
John Ormerod	Independent	18 January 2008	9 1	1 1	4 3	4 4

Notes:

¹ Roger Faxon joined the Board on 31 October 2012. 8 of the 9 scheduled Board meetings were held prior to his appointment.

Board Committees

The Board has delegated certain responsibilities to its committees. The terms of reference for each committee are reviewed annually and the current versions are available on the Company's website at www.itvplc.com/about/governance.

Audit Committee: see the Audit Committee Report on page 70.

Remuneration Committee: see the Remuneration Report on page 75.

Nomination Committee: the Committee is composed of the non-executive Directors.

The role of the Nomination Committee is to:

- review the structure, size, and composition of the Board, including skills, knowledge and experience;
- identify and nominate for board approval candidates to fill Board vacancies;
- consider succession planning for Directors and other senior executives; and
- consider and review any conflicts of interest that may be reported by the Directors.

In addition to considering matters under its terms of reference, the Committee considered candidates for a non-executive Director appointment. The Committee also reviewed a detailed succession planning framework and undertook an annual review of conflicts of interest.

Full details of attendance at Committee meetings can be found in the table above.

General Purpose Committee: the Committee is composed of the Executive Directors. The Committee meets as required to conduct the Company's business within the clearly defined limits delegated by the Board and subject to those matters reserved to the Board.

Disclosure Committee: the Committee is composed of members of the senior management team. The function of the Committee, in accordance with the Company's Inside Information Policy, is to ensure compliance with continuing obligations under the Disclosure and Transparency Rules and the Listing Rules.

Governance

Corporate Governance *continued*

Effectiveness

Evaluation

The Board has established a process for the annual evaluation of the performance of the Board, its committees, and individual Directors. The Directors are made aware on appointment that their performance will be subject to an annual evaluation and that a Director would not be put up for re-election at an AGM unless the Chairman has decided that they continue to perform effectively and show commitment to the role.

How the evaluation process works

The evaluation of Directors focuses on processes, roles and responsibilities, culture, balance of skills and experience, diversity and how the Board works together. In particular, the evaluation focuses on how effective the Directors are in assisting the executive team in achievement of the Transformation Plan.

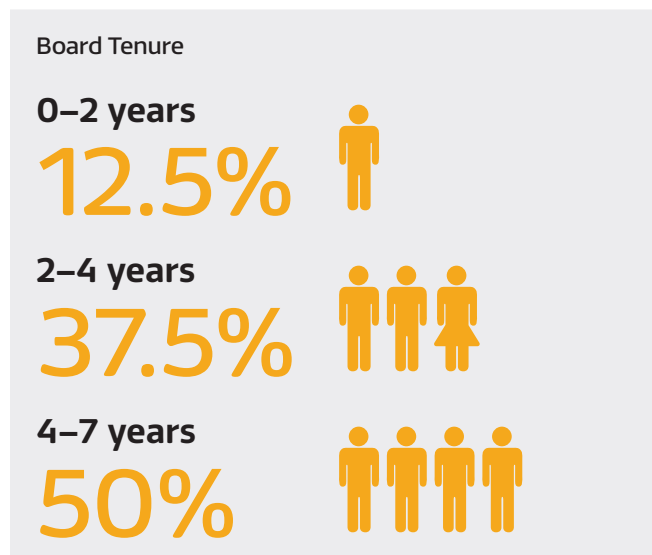
In 2012 the Board engaged YSC, a global firm of business psychologists, to conduct a detailed board development review. YSC conducted a series of interviews with Directors and senior Executives, reviewed key Board papers and attended several Board and Committee meetings, both formal and informal. A detailed report was considered at the Board meeting in January 2013 and further work will be undertaken over the next few months to build on this work and create a Board development plan.

Succession planning and diversity

Board tenure

All Directors are required by the Company's Articles of Association to be elected by shareholders at the first AGM following their appointment by the Board. Subsequently, all Directors are subject to re-election by shareholders at least every three years. However, as recommended by the Code, all Directors will be submitted for re-election at the AGM in 2013.

The chart below shows the current balance of the Board.



Succession planning

The Board has agreed a succession planning framework to ensure that:

- board tenure is appropriate and encourages fresh thinking and new ideas;
- the Board is sufficiently diverse but most importantly has the appropriate mix of generalist and specialist skills; and
- non-executive Directors have the appropriate level of independence, from the executive and each other.

When planning succession within the Company consideration is given to emergency cover together with medium and long-term succession. There is particular emphasis on growing the internal leadership pipeline through the launch of the following key programmes:

- Executive Development Programme for next generation potential board successors giving them an opportunity to develop their management potential and gain a greater understanding of the business
- Developing Future Leaders Programme for delegates selected from across the business identified as a result of the performance review process. Content includes understanding what it means to be a leader at ITV, how to manage performance effectively, coaching skills and change management

- Graduate Programme launched in September 2012
- Apprentice Programme launched in November 2012

A comprehensive portfolio of development courses and workshops for all colleagues which address common development needs is in place.

Diversity

The Board is proud of the diversity within ITV as a whole. Diversity within the organisation is integral to achieving our business aims. Reflecting the demographics of our customers assists in understanding their needs and ensuring that our brand, services and products have relevance and a wide appeal.

The Company's aim is to reflect UK demographics both representationally within the organisation and on-screen. Year-on-year progress has been achieved in working towards this target. Key activity in 2012 included:

- Awareness training for line managers, supervisors and programme makers
- Sustaining programme portrayal monitoring across 80% of our programmes
- Positive action writers scheme to attract and retain minority talent
- Workshops across the country to support future generations of diverse talent from BAME (Black, Asian, Minority Ethnic) and individuals with disabilities

The Company is a member of a number of national and sector specific equality and diversity organisations. In addition, a number of joint industry-wide activities have been undertaken including a senior diversity mentoring programme and Equality Act workshop for independent programme suppliers. The Company is recognised as a positive employer and holds the 'two-tick' disability symbol.

The table below sets out diversity data for ITV including the ITV Senior Leadership Team (SLT) which comprises the top 140 executives.

	SLT 2012	Other 2012	SLT 2011	Other 2011
Average age	45	37	44	37
Average service (years)	9.3	7.5	8.0	7.8
Male	62%	48%	64%	51%
Female	38%	52%	36%	49%
BAME	9.71%	10.80%	8%	9%
Declared Disability	1.36%	2.42%	1%	2%

The Board recognises that diversity in board composition is important in ensuring its effectiveness and considers diversity to extend beyond gender alone to incorporate executive and other experience. When considering new appointments it is the Board's policy to give equal consideration to these factors.

Induction and continuing professional development

The Company has a policy and programme for induction and continuing professional development of Directors. On appointment, each Director takes part in a comprehensive induction programme where they:

- receive information about the Group in the form of presentations by executives from all parts of the business and on the regulatory environment;
- meet representatives of the Company's key advisers;
- receive information about the role of the Board and the matters reserved for its decision, the terms of reference and membership of board committees and the powers delegated to those committees;
- receive information about the Company's corporate governance practices and procedures and the latest financial information about the Group; and
- are advised of their legal and other duties and obligations as a director of a listed company.

This is supplemented by visits to key locations, including studios and regional sites, and meetings with key senior executives and with major shareholders where appropriate.

The key stages of the induction programme are:

Stage one	Matters covered
Provision of documents	Duties of a Director; board procedures, board and strategy papers and corporate governance
Stage two	Matters covered
Meeting with CEO and Group Finance Director	Business overview, current trading and key commercial issues
Meetings with non-executive Directors	Open discussion forums
Meetings with Management Board members and other senior executives	Commercial issues and projects
Stage three	Matters covered
Site visits	Understanding of the business and operations

Governance

Corporate Governance *continued*

During their period in office, the Directors are continually updated on the Group's businesses and the competitive and regulatory environments in which they operate. This is done through:

- updates and papers which cover changes affecting the Group and the market in which it operates;
- meetings with senior executives across the Group and key advisers;
- regular updates on changes to the legal and governance requirements of the Group and in relation to their own position as Directors; and
- presentations given at board and committee meetings on business matters and technical update sessions from external advisers where appropriate.

As part of their professional development Executive Directors may accept external appointments as non-executive directors of other companies and retain any related fees paid to them. Details of fees received by Executive Directors during 2012 can be found in the Remuneration Report on 84.

Conflicts of interest

The Board has delegated the authorisation of conflicts to the Nomination Committee and has adopted a Conflicts of Interest Policy.

The Board has considered in detail the current external appointments of the Directors which may give rise to a situational conflict and has authorised potential conflicts where appropriate.

This authorisation can be reviewed at any time but will always be subject to annual review. The Board is confident that these procedures operate effectively.

Insurance and indemnities

The Company maintains liability insurance for its directors and officers which is renewed on an annual basis. The Company has also entered into deeds of indemnity with its directors. A copy of the indemnity can be found on our website at www.itvplc.com/about/governance.

Accountability

The Board periodically reviews material internal controls including financial, operational, and compliance controls and risk management systems.

Risk management

Details of our High Impact Low Likelihood (HILL) and strategic risks and our approach to risk management are set out on pages 48 and 49.

Internal Control

The Board has conducted a review of the effectiveness of the Group's systems of internal controls for the year ended 31 December 2012. In the opinion of the Board, the Company has complied with the internal control requirements of the Code throughout the year, maintaining an ongoing process for identifying, evaluating, and minimising risk. Further information is set out in the Audit Committee Report on page 73.

Going Concern

The going concern statement is set out on page 102.

Relations with shareholders

The Board attaches a high priority to effective communication with shareholders and has regular and open dialogue with our institutional investors. The Board believes that continued engagement with our shareholders is beneficial to both ITV and its stakeholders as it helps to build a greater understanding of investors' views, opinions and concerns. Adam Crozier, Ian Griffiths and our investor relations team meet with many institutional investors throughout the year to keep them updated on the Company's performance and the Transformation Plan. These range from one-to-one meetings to group presentations including the Full year and Interim results and the AGM. Specifically, following the Full year and Interim results one-to-one meetings are held with our largest institutional investors.

The Chairman responds to shareholder queries and holds meetings where appropriate.

The Company maintains a programme of engagement with the investment community, including the results presentations, briefings to brokers and other sales forces and attendance at a number of investor conferences. Presentations given to the investment community are available to download from our website at www.itvplc.com/investors.

We regularly seek feedback on the perception of the Company amongst shareholders and the investor community more broadly via our corporate brokers. Investor comments are fed back to the Board and its committees regularly.

The Company considers annually whether it is appropriate to commission an investor audit. No audit was undertaken in 2012.

Private shareholders represent more than 95% of our shareholders holding 3.29% of our shares. We encourage shareholders to register their email addresses to receive information from us in a timely manner.

Annual General Meeting (AGM)

The AGM for 2013 will be held on 15 May 2013 (further details can be found on page 90). The Notice of Meeting sets out the resolutions being proposed. The Notice, together with any related documents, is made available to shareholders at www.itvplc.com/investors/annual-general-meeting, or is mailed to them, if they have elected to receive hard copies, at least 20 working days before the meeting. Last year all resolutions were passed with votes ranging from 90.03% to 100%.

The meeting is normally attended by approximately 200 shareholders. Shareholders are invited to meet the Directors prior to and after the formal proceedings. At the meeting the Chairman and Chief Executive will review the Group's current trading which is followed by a question and answer session. Separate resolutions are proposed on each substantially separate issue and all resolutions are taken on a poll. The level of votes lodged on each resolution is made available on a regulatory information service and on the Company's website at www.itvplc.com as soon as possible after the meeting.

Shareholders who are not able to attend the meeting can vote online in advance at www.itvplc.com or by completing and returning a form of proxy.

Save in exceptional circumstances, all members of the Board will attend the AGM.

Governance

Audit Committee Report



Dear Shareholder,

On the following pages we set out the Audit Committee's Report for 2012. The report comprises four sections:

- How the Committee works
- What we focused on in 2012
- Internal controls
- Our auditors

Our principal aims have been to ensure the integrity of the financial information provided to our stakeholders and to assist the Board to monitor and evaluate the internal control environment. Strong and effective risk management and control procedures underpin our ability to execute our Transformation Plan and implement our strategy.

In 2012, the Committee has sought to widen its focus to include new and emerging risk areas such as mergers and acquisitions and the implementation of new technologies, which will underpin future performance.

There is considerable debate around the role of audit committees which we welcome, follow with interest and in which we participate where relevant. We continue to seek to improve our report on the activity of this Committee to give shareholders a clearer picture of the key issues we consider and how we discharge our responsibilities. We are open to feedback and dialogue with shareholders on audit committee topics.

The FRC released its Guidance for Audit Committees in September 2012 which is designed to provide guidance to company boards in making suitable arrangements for audit committees. We have reviewed this guidance and are supportive of its aims to enhance disclosure and increase investor confidence in the audit process and integrity of company accounts.



Strong and effective risk management and control procedures underpin our ability to execute our Transformation Plan and implement our strategy.



Who is on the Committee

The Committee is composed entirely of non-executive Directors. The current members are:

- John Ormerod (Chairman)
- Mike Clasper
- Andy Haste

Full details of attendance at Committee meetings can be found in the table on page 65.

Consistent with these aims, in 2012 the Committee conducted a tender for audit services. We compared the quality and effectiveness of audit services offered and examined the qualifications, independence and expertise of the firms under consideration. The tender process is described on page 72. Whilst we do not propose to change firm, the tender has been a valuable exercise. It has generated changes in the audit approach that reflect the changes in our business linked more explicitly to the Transformation Plan and changing media landscape. Those changes include greater depth in international coverage and increased use of technology and any early focus on new revenue streams. These changes are all designed to support a robust audit and provide clear relevant feedback to the Committee.

John Ormerod

Chairman, Audit Committee
27 February 2013

How the Committee works

The Committee members have a wide range of business and financial experience between them which enables the Committee to fulfil its terms of reference in a robust and independent manner. The Committee considers that John Ormerod has recent and relevant financial experience for the purposes of the Code. Biographical details of the members of the Committee, including their qualifications and experience, are set out on pages 58 and 59.

Members of the Management Board and other senior management regularly attend meetings at the invitation of the Chairman of the Committee together with the Head of Internal Audit (Deloitte) and the external auditor (KPMG). The Committee as a whole meets privately with the internal and external auditors prior to meetings on a regular basis.

In addition, throughout the year the Chairman of the Committee meets informally and has open lines of communication with the Group Finance Director, Head of Internal Audit and the senior engagement team from the external auditors. This group generally meets ahead of each full Audit Committee meeting to prepare and identify key areas for consideration by the Committee.

The Committee works to a structured programme of activities with agenda items focused to coincide with key events of the annual financial reporting cycle, together with standing items that the Committee is required to consider regularly under its terms of reference. The agenda changes to respond to key issues and plans in ITV and the results of the Committee's work are reported to the Board.

The Committee works principally from a risk based agenda by reviewing presentations and reports from management, internal audit and external audit. The Committee raises questions and, where appropriate, challenges information in these reports and communicates its views to the Board. The Committee members also meet informally with members of the management team.

What is our role?

The role of the Committee includes to:

- monitor the integrity of the published financial information of the Company;
- review and report to the Board on the significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements (having regard to matters communicated by the auditor), interim reports, preliminary announcements and related formal statements;
- review the effectiveness of the internal control and risk management systems;
- review the arrangements for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- monitor and review the effectiveness of the internal audit function;
- review the quality and effectiveness of the external audit and the procedures and controls designed to ensure auditor independence; and
- consider and make recommendations to the Board in relation to the appointment, reappointment, replacement, and remuneration of the Company's external auditor.

The Committees terms of reference can be accessed on the Company's website at www.itvplc.com/about/governance.

Governance

Audit Committee Report *continued*

What we focused on in 2012

The Committee receives detailed reports on all key judgements and continues to challenge auditor independence and fees.

Some of the key issues we considered during the year include:

- **Financial reporting:** the Committee reviewed the financial information published by the Company, including the annual financial statements and interim financial report. To assist its review the Committee received reports from management and from the auditors on compliance with accounting standards, key judgements in preparation of the financial statements and compliance of those statements with best practice and laid down disclosure standards.

In considering reports on 2012 the Committee has considered judgements applied in establishing provisions for taxation and pension obligations and accounting for multi-year broadcasting rights. Judgements associated with impairment and the application of the going concern basis were also considered. The significance of these judgements has significantly diminished over recent years as the Company's operating and financial performance has strengthened.

- **Risk management:** the Committee continued to consider the process for managing risk within the business. Risk management procedures introduced in 2011 were reviewed and the Committee noted that these procedures are now increasingly embedded in the management process. Further work to increase their effectiveness will be undertaken in 2013 and will be reviewed by the Committee.
- **Technology governance:** as part of the Transformation Plan the Company has undertaken and continues to undertake radical changes to its technology infrastructure. The Committee has focused on reviewing and advising on the governance structures for various systems and processes.

- **Audit tender:** as KPMG had been the Company's auditor since 2004, the Committee felt that it was appropriate and in keeping with good governance to conduct a tender for audit services. In response to our statement of intention in last years' report three firms were short-listed, each with strengths and capabilities relevant to ITV. After careful and thorough evaluation of what each firm had to offer, the Committee concluded that KPMG's approach and detailed knowledge of our business made them the best firm to serve ITV. Although we do not propose to change auditor, the tender was a valuable process as it generated positive change in the audit approach.
- **Mergers and acquisitions process:** the Committee reviewed the mergers and acquisitions guidelines including due diligence and approvals. The guidelines are in place to ensure that opportunities are balanced with appropriate consideration of risk and that transactions are aligned with strategy. Recent material acquisition opportunities have been considered against these guidelines.
- **Bribery and Fraud:** the Committee monitored the systems and controls in place for the prevention of bribery and fraud.
- **Whistleblowing:** the Committee oversaw updates to ITV's whistleblowing policy and procedures.

The Committee also conducted its annual review of the Group insurance programme and treasury policies.

Annual Review

An annual review of our performance was conducted as part of the annual board evaluation process. In addition to feedback from members of the Committee, input was sought from the Group Finance Director, KPMG, Deloitte and the Chairman of the Board.

Overall, the review concluded that the Committee is responding appropriately to its terms of reference. The Committee will continue to shift its focus to consider controls in new and developing areas such as international operations, the impact of newly acquired businesses, pay television and programme profitability.

Internal controls

The Board has overall responsibility for the Group's systems of internal control and for regularly reviewing the effectiveness of those systems. The Committee assists the Board in reviewing the Group's systems of internal control. The primary responsibility for the operation of these systems is delegated to management. Such systems can only provide reasonable and not absolute assurance against material misstatement or loss. Key control procedures are designed to manage rather than eliminate risk and can be summarised as follows:

- **Strategy and financial reporting:** the strategy is reviewed and approved by the Board. The Group performs a comprehensive annual strategy review and five-year financial planning exercise. The five-year plan feeds into the annual budget cycle. The Executive Directors review formal forecasts, detailed budgets, strategies and action plans and the Board approves the overall Group budget as part of its normal responsibilities. The results of operating units are reported monthly, with actual results compared to budget and forecasts and key trends and variances explained and analysed.
- **Organisational structure and authorisation procedures:** the Group has an established organisational structure with clearly stated lines of responsibility, approval levels and delegated authorities.
- **Risk assessment and management:** management is responsible for identifying the risks facing the business and for establishing controls and procedures to monitor and mitigate those risks.

The Board is responsible for establishing a robust risk management process and for regularly reviewing the identified risks. The Committee keeps the effectiveness of the process under regular review. Details of the Company's key risks can be found on pages 48 and 49.

- **Control environment:** financial controls, policies, and procedures are considered as part of the Group's ongoing risk assessment process. These controls are reviewed to ensure risks are identified and the processes and procedures are in accordance with and aligned to the strategy. The internal audit team provides objective assurance as to the effectiveness of the Group's systems of internal control and risk management, reporting to both the Management Board and the Committee.

- **Reviewing and monitoring the effectiveness of internal controls:** controls are monitored by senior management, internal audit and the Committee. Remedial plans are put in place where controls are weak or there are opportunities for improvement. Serious control weaknesses (if any) are reported to the Board and actions taken as appropriate.

Our auditors

Internal auditor

The Group's internal audit activity is outsourced to Deloitte who report directly to the Committee. The Committee keeps under review the internal audit relationship with Deloitte and the procedures to ensure appropriate independence of the internal audit function is maintained. In particular, the Committee has approved guidelines in relation to other advisory and consultancy work that Deloitte may undertake for the Company (further information is provided in the Remuneration Report on page 76). An evaluation exercise is undertaken annually to review performance.

During the year the Committee considered and approved the internal audit plan and reviewed internal audit reports, the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions. The plan is developed on a risk basis driven by overall assurance maps.

External auditor

Independence, objectivity and fees

The Committee regularly monitors the other services being provided to the Group by its external auditor, and has developed a formal policy to ensure this does not impair their independence or objectivity. The policy is based on the five key principles which underpin the provision of other services by the external auditor. These are that the auditor may not provide a service which:

- places them in a position to audit their own work;
- creates a mutuality of interest;
- results in the auditor developing close personal relationships with ITV employees;
- results in the auditor functioning as a manager or employee of ITV; or
- puts the auditor in the role of advocate for ITV.

The policy is reviewed annually and is available in full on the Company's website at www.itvplc.com/about/governance. Other than in exceptional circumstances management and the Committee do not expect non-audit fees to be in excess

Governance

Audit Committee Report continued

of fees for audit and audit related services and generally less. The non-audit fees for 2012 were half that of the audit fees. A report on the level of non-audit work provided by the auditor is given to the Committee half yearly.

Details of the related audit and other services are set out in section 2 on page 109. The significant engagements relate to VAT and corporate tax services, including tax restructuring advice. Significant engagements require the prior approval of the Chairman of the Audit Committee.

The senior audit partner serves no more than five years continuously and the independent review partner serves no more than seven years continuously. Other key partners serve no longer than seven consecutive years. The Committee monitors the tenure of partners and senior staff as well as former employees working for the Company. The appointment by the Company of former senior employees of the external auditor would require approval of the Committee.

Reappointment

During the year the Committee considered the performance and audit fees of the external auditor, and the level of non-audit work undertaken, and recommended to the Board that a resolution for the reappointment of KPMG Audit Plc for a further year as the Company's auditor be proposed to shareholders at the AGM in May 2012. The resolution was passed and KPMG Audit Plc was reappointed for a further year.

Following the audit tender, the Committee has recommended the reappointment of KPMG Audit Plc at the AGM in May 2013.

Performance

The Committee performs a specific evaluation of the performance of the external auditor annually, through assessment of the results of questionnaires completed by the executive Directors and relevant senior management in addition to committee members' own views of auditor performance. The Committee also reviews and discusses with the auditors the reports on KPMG and other major firms issued by the Audit Inspection Unit.

Approval

The Audit Committee Report was approved by the Board on 27 February 2013 and signed on its behalf by John Ormerod.

Remuneration Report



Dear Shareholder,

On the following pages we set out the Remuneration Report for 2012.

In order to achieve the transformation of ITV into a lean, creatively dynamic and fit-for-purpose organisation, it is essential that Executive Directors, the Management Board and other senior Executives (together the Senior Executive Group) continue to work together as an effective team focused on delivering medium-term shareholder value.

As you will see from the annual report the Transformation Plan is working and continues to drive those changes needed to deliver sustainable growth in shareholder value over the medium term.

We believe that the current incentive arrangements continue to support the Transformation Plan by placing an emphasis on the delivery of strategic change, co-operative endeavour and three to five-year outcomes aligned to shareholder value.

The Committee would encourage shareholders to note the following:

- we have again implemented only modest salary increases in line with those given to the wider organisation;
- 2012 has been another successful year for ITV and this has been considered when reviewing performance and determining remuneration. A significant proportion of the Senior Executive Group's remuneration is dependent on the achievement of stretching performance conditions;
- benefits awarded to the Senior Executive Group are delivered within the same framework as for other ITV colleagues;
- the compulsory deferral period for part of the annual bonus continues to be three years and the Senior Executive Group is encouraged to hold long-term



We believe that the current incentive arrangements continue to support the Transformation Plan.



Who is on the Committee

The Committee is composed entirely of Non-executive Directors. The current members are:

- Andy Haste (Chairman)
- Mike Clasper
- Archie Norman
- John Ormerod

Full details of attendance at Committee meetings can be found in the table on page 65.

personal investment in ITV to create alignment with the shareholder experience;

- the Committee has spent some time establishing a reward policy for critical talent to ensure creative renewal and that we can continue to attract and retain the best people;
- the Committee has been actively involved in the BIS consultation process on executive remuneration and supports the principles outlined by BIS. We have considered the requirements which will be effective for the 2013 report and have included some of the new requirements early in this report where appropriate; and
- we will be asking shareholders to support the technical renewal of our share plans at the AGM in May as they are coming to the end of their ten year life.

Andy Haste

Chairman, Remuneration Committee
27 February 2013

Governance

Remuneration Report *continued*

Contents

The report is presented in five sections:

- How the Committee works
- Remuneration policy
- Delivering remuneration policy
- Non-executive Directors
- Detailed audited disclosures

How the Committee works

Who advises the Committee

The Committee obtains advice from various sources in order to ensure it makes informed decisions. The Committee's main advisers are set out below. Adam Crozier, Chief Executive, is invited to attend committee meetings as appropriate. No individual is involved in decisions relating to their own remuneration.

Adviser	Area of advice
Andy Doyle, Group HR Director	Main internal adviser, provides updates on remuneration, employee relations and human resource issues.
Deloitte LLP*	Independent advisers on remuneration policy and the external remuneration environment.

* Deloitte are signatories to the Code of Conduct in relation to Executive Remuneration Consulting in the UK. During the year Deloitte also provided the Group with advice on tax and corporate finance, and acted on a consultancy basis to provide internal audit support under separate engagement terms.

What is our role?

The role of the Committee is primarily to:

- review the ongoing appropriateness, relevance and effectiveness of the Group remuneration policy including in relation to retention and development;
- approve the remuneration policy and strategy for the Senior Executive Group;
- approve the design of the Company's annual bonus arrangements and long-term incentive plans (LTIPs), including the performance targets that apply for the Senior Executive Group; and
- determine individual award levels for the Senior Executive Group based on performance against annual bonus targets and long-term incentive performance conditions.

The Committee initiates dialogue with shareholders where developments or changes are proposed and welcomes feedback at other times.

What we did in 2012

During 2012 our work was broadly in four areas:

Setting targets

- the business and personal performance targets for 2012 annual bonuses aligned with the business plan for the year and the Transformation Plan;
- the performance targets that would apply to the Performance Share Plan (PSP) awards made in 2012; and
- a preliminary review of 2013 executive compensation and bonus targets.

Reviewing outcomes

- the annual bonus outcomes and deferred annual bonus awards for 2011 and indicative 2012 outcomes ahead of final approval in 2013; and
- approval of the performance payout of the ITV Turnaround Plan, and the 2009 awards under the ITV Performance Share Plan.

Reward framework

- base salaries for the Senior Executive Group with effect from 1 January 2012 using the same process as applied to the wider employee group;
- remuneration packages for new appointments to the Senior Executive Group;
- development of a reward policy for critical talent to ensure that ITV can continue to recruit in an increasingly competitive market to support the Transformation Plan whilst controlling costs;
- the framework of incentive awards for overseas executives;
- the compensation framework for the wider employee group; and
- reviewing the performance management framework and pay practices across the Group.

Governance

- the BIS proposals on executive pay and how these would be integrated into future remuneration strategy;
- the Remuneration Report for 2011, prior to its approval by the Board, and approval by shareholders at the Annual General Meeting in May 2012; and
- the process for the renewal of share scheme rules and related shareholder consultation.

The Committee reports regularly to the Board on its work.

Annual Review

The Committee's performance was reviewed as part of the Board evaluation process explained on page 66.

Remuneration policy

The Company operates in the particularly competitive media market. ITV aims to balance the need to attract and retain the high quality talent essential to the Company's success with the need to be cost-effective and to reward exceptional performance. The Committee has developed a remuneration policy for the Company which balances these factors, while taking into account prevailing best practice and investor expectations.

A significant proportion of the remuneration package is tied to the achievement of stretching performance conditions which align remuneration with our strategy to create shareholder value and deliver the Transformation Plan. The remuneration package is focused on rewarding sustained long-term performance and aligning executives with the shareholder experience.

Individuals should be rewarded for success and performance measured over clear timescales. Executives are encouraged to take action in line with the Transformation Plan, using good business management principles and appropriate risk management.

When developing remuneration policy, the Committee obtains advice from the key advisers outlined on page 76.

All colleagues participate in a bonus scheme and all UK colleagues are invited to join the SAYE scheme.

When determining remuneration for the Senior Executive Group and all employees of ITV, the Committee also considers any relevant governance and social issues.

Key features of the remuneration policy are set out in the table below.

Key features of remuneration policy

FIXED ELEMENTS	Purpose and link to strategy	Operation	Performance Metrics	Changes to policy in the year
Base Salary	<p>Reflect the individual's skills and experience.</p> <p>Reflect intended role and responsibilities.</p>	<p>Set competitively with reference to the market median recognising the need for an appropriate premium to attract and retain superior talent.</p> <p>Periodic reviews of market positioning.</p> <p>Reviewed in the context of the wider employee pay review.</p> <p>Paid monthly in cash.</p> <p>Reviewed annually in January taking account of personal and Company-wide performance.</p>	<p>Any increase based on individual performance, change in role and Company pay award.</p>	<p>Directors' salaries increased by 2.5% in January 2012 in line with the average increase given across the Company.</p>
Pension	<p>Provide a framework to save for retirement.</p> <p>Reward sustained contribution.</p>	<p>Provide market competitive package.</p> <p>All new colleagues, including members of the Senior Executive Group, are offered membership of a defined contribution scheme which is benchmarked periodically.</p> <p>The majority of the Senior Executive Group are either members of the ITV defined contribution scheme or receive a cash payment equivalent to the employer contribution.</p>	<p>None</p>	<p>None</p>
Benefits	<p>Provide financial protection for employees and their families.</p>	<p>Provide market competitive benefits including car allowance, private medical insurance and other insurance benefits.</p>	<p>None</p>	<p>None</p>

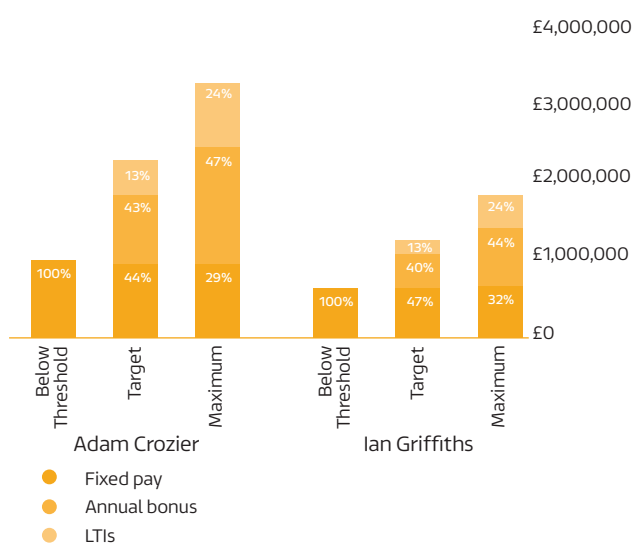
Governance

Remuneration Report *continued*

VARIABLE ELEMENTS	Purpose and link to strategy	Operation	Opportunity	Performance Metrics	Changes to policy in the year
Annual Bonus Scheme (Bonus) and Deferred Share Award Plan (DSA)	<p>Incentivise executives and colleagues to achieve key outcomes on an annual basis.</p> <p>Focus on key financial metrics and Transformation Plan objectives.</p> <p>Deferred element encourages long-term shareholding and alignment with shareholder experience.</p>	<p>Maximum awards set broadly in line with FTSE 100 market practice.</p> <p>All colleagues participate in a bonus, though levels vary according to role and seniority.</p> <p>Paid in March each year following the year end, once the results have been audited.</p> <p>Awards may be subject to forfeiture in certain circumstances.</p>	<p>Target Bonus opportunities are generally 60% of the maximum award.</p>	<p>Performance targets are based on corporate objectives closely linked to the strategic priorities and individual contribution to the Transformation Plan.</p> <p>For the Senior Executive Group the Bonus is paid:</p> <ul style="list-style-type: none"> • One-third in cash. • One-third is compulsorily deferred into shares under the DSA, which are released after three years. • Up to one-third can be voluntarily deferred into shares under the DSA and released after three years. This is matched by an additional award under the PSP on a 1:1 basis subject to performance conditions, with the balance in cash. 	None
Performance Share Plan (PSP)	<p>Incentivise key individuals over the longer term aligned to strategy and creation of shareholder value.</p> <p>Retain key individuals.</p>	<p>Awards made annually.</p> <p>Awards may be subject to forfeiture in certain circumstances.</p>	<p>Aggregate PSP awards, combining core and matching elements, do not exceed 150% of base salary.</p>	<p>Performance is measured against corporate targets closely linked to the Company's financial and strategic priorities as follows:</p> <ul style="list-style-type: none"> • 50% cumulative adjusted EPS • 25% Family SOV • 25% non-NAR growth <p>A Gateway condition must be achieved before any portion of the award vests.</p>	None
Recruitment Awards	<p>To attract the best candidate for the job.</p>	<p>To ensure that the best candidate is compensated for any loss of incentives earned but not paid by a previous employer due to the individual taking up a role with ITV.</p> <p>Each situation is considered on merit, but awards do not exceed those that would have been paid by a previous employer.</p>	n/a	None	None
Termination payments	<p>To ensure no reward received for failure.</p>	<p>The Company retains the right to terminate employment by making payment in lieu of notice.</p> <p>Steps are taken to prevent rewards for failure and termination payments to Directors will only reflect contractual obligations.</p>	n/a	n/a	None

Balance of remuneration

The balance between the fixed and variable elements of the total remuneration package is dependent on the performance outcomes achieved. The charts below show the remuneration outcome for each of the Executive Directors for below threshold, target and maximum performance levels. There is no bonus or LTI payment for below threshold performance.



Delivering remuneration policy

When setting the policy for Directors' remuneration, the Committee has regard to the pay and employment conditions elsewhere within the Group. In particular, the Committee is kept informed on a regular basis on:

- Salary increases for the wider organisation
- Company-wide benefit provision
- Overall spend on annual bonus
- Participation levels and outcomes in the annual bonus plan

Base salary

2012

	Base salary from 1 January 2012	Increase at 1 January 2012
Adam Crozier	£818,206	2.5%
Ian Griffiths	£448,694	2.5%

With effect from 1 January 2012 the Executive Directors both received a salary increase of 2.5% in line with the average increase given across the Group.

2013

Following completion of the 2013 salary review, the Company agreed a salary increase of 2.75% for all colleagues earning £60,000 and below, with any increase for those earning above £60,000 being linked to their performance rating for 2012. The Executive Directors both received a salary increase of 2.75% from 1 January 2013 in line with the average increase given across the Group.

Pension benefits

The majority of the Senior Executive Group are either members of the ITV defined contribution scheme or receive a cash payment equivalent to the employer contribution. No Directors were members of money purchase or defined contribution schemes operated by the Group.

Adam Crozier and Ian Griffiths received cash payments of 9% and 15% of base salary respectively in lieu of pension contributions. These payments are included in the emoluments table on page 86.

Incentives

The incentive framework used in 2012 will continue to be used in 2013. It is based on the following principles:

- simple overall architecture;
- shareholder aligned incentives: reduced reliance on short-term cash remuneration; increased long-term focus and alignment with the shareholder experience;
- application of strategic change metrics: linked to both strategy and financial performance;
- support a culture of accountability: valuing execution and delivery, with a clear commercial focus; and
- reward sustained performance over an extended period.

Executives are required to defer a significant proportion of any annual bonus into shares in order to achieve maximum award opportunities under long-term incentive awards.

Short-term incentives

Annual incentives are provided for the Senior Executive Group through the ITV Annual Bonus Scheme (Bonus) and the Deferred Share Award Plan (DSA). The performance conditions that apply are set on an individual basis and are closely linked to the Company's corporate, financial and strategic priorities.

Governance

Remuneration Report *continued*

Maximum Bonus opportunities

% of base salary	Cash	Compulsory Deferral	Optional Deferral	Total
Adam Crozier	60%	60%	60%	180% of salary
Ian Griffiths	55%	55%	55%	165% of salary

For 2013 the maximum Bonus opportunities will remain unchanged for Adam Crozier and Ian Griffiths at 180% and 165% of base salary respectively.

2012 Bonus

Performance targets for the Senior Executive Group in 2012 were set to ensure they support both the Transformation Plan and delivery of key operational outcomes. The Committee ensured that the maximum bonus opportunity could only be achieved for significant outperformance of all corporate, financial and individual bonus outcomes, with target performance achieving a 60% payout of maximum bonus opportunity.

Corporate and financial targets

The majority of the bonus opportunity (60%) was based upon the achievement of corporate and financial targets, weighted to the area of the business for which the Executive has primary responsibility. Across the Senior Executive Group these targets include:

Target	Transformation Priority
ITV plc EBITA	1 2 3 4
Divisional EBITA	1 2 3 4
Profit to Cash Conversion	1 2 3 4
Family SOV	2
Online targets	3
Revenue targets	2 3
Content creation targets	4
Delivery of agreed cost savings targets	1

ITV's financial performance in 2012 has been strong, as outlined in the Performance & Financials Section. In light of performance during the year, the following payment levels against some of the corporate financial targets for the Executive Directors have been approved:

Target	Achieved 2012	Bonus Payout 2012	Achieved 2011	Bonus Payout 2011
ITV plc EBITA* (before exceptional items)	112.6%	100%	103.9%	75.6%
Profit to Cash Conversion	117.3%	100%	121%	100%
Cost savings	120.8%	100%	118.3%	100%

* The Committee has ensured that management do not benefit from or are penalised by significant changes in the UK advertising market by applying a ratchet to ITV plc EBITA.

Individual targets

The remainder of the bonus opportunity (40%) was based upon the contribution that the executive makes toward the overall Transformation Plan through the delivery of specific targets. In setting these personal targets consideration is given to the progress required to deliver the next milestones of the Transformation Plan and alignment across the Senior Executive Group.

2013 Bonus

The Committee has used a consistent approach to set 2013 performance targets and measures which continue to support both the delivery of the Transformation Plan and key operational outcomes. Target performance will result in a payout of 60% of the maximum Bonus opportunity.

The maximum Bonus opportunity can only be achieved for significant outperformance of all corporate, financial and individual targets.

For Adam Crozier and Ian Griffiths 60% of the Bonus opportunity will be based upon the achievement of corporate and financial targets. The remaining 40% will be based upon the personal contribution they make towards the overall Transformation Plan.

Long term incentives

The Performance Share Plan (PSP) continues to be used as the only long-term incentive plan.

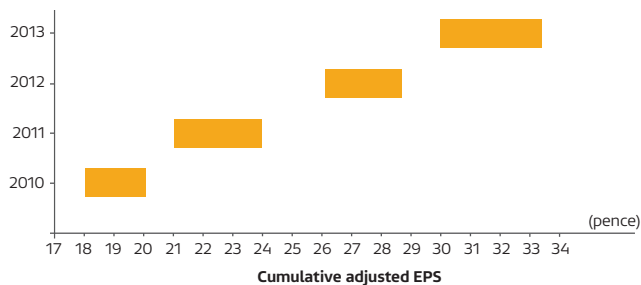
Key features of the PSP, including the maximum opportunities and performance measures, are set out in the tables on pages 82 and 83.

In order to ensure that Executives are only rewarded if value is delivered to shareholders, awards under the PSP are subject to an initial cumulative adjusted EPS performance gateway. If this gateway is achieved, performance will then be assessed by reference to conditions detailed in the table on pages 82 and 83, set in line with our key strategic objectives.

These conditions are key measures of success over the transformation period as the Company reduces its reliance on spot advertising revenues and generates greater shareholder value from its integrated production and broadcast businesses.

Family SOV and non-NAR are both measures of performance that are important to our business as further explained in the Performance & Financials section.

The performance tests under successive PSP awards have been increased in line with the progress under the Transformation Plan, as shown in the graph below:



Details of outstanding awards are set out on page 87.

Governance

Remuneration Report *continued*

Clawback

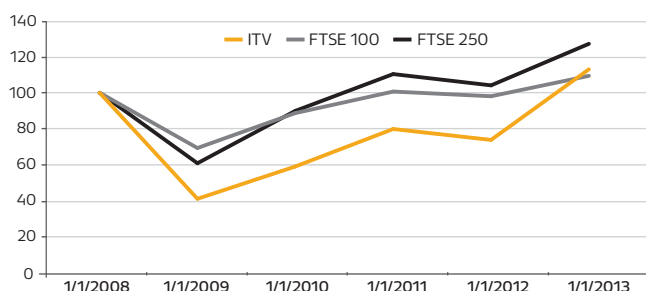
There are clawback provisions built into the rules of the Bonus, DSA and PSP, which allow for the forfeiture and non-payment of incentive awards that are still to be earned, still to vest or have been deferred, if an Executive's employment is terminated.

Shareholding guidelines

Under the remuneration policy, Executives are required to build up a substantial amount of remuneration that has been deferred or remains subject to performance conditions.

Performance graph

The graph below shows the TSR performance of the Company against the FTSE 100 and FTSE 250 index over the five-year period to 31 December 2012. Both indices have been shown as the Company has been a constituent of both over the previous five years.

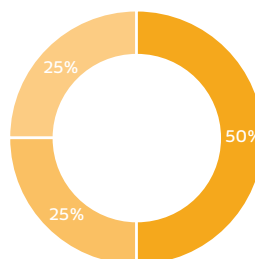


Summary of PSP awards

	2010		
Award Level (plan maximum)	150%		
Co-investment requirements	None		
Performance period	3 years		
Performance conditions	75% TSR <ul style="list-style-type: none"> Measured equally against two distinct comparator groups drawn from the FTSE 250 and a specific international industry peer group. 25% STRATEGIC <ul style="list-style-type: none"> Measured in equal proportions against two targets. 		
	Strategic target	Threshold	Maximum
	Cumulative adjusted EPS 1	18p	20p
	Family SOV 2	Maintain at 2009 levels	+2%
	EPS cumulative years 2010 to 2012		
Vesting	75% TSR <ul style="list-style-type: none"> Median and below – nil Upper quartile – 100% Vesting on a straight-line basis in between. 25% STRATEGIC <ul style="list-style-type: none"> Threshold performance – EPS: 30%, SOV: 50% Maximum performance – 100% Vesting on a proportionate basis (SOV) and a straight-line basis (EPS) between threshold and maximum. 		
Exercise period	As 2011 to 2013		
Leavers	As 2011 to 2013		
Change of control	As 2011 to 2013		

	2011	2012	2013
	150% (90% Core Award and 60% Matching Award)		
	An award of up to 60% of base salary may be made as a match on voluntarily deferred bonus.		
	3 years		
	A Gateway condition of minimum cumulative adjusted EPS over three years must be reached before any portion of the award vests.		
	<ul style="list-style-type: none"> 50% of an award vests based on cumulative adjusted EPS over three years 25% of an award vests based on Family SOV growth (2011 and 2012 platform adjusted. 2013 no longer platform adjusted due to digital switchover) 25% of an award vests based on non-NAR growth 		
Strategic target	Threshold	Maximum	Threshold Maximum
Gateway	21p		26.15p 30.4p
Cumulative adjusted EPS 1	21p	24p	26.15p 28.76p 30.4p 33.4p
Family SOV 2	Maintain at 2010 levels	+2%	Maintain at 2011 levels 23% +2%
Annual Non-NAR growth 3 4	5%	10%	5% 10%
	EPS cumulative years 2011 to 2013		EPS cumulative years 2012 to 2014
			EPS cumulative years 2013 to 2015

- 50% EPS
- 25% SOV
- 25% non-NAR



50% cumulative adjusted EPS

- Threshold performance – 30%
- Maximum performance – 100%
- Vesting on a straight-line basis in between.

25% Family SOV

- Threshold performance – 50%
- Maximum performance – 100%
- Vesting on a proportionate basis between threshold and maximum.

25% non-NAR

- Threshold performance – 30%
- Maximum performance – 100%
- Vesting on a straight-line basis between threshold and maximum.

Once vested, awards can be exercised for 12 months; any portion of the award that does not vest or is not exercised will lapse.

Standard good leaver provisions apply (broadly relating to compassionate circumstances) and include prorating for service. If a participant ceases to be employed for any other reason, the award will lapse unless determined otherwise.

Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions. The proportion that vests may be capped depending on the time elapsed since grant.

Governance

Remuneration Report *continued*

Renewal of share plans

The PSP and SAYE schemes are approaching the end of their ten year life. A proposal to renew the schemes will be submitted to the AGM in May 2013. No substantive changes to the rules are proposed.

Alignment with shareholders

The Committee continues to recognise the importance of Executive Directors becoming shareholders so as to align their interests with other shareholders. Shareholding guidelines are in place, which encourage Executive Directors to build up a holding of ITV plc shares, 50% of the requirement within three years of appointment and the remainder within five years as follows:

	Percentage of base salary	Percentage held at 1 January 2013
Adam Crozier	200%	62%
Ian Griffiths	150%	299%

Other members of the Management Board are required to hold between 50% and 100% of their salary in line with their individual annual bonus opportunity.

Details of the Executive Directors' current personal shareholdings are shown on page 88.

Service contracts

Executive Directors have service contracts that provide for 12 months' notice on either side. There are no special provisions that apply in the event of a change of control.

	Date of appointment	Nature of contract	Notice period from Company	Notice period from Director	Compensation provisions for early termination
Adam Crozier	26 April 2010	Rolling	12 Months	12 Months	None
Ian Griffiths	9 Sept 2008	Rolling	12 Months	12 Months	None

Executive Directors' non-executive directorships

With specific approval of the Board, Executive Directors may accept external appointments as non-executive directors of other companies and retain any related fees paid to them.

During the year, Adam Crozier retained fees for an external non-executive directorship as set out below:

Company	2012 £000
Debenhams plc (resigned from 1 September 2012)	35

Adam Crozier became a non-executive director of G4S plc with effect from 1 January 2013.

Non-executive Directors

Each Non-executive Director has a contract of service with the Company, further details of which can be found in the Governance section on page 64. Fees paid to the Non-executive Directors are determined by the Chairman and Executive Directors based on market information, and in accordance with the restrictions contained within the Company's Articles of Association.

The fees are reviewed annually. There is no fee for membership of the Nomination Committee. It has been agreed that from 1 January 2013 the basic fee will increase by 2.75% to £60,559 and fees for membership of the Audit and Remuneration Committee will also increase by 2.75% to £5,137. The annual fees payable in 2012 were as follows:

Non-executive Directors' fees	£
Board member	58,938
Additional fees for:	
Senior Independent Director	25,000
Audit Committee Chairman	20,000
Audit Committee member	5,000
Remuneration Committee Chairman	15,000
Remuneration Committee member	5,000

Note:
Details of committee membership can be found in the Governance section on page 58 and 59.

Share acquisition policy

The Non-executive Directors are required to use 25% of their annual fees, after statutory deductions, to acquire shares in the Company. The shares are purchased quarterly and are held by a nominee on their behalf. The shares release when they retire from the Board. Details of their shareholdings can be found on page 88.

Chairman's fee and share award

The Chairman was appointed in 2010 for a three-year-term on a fee of £300,000 per annum with an award of shares valued at £600,000 (1.2 million shares) at that time. These awards released in three tranches of 400,000 shares over the three-year term of his initial appointment. The first tranche was released on 23 May 2011, the second tranche on 31 December 2011 and the third tranche on 31 December 2012.

The Chairman was reappointed for a further three-year term with effect from 1 January 2013 and continues to receive an annual fee of broadly the same value (£500,000 per annum) of which £200,000 per annum (40%) will be invested under the share acquisition policy set out above. He receives no further payment for membership of committees.

Governance

Remuneration Report *continued*

Detailed audited disclosures

The following tables provide details of each of the Directors' emoluments, pension contributions, rights to share options and awards. All of these tables have been audited by KPMG Audit Plc.

Aggregate Directors' remuneration

The total amounts of Directors' remuneration for the period 1 January 2012 to 31 December 2012 were as follows:

	2012 £000	2011 £000
Emoluments	3,422	2,964
Gains on exercise of share options	444	–
Gains on release of restricted share awards	421	943
	4,287	3,907

Notes:

- All share related gains are valued pre-tax on date of exercise by or release to participant.
- Details of gains on exercise of share options and release of restricted share awards can be found on page 87.
- Further information is contained in the table below.

Directors' emoluments

The Directors' emoluments for the year ended 31 December 2012 are set out in the table below.

Name of Director	Status	Base salary/ fees £000	Benefits in kind ¹ £000	Pensions contribution ² £000	Short-term incentives (cash) ⁴ £000	Total for the year ended 31 December 2012 £000	Total for the year ended 31 December 2011 £000
Adam Crozier	Executive	818	19	74	897	1,808	1,524
Ian Griffiths	Executive	449	14	69	456	988	828
Mike Clasper	Non-executive	94	–	–	–	94	93
Roger Faxon ³	Non-executive	10	–	–	–	10	–
Andy Haste	Non-executive	79	–	–	–	79	78
Lucy Neville-Rolfe	Non-executive	59	–	–	–	59	58
Archie Norman	Non-executive	300	–	–	–	300	300
John Ormerod	Non-executive	84	–	–	–	84	83
Total emoluments		1,893	33	143	1,353	3,422	2,964

Notes:

- This disclosure includes the cost of private medical insurance and car related benefits.
- Pension contributions represent cash payments in lieu of pension.
- Fees paid from appointment on 31 October 2012 to 31 December 2012.
- Short-term incentives: Executive Directors will receive a bonus for 2012 as detailed in the table below, the cash element of which is shown in the table above.

	Percentage of maximum bonus opportunity earned	Total value of 2012 Bonus £000	Value paid in cash (shown in the emoluments table above) £000	Value compulsorily deferred into shares under the DSA £000	Value voluntarily deferred into shares under the DSA £000
Adam Crozier	91.33%	1,345	897	448	–
Ian Griffiths	92.30%	683	455	228	–

The percentage of maximum bonus opportunity earned for Adam Crozier was 95.56% on corporate and financial targets and 85% on individual targets and for Ian Griffiths was 97.5% on corporate and financial targets and 84.5% on individual targets.

Directors' interests in share awards

Information given in the table below is for the period from 1 January 2012 to 31 December 2012.

Award date	At 1 January 2012	Awarded in year	Vested in year	Lapsed in year	Share price used for award (pence)	Exercise price (pence)	Date of release/ exercise in 2012	Share price at date of release (pence)	Market value at date of release (pre-tax)	Vesting date/ Exercise period
Adam Crozier										
Deferred Share Award Plan										
28 March 2012		477,112			88.60	Nil				March 2015
28 March 2012		238,557			88.60	Nil				March 2015
8 March 2011	276,314				91.38	Nil				March 2014
8 March 2011	276,314				91.38	Nil				March 2014
Nil-cost Option Award										
26 April 2010 ³	4,115,044			4,115,044	56.5	Nil				April 2013– April 2014
Performance Share Award										
1 March 2012		899,347			81.88	Nil				March 2015– March 2016
28 March 2012		238,557			88.60	Nil				March 2015– March 2016
8 March 2011	786,196				91.38	Nil				March 2014– March 2015
8 March 2011	276,314				91.38	Nil				March 2014– March 2015
Ian Griffiths										
Deferred Share Award Plan										
28 March 2012		234,406			88.60	Nil				March 2015
28 March 2012		117,204			88.60	Nil				March 2015
8 March 2011	203,478				91.38	Nil				March 2014
8 March 2011	203,478				91.38	Nil				March 2014
Performance Share Award										
1 March 2012		493,192			81.88	Nil				March 2014– March 2015
28 March 2012		117,204			88.60	Nil				March 2014– March 2015
8 March 2011	431,140				91.38	Nil				March 2014– March 2015
8 March 2011	203,478				91.38	Nil				March 2014– March 2015
26 March 2010 ⁴	933,820				56.89	Nil				March 2013– March 2014
1 June 2009 ^{4,5}	1,188,812	1,188,812			35.75	Nil				June 2012– June 2013
Turnaround Plan⁶										
2 October 2008	3,017,752		502,959	2,514,793	42.25	Nil	1 March	88.21	443,676	Dec 2011– Dec 2012
Archie Norman										
Restricted Share Award										
17 March 2010 ⁷	400,000		400,000		50.17	Nil	31 Dec	105.22	420,893	Dec 2012

Governance

Remuneration Report *continued*

Notes:

- ¹ An award over restricted shares for 2011 performance.
 - ² An award over restricted shares for 2010 performance.
 - ³ An award over nil-cost options subject to the same provisions and performance conditions attaching to the awards made under the PSP in March 2010.
 - ⁴ The portion of this award subject to TSR will be measured equally against two distinct comparator groups, the constituents of the FTSE 250 index (excluding companies from the basic materials, financial services, oil and gas and industrials industries), and an industry sector specific group of 23 companies: British Sky Broadcasting Group, Scripps Networks, Canal Plus, Telecinco, CBS, TF1 (Tv.Fse.1), Daily Mail & General Trust, Time Warner, M6-Metropole TV, Trinity Mirror, Mediaset, Viacom Digital, Modern Times Group, Virgin Media, News Corporation, Vivendi, Pearson, WPP Group, Premier AG, Yell Group, Proseiben Sat 1 Pf, Zon Multimedia and RTL Group.
 - ⁵ This award vested in full on 1 June 2012. Ian Griffiths has until 31 May 2013 to exercise the award and the award was unexercised at the date of this report.
 - ⁶ The Turnaround Plan (the Plan) was introduced in 2007. No awards were made under the Plan after 2008. An award in the form of nil-cost options was made to a number of key senior Executives with a maximum value of 550% of the individual's salary. Participants were required to acquire and retain a number of shares with a value up to 100% of annual base salary for the duration of the performance period to 31 December 2011. 75% of the awards were subject to performance over a five-year period. Up to 50% of the award subject to TSR (25% of the total award) was subject to performance over the three-year period to 31 December 2009 but this condition was not met, and 25% of the total award lapsed. The balance of 75% of the award was tested when the 2011 final year results were published against the performance conditions listed below. 12.5% of the total award subject to SOCI vested and was exercised by Ian Griffiths as shown above. The remainder of the award lapsed.
 - TSR: the balance of the award subject to TSR performance measured against a comparator group selected from the FTSE 100 (excluding certain industry sectors that are less relevant as a benchmark of performance). 25% of this portion of the award would have vested for median performance and straight-line vesting would have occurred up to full vesting for upper quartile performance. The comparator companies were: British Airways, British Sky Broadcasting Group, BT Group, Capita Group, Carnival, Compass Group, Diageo, DSG International, Enterprise Inns, Home Retail Group, Intercontinental Hotels Group, Kingfisher, Marks & Spencer Group, Next, Pearson, Reed Elsevier, Thomson Reuters, SABMiller, Scottish & Newcastle, Vodafone Group, WPP and Yell Group.
 - Strategic performance targets: There were four strategic targets, each having an equal weighting. For achieving threshold performance, 25% of the award relating to each target would have vested, with full vesting for achieving the maximum target. In between these points, award vested on a straight-line basis. SOCI (ITV Family) threshold 36.6% and maximum 38.5%; Revenue Growth – threshold 2% and maximum 5% per annum; Adjusted EPS – threshold 8p and maximum 12p; Share price threshold £1.35 and maximum £2.25 measured as an average over any 28-day period within the final three years of the Plan.
- All vested awards under this Plan have been exercised and the Plan terminated on 31 December 2012.
- ⁷ One-off award made on joining ITV. The award released in three tranches of 400,000 shares over the initial three-year appointment term. Whilst held under award the shares could not be sold or transferred.
 - ⁸ The total market value of gains on share awards released or exercised during the year was £864,569 as shown in the Aggregate Directors' remuneration table on page 86.

Directors' interest in shares

The figures set out below represent shareholdings in the ordinary share capital of ITV plc beneficially owned by Directors and their family interests.

There were no changes in Directors' interests in shares between the end of the financial year and 27 February 2013.

Director	31 December 2012	31 December 2011
Mike Clasper	100,363	85,918
Adam Crozier	298,258	291,139
Roger Faxon	0	0
Ian Griffiths	881,852	640,960
Andy Haste	78,058	65,487
Lucy Neville-Rolfe	22,154	14,161
Archie Norman	1,163,167	971,584
John Ormerod	122,788	109,960

Share price information

The market price of ITV plc ordinary shares at 31 December 2012 was 105.2 pence and the range during the year was 107.2 pence (on 24 December 2012) and 69.45 pence (on 5 January 2012).

Shareholder voting

At the AGM in 2012 the votes received on the proposal to agree the Remuneration Report were as follows:

	Number of shares	Percentage of the total vote
For	2,438,591,932	99.28%
Against	17,615,476	0.72%
Abstentions	49,961,994	–

Approval

The Remuneration Report was approved by the Board on 27 February 2013 and signed on its behalf by Andy Haste.

Other Governance and Statutory Disclosures

Substantial shareholdings

As at 31 December 2012 the Company had received notifications from the following companies and institutions of the voting interests of themselves and their clients in 3% or more of the issued ordinary share capital (carrying rights to vote in all circumstances) of the Company (numbers of shares and percentage interests are as at the notification dates).

	At 31 December 2012	
	Shares	%
Sky Holdings Ltd ¹	291,684,730	7.46
Blackrock, Inc.	195,504,921	5.00
Brandes Investment Partners, L.P.	194,304,930	4.97
AXA S.A	170,580,317	4.36
Legal and General Investment Management Ltd	153,692,144	3.93
Majedie Asset Management Limited	195,687,610	5.00

Notes:

- ¹ Subsidiary of British Sky Broadcasting Group plc.
² A profile of shareholdings is set out on page 157.

Following the year end, a notification was received from AXA S.A that their interest had risen to 5.06%.

Share capital

Issued: At the date of this report there were 3,912,303,883 ordinary shares of 10 pence each in issue, all of which are fully paid up and quoted on the London Stock Exchange.

Rights: The rights attaching to the Company's ordinary shares, as well as the powers of the Company's Directors, are set out in the Company's Articles of Association. Unless expressly specified to the contrary, the Articles may only be amended by special resolution of the shareholders. A copy of the Articles can be obtained from the Company's website at www.itvplc.com/about/governance or by writing to the Company Secretary.

Restrictions: There are no restrictions on the transfer of ordinary shares in the capital of the Company other than those which may be imposed by law from time to time. In accordance with the Disclosure and Transparency rules, certain employees are required to seek approval to deal in ITV shares. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfers of securities and/or voting rights.

Purchase of own shares: The Directors have the authority to purchase up to 389.2 million of the Company's ordinary shares. The authority remains valid until the 2013 Annual General Meeting, or 9 August 2013 if earlier.

Trusts: The Company has a discretionary trust funded by loans to acquire shares for the potential benefit of employees of the Group. Details of shares held by the trust at 31 December 2012 are set out on page 149. During the year shares have been released from the trust in respect of share schemes for employees.

Change of control

No person holds securities in the Company carrying special rights with regard to control of the Company.

All of the Company's share schemes contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions. Certain of the Group's bonds/borrowing facilities have change of control clauses whereby the issuer can require ITV to repay/redeem bonds in the event of a change of control. The Company is not aware of any other significant agreements to which it is party that take effect, alter or terminate upon a change of control of the Company.

Creditor payment policy

The Company's policy, in relation to all its suppliers, is to settle the terms of payment when agreeing the terms of the transaction, ensure awareness of the terms and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Company does not follow any code or standard payment practice. The number of days' purchases outstanding for payment by the Company as at 31 December 2012 was nil days (2011: nil).

Pensions

The Group operates a pension scheme which provides retirement and death benefits for employees of ITV. The ITV Pension Scheme (the Scheme) comprises three sections: A, B and C. Section A includes the defined contribution (DC) section of the Scheme. The DC section is open to new members. The majority of defined benefit (DB) sections were closed to new members in 2002 (with the last section closing on 1 August 2007) but are still open to future accrual. ITV Pension Scheme Limited (the Trustee) manages the DB and DC assets of the Scheme, which are held under trust separately from those of the Group. It is the responsibility of the Trustee to have in place appropriate training for its directors, governance and effective committees.

Governance

Other Governance and Statutory Disclosures continued

The Trustee has four Committees: Investment, Audit and Operations, DC and Corporate Affairs. The Corporate Affairs Committee is convened as and when appropriate for dealing with any corporate activities that may arise.

The Trustee comprises nine directors – the Trustee Chairman, together with four directors appointed by the Company and four directors nominated by the members. With effect from 31 December 2012 and after some 20 years in the role, Graham Parrott stepped down as Trustee Chairman and was replaced by Max Graesser. During 2012, one of the member nominated directors resigned and will be replaced by a new director on completion of a selection process.

The Trustee board and each Committee have a business plan, which is reviewed and updated on an annual basis, together with the associated budget. The Trustee board also has a risk register, a conflicts of interest policy and a register of interests policy, all of which are reviewed at least annually.

Trustee evaluations take place each year and are currently being further developed as part of a continuing Trustee board effectiveness review. The Trustee directors receive regular training throughout the year; a minimum of two days' training is expected to be undertaken. Training requirements are identified by reference to any skills gaps and specific committee roles and training is delivered both by attendance at external courses and with targeted training to support specific agenda items. During early 2012, those Trustee directors who had not completed the Pension Regulator's toolkit received training on the Regulator's Trustee Knowledge and Understanding scope guidance to assist with completion of the toolkit.

All advisers and suppliers are appointed through a rigorous tender process and are monitored through regular informal review meetings. There is a timetable for completing a formal review of advisers. The legal advisers, DC administrators and annuity brokers were formally reviewed in 2012. The legal advisers and DC administrators were reappointed; a new annuity broker was appointed.

To encourage greater pension savings, the Government has introduced auto enrolment. This requires employers to enrol eligible employees into a pension scheme automatically. The requirement to comply with the auto enrolment regulations is being phased in with effect from 1 October 2012, with larger employers required to comply first and with medium-sized and smaller employers following at a later period. The size of an employer's largest PAYE scheme will determine the point at which the new duties affect their

organisation (the 'staging date'). For ITV, the staging date is 1 March 2013 and the Company has undertaken a project in order to meet the requirements with effect from that date.

Pension Scheme indemnities: Qualifying pension scheme indemnity provisions, as defined in section 235 of the Companies Act 2006, were in force for the financial year ended 31 December 2012 and remain in force for the benefit of each of the Directors of ITV Pension Scheme Limited, a subsidiary of ITV plc. These indemnity provisions cover, to the extent permitted by law, certain losses or liabilities incurred as a director or officer of ITV Pension Scheme Limited.

Audit

The Directors who held office at the date of approval of the Directors' Report 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.

As recommended by the Audit Committee, a resolution for the reappointment of KPMG Audit PLC as auditor to the Company will be proposed at the 2013 Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held on Wednesday, 15 May 2013 at 11.00 am at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London, SW1P 3EE. The Notice of the Annual General Meeting contains an explanation of special business to be considered at the meeting. A copy of the Notice will be available on the Company's website at www.itvplc.com.

By order of the Board

Andrew Garard

Company Secretary
27 February 2013

ITV plc
The London Television Centre
Upper Ground
London
SE1 9LT
Registered number 4967001

Statement of Directors' Responsibilities in Respect of the Annual Report and Financial Statements

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 and applicable law (UK Generally Accepted Accounting Practice).

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, 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.

Each of the Directors, the names of whom are set out on pages 58 and 59, confirms that to the best of his or her knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets and liabilities, financial position and the profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report includes a review of the development and performance of the business and the position of the issue and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Andrew Garard
Company Secretary
27 February 2013



Pictured:
The Chase

Photo by Matt Frost/ITV/Rex Features



itv

Financial Statements

Financial Statements

Independent Auditor's Report to the Members of ITV plc

We have audited the Group and Parent Company financial statements of ITV plc for the year ended 31 December 2012 set out on pages 96 to 156.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 91, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

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 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;

- 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 102, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Mark Summerfield (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

27 February 2013

Introduction and Table of Contents

In this section . . .

The financial statements have been presented in a style which attempts to make them less complex and more relevant to shareholders. We have grouped notes in sections under five headings: '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 these notes together with 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. Text in boxes provides commentary on each section in plain English.

Keeping it simple . . .

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

Contents

	Page
Primary statements	
Consolidated Income Statement	96
Consolidated Statement of Comprehensive Income	97
Consolidated Statement of Financial Position	98
Consolidated Statement of Changes in Equity	99
Consolidated Statement of Cash Flows	101
Section 1 – Basis of Preparation	102
Section 2 – Results for the Year	107
2.1 Profit before tax	107
2.2 Exceptional items	110
2.3 Taxation	110
2.4 Earnings per share	113
Section 3 – Operating Assets and Liabilities	115
3.1 Working capital	115
3.2 Property, plant and equipment	118
3.3 Intangible assets	120
3.4 Acquisitions	125
3.5 Assets held for sale and disposals	127
3.6 Provisions	128
3.7 Pensions	129
Section 4 – Capital Structure and Financing Costs	136
4.1 Net cash/(debt)	136
4.2 Borrowings and held to maturity investments	138
4.3 Derivative financial instruments	140
4.4 Net financing costs	142
4.5 Financial risk factors	143
4.6 Fair value hierarchy	145
4.7 Equity	146
Section 5 – Other Notes	150
5.1 Related party transactions	150
5.2 Contingent liabilities	151
5.3 Subsequent events	151
ITV plc Company Financial Statements	152
Shareholder information	157
Financial Record	160

Financial Statements

Consolidated Income Statement

For the year ended 31 December	Note	2012 £m	2011 £m
Revenue	2.1	2,196	2,140
Operating costs		(1,743)	(1,736)
Operating profit		453	404
Presented as:			
Earnings before interest, tax, amortisation (EBITA) before exceptional items	2.1	520	462
Operating exceptional items	2.2	(7)	1
Amortisation and impairment of intangible assets	3.3	(60)	(59)
Operating profit		453	404
Financing income	4.4	151	196
Financing costs	4.4	(250)	(271)
Net financing costs	4.4	(99)	(75)
Share of losses of joint ventures and associated undertakings	2.1	(1)	(2)
Loss on sale and impairment of non-current assets (exceptional items)	2.2	(6)	(3)
Gain on sale and impairment of subsidiaries and investments (exceptional items)	2.2	1	3
Profit before tax		348	327
Taxation	2.3	(80)	(79)
Profit for the year		268	248
Profit attributable to:			
Owners of the Company		267	247
Non-controlling interests		1	1
Profit for the year		268	248
Earnings per share			
Basic earnings per share	2.4	6.9p	6.4p
Diluted earnings per share	2.4	6.7p	6.2p

Consolidated Statement of Comprehensive Income

For the year ended 31 December	2012 £m	2011 £m
Profit for the year	268	248
Other comprehensive income:		
Exchange differences on translation of foreign operations	(1)	-
Revaluation of available for sale financial assets	(1)	3
Actuarial losses on defined benefit pension schemes	(227)	(124)
Income tax credit on other comprehensive income	53	30
Other comprehensive cost for the year, net of income tax	(176)	(91)
Total comprehensive income for the year	92	157
Total comprehensive income attributable to:		
Owners of the Company	91	156
Non-controlling interests	1	1
Total comprehensive income for the year	92	157

Financial Statements

Consolidated Statement of Financial Position

As at 31 December	Note	2012 £m	2011 £m
Non-current assets			
Property, plant and equipment	3.2	156	167
Intangible assets	3.3	932	934
Investments in joint ventures and associated undertakings		6	3
Available for sale financial assets		3	2
Held to maturity investments	4.1	145	147
Derivative financial instruments	4.3	99	110
Distribution rights	3.1.1	17	11
Net deferred tax asset	2.3	93	65
		1,451	1,439
Current assets			
Programme rights and other inventory	3.1.2	250	285
Trade and other receivables due within one year	3.1.4	365	370
Trade receivables due after more than one year	3.1.4	14	26
Trade and other receivables		379	396
Cash and cash equivalents	4.1	690	801
		1,319	1,482
Assets held for sale	3.5	25	–
		1,344	1,482
Current liabilities			
Borrowings	4.2	(7)	(9)
Derivative financial instruments	4.3	(1)	(1)
Trade and other payables due within one year	3.1.5	(614)	(639)
Trade payables due after more than one year	3.1.6	(30)	(45)
Trade and other payables		(644)	(684)
Current tax liabilities		(29)	(36)
Provisions	3.6	(25)	(24)
		(706)	(754)
Net current assets		638	728
Non-current liabilities			
Borrowings	4.2	(632)	(912)
Derivative financial instruments	4.3	(48)	(44)
Defined benefit pension deficit	3.7	(551)	(390)
Other payables		(14)	(3)
Provisions	3.6	(12)	(9)
		(1,257)	(1,358)
Net assets		832	809
Attributable to equity shareholders of the parent company			
Share capital	4.7.1	391	389
Share premium	4.7.1	122	120
Merger and other reserves	4.7.2	283	300
Translation reserve		13	14
Available for sale reserve		7	8
Retained earnings/(losses)		1	(25)
Total equity attributable to equity shareholders of the parent company		817	806
Non-controlling interests		15	3
Total equity		832	809

Ian Griffiths
Group Finance Director

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	Items that may be reclassified to profit or loss			Total £m	Non-controlling interests £m	Total equity £m
				Translation reserve £m	Available for sale reserve £m	Retained (losses)/ profits £m			
Balance at 1 January 2012	389	120	300	14	8	(25)	806	3	809
Total comprehensive income for the year									
Profit	-	-	-	-	-	267	267	1	268
Other comprehensive income/(cost)									
Revaluation of available for sale financial assets	-	-	-	-	(1)	-	(1)	-	(1)
Exchange differences on translation of foreign operations	-	-	-	(1)	-	-	(1)	-	(1)
Actuarial losses on defined benefit pension schemes	3.7	-	-	-	-	(227)	(227)	-	(227)
Income tax on other comprehensive income	2.3	-	-	-	-	53	53	-	53
Total other comprehensive cost	-	-	-	(1)	(1)	(174)	(176)	-	(176)
Total comprehensive income for the year	-	-	-	(1)	(1)	93	91	1	92
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Equity dividends	-	-	-	-	-	(78)	(78)	(1)	(79)
Equity portion of the convertible bond	4.1	-	(5)	-	-	5	-	-	-
Movements due to share-based compensation	4.7.7	-	-	-	-	9	9	-	9
Purchase of own shares via employees' benefit trust	4.7.7	-	-	-	-	(3)	(3)	-	(3)
Issue of new shares	4.7.1	2	2	-	-	-	4	-	4
Total contributions by and distributions to owners		2	2	(5)	-	(67)	(68)	(1)	(69)
Change in ownership interest in subsidiaries that do not result in a loss of control									
Total changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	-	-
Total transactions with owners	2	2	(5)	-	-	(67)	(68)	(1)	(69)
Changes in non-controlling interests ^(a)	3.4	-	(12)	-	-	-	(12)	12	-
Balance at 31 December 2012	4.7	391	122	283	13	7	1	817	15

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

Financial Statements

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	Items that may be reclassified to profit or loss		Retained losses £m	Total £m	Non-controlling interests £m	Total equity £m
					Translation reserve £m	Available for sale reserve £m				
Balance at 1 January 2011		389	120	304	14	5	(171)	661	2	663
Total comprehensive income for the year										
Profit		-	-	-	-	-	247	247	1	248
Other comprehensive income/(cost)										
Revaluation of available for sale financial assets		-	-	-	-	3	-	3	-	3
Actuarial losses on defined benefit pension schemes	3.7	-	-	-	-	-	(124)	(124)	-	(124)
Income tax on other comprehensive income	2.3	-	-	-	-	-	30	30	-	30
Total other comprehensive income/(cost)		-	-	-	-	3	(94)	(91)	-	(91)
Total comprehensive income for the year		-	-	-	-	3	153	156	1	157
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		-	-	-	-	-	(16)	(16)	-	(16)
Equity portion of the convertible bond	4.1	-	-	(4)	-	-	4	-	-	-
Movements due to share-based compensation	4.7.7	-	-	-	-	-	11	11	-	11
Purchase of own shares via employees' benefit trust	4.7.7	-	-	-	-	-	(6)	(6)	-	(6)
Total contributions by and distributions to owners		-	-	(4)	-	-	(7)	(11)	-	(11)
Change in ownership interest in subsidiaries that do not result in a loss of control										
Total changes in ownership interests in subsidiaries		-	-	-	-	-	-	-	-	-
Total transactions with owners		-	-	(4)	-	-	(7)	(11)	-	(11)
Balance at 31 December 2011	4.7	389	120	300	14	8	(25)	806	3	809

Consolidated Statement of Cash Flows

For the year ended 31 December	Note	£m	2012 £m	£m	2011 £m
Cash flows from operating activities					
Profit before tax		348		327	
Gain on sale and impairment of subsidiaries and investments (exceptional items)	2.2	(1)		(3)	
Loss on sale and impairment of non-current assets (exceptional items)	2.2	6		3	
Share of losses of joint ventures and associated undertakings	2.1	1		2	
Net financing costs	4.4	99		75	
Operating exceptional items	2.2	7		(1)	
Depreciation of property, plant and equipment	3.2	27		26	
Amortisation and impairment of intangible assets	3.3	60		59	
Share-based compensation	4.7.7	9		11	
Decrease in programme rights and other inventory, and distribution rights		29		-	
Decrease in receivables		17		52	
Decrease in payables		(45)		(34)	
Movement in working capital	3.1.7	1		18	
Cash generated from operations before exceptional items			557		517
Cash flow relating to operating exceptional items:					
Net operating (loss)/ income	2.2	(7)		1	
Increase/(decrease) in payables and provisions		5		(5)	
Cash outflow from exceptional items			(2)		(4)
Cash generated from operations			555		513
Defined benefit pension deficit funding		(72)		(48)	
Interest received		42		48	
Interest paid on bank and other loans		(72)		(85)	
Interest paid on finance leases		(3)		(3)	
Net taxation paid		(62)		(68)	
			(167)		(156)
Net cash inflow from operating activities			388		357
Cash flows from investing activities					
Acquisition of subsidiary undertakings, net of cash and cash equivalents acquired and debt repaid on acquisition	3.4	(38)		(14)	
Proceeds from sale of property, plant and equipment		-		2	
Acquisition of property, plant and equipment		(50)		(35)	
Acquisition of intangible assets		(11)		(8)	
Loans granted to associates and joint ventures		(9)		(6)	
Loans repaid by associates and joint ventures		3		2	
Proceeds from sale of subsidiaries, joint ventures and available for sale investments		4		2	
Net cash (outflow)/inflow from investing activities			(101)		(57)
Cash flows from financing activities					
Bank and other loans – amounts repaid		(309)		(331)	
Capital element of finance lease payments		(8)		(5)	
Dividend paid to minority interest		(1)		-	
Issue of share capital		4		-	
Purchase of own shares via employees' benefit trust		(3)		(6)	
Equity dividends paid		(78)		(16)	
Net cash outflow from financing activities			(395)		(358)
Net (decrease)/increase in cash and cash equivalents			(108)		(58)
Cash and cash equivalents at 1 January	4.1		801		860
Effects of exchange rate changes and fair value movements			(3)		(1)
Cash and cash equivalents at 31 December	4.1		690		801

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, whether these are effective in 2012 or later years. We explain how these changes are expected to impact the financial position and performance of the Group.

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

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

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

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

Going concern

As a result of the Group's continued generation of significant free cash flows through efficiencies in the balance sheet the Group continued to improve its positive net cash position, and has also continued to improve both its short-term and medium-term liquidity position (see Section 4 for details on capital structure and financing).

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

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

Subsidiaries, joint ventures, associates and special purpose entities

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

A joint venture is an entity 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.

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

Current/non-current distinction

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

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

Classification of financial instruments

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

- 'Loans and receivables' – separately disclosed as cash and cash equivalents (excluding gilts over which unfunded pension commitments have a charge) and trade and other receivables;
- 'Available for sale financial assets' – measured at fair value through other comprehensive income. Includes gilts over which unfunded pension commitments have a charge and equity securities that do not meet the definition of subsidiaries, joint ventures or associates;
- 'Held to maturity investments';
- 'Financial assets/liabilities at fair value through profit or loss' – separately disclosed as derivative financial instruments in assets/liabilities; and
- 'Financial liabilities measured at amortised cost' – separately disclosed as borrowings and trade and other payables.

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

Recognition and derecognition of financial assets and liabilities

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits with maturity of less than or equal to three months from the date of acquisition, cash held to meet certain finance lease commitments and gilts over which unfunded pension commitments have a charge. 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. The consolidated financial statements are therefore 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 that day. Foreign currency monetary assets and liabilities are translated into pounds sterling at the year end exchange rate. Where there is a movement in the exchange rate between the date of the transaction and the year end, a foreign exchange gain or loss may arise. Any such differences are recognised in the income statement. Non-monetary assets and liabilities measured at historical cost are translated into pounds sterling at the exchange rate on the date of the transaction.

The assets and liabilities of Group companies outside of the UK are translated into pounds sterling at the year end exchange rate. The revenues 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 equity and other comprehensive income.

Financial Statements

Section 1: Basis of Preparation *continued*

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

In respect of all Group companies outside of the UK only those translation differences arising since 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity. On disposal of an interest in a joint venture or an associate, the related translation reserve is released to the income statement as part of the gain or loss on disposal.

Accounting judgements and estimates

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

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

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

- Revenue recognition (note 2.1)
- Classification of financial instruments (included in this note)
- Acquisition accounting (note 3.3 and note 3.4)
- Consolidation of special purpose entities ('SPE's) (included in this note)

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

- Defined benefit pension schemes (note 3.7)
- Taxation (note 2.3)
- Provisions (note 3.6)
- Employee benefits (note 4.7)
- Business combinations (note 3.4)
- Intangible assets (note 3.3)
- Impairment of assets (note 3.2 and note 3.3)
- Programme rights and other inventory (note 3.1)
- Distribution rights (note 3.1)
- Trade receivables (note 3.1)

New or amended EU endorsed accounting standards

The table below represents new or amended EU endorsed accounting standards relevant to the Group's results that are effective in 2012:

Accounting Standard	Requirement	Impact on financial statements
IAS 12 Income taxes	The Amendment introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 Investment Property. The exception also applies to investment properties acquired in a business combination accounted for in accordance with IFRS 3 Business Combinations provided the acquirer subsequently measure these assets applying the fair value model.	The Group does not consider the amendment to IAS 12 to be applicable to the financial statements for the year ended on the basis that the Group does not own, nor has acquired, investment properties during the period.

The Directors also considered the impact on the Group of other new and revised accounting standards, interpretations or amendments on the Group that are currently endorsed but not yet effective. Except where noted below, none are considered relevant to the Group's results and are effective for periods beginning on or after 1 January 2014.

Accounting Standard	Requirement	Impact on financial statements
IAS 19 Revised – Employee Benefits	The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected return on plan assets to simple clarifications and rewording. The revised standard is effective for periods beginning on or after 1 January 2013, with retrospective application.	The Group has reviewed the amendments to IAS 19 and does not consider there to be any impact on the 2012 net assets. The impact on the income statement for 2012 would be an increase in finance costs of £7 million to £16 million, which is adjusted for in calculating adjusted profit, and an additional £7 million in operating costs to £15 million, which will be included within EBITA. The finance costs for 2013 under the revised standard are expected to be £21 million, and operating costs will be £13 million.
IAS 1 Financial Statement Presentation	The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified to the income statement at a future point in time would be presented separately from items that will never be reclassified. The amendment is effective for periods beginning on or after 1 July 2012.	The amendment affects presentation only and has therefore no impact on the Group's financial position or performance.
IFRS 7 Financial Instruments: Disclosures	The Amendments require additional disclosures about transfers of financial assets, e.g. securitisations, and should enable users to understand the possible effects of any risks that may remain with the transferor. Also required is additional disclosures where a disproportionate amount of transfer transactions take place around the end of the reporting period.	The Group has reviewed their disclosure of financial instruments to ensure they are in compliance with the amendments to IFRS 7.

Financial Statements

Section 1: Basis of Preparation *continued*

Accounting Standard	Requirement	Impact on financial statements
IFRS 10	<p>IFRS 10 replaces a portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities.</p> <p>IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27.</p>	Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.
IFRS 11	<p>IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly controlled entities – Non-monetary contributions by Venturers.</p> <p>IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.</p>	Based on the preliminary analyses performed, IFRS 11 is not expected to have any impact on the currently held investments of the Group.
IFRS 12	IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.	Although a number of new disclosures will be required, there is no impact expected on the Group's financial position or performance.
IFRS 13	IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The standard is effective for periods beginning on or after 1 January 2013.	The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on preliminary analyses, no material impact is expected.

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.

Earnings before interest, tax, amortisation (EBITA) and before exceptional items remains the Group's key profit indicator. This reflects the way the business is managed and how the Directors assess the performance of the Group.

Accounting policies

Revenue recognition

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

Class of revenue	Recognition criteria
Advertising	on transmission or display
Sponsorship	on transmission of the sponsored programme or series
Programme production	on delivery of episode and acceptance by the customer
Programme rights	when contracted and available for exploitation
Participation revenues (interactive & 'red button' services)	as the service is provided
Digital revenue: Archive and Video on Demand – one-off and top-up content	on delivery of content (one-off) or over the contract period in a manner that reflects the flow of content delivered (top-up)
Digital revenue: Catch-up	on receipt of third party reports showing revenue share calculation (showing subscribers and hours downloaded)

Segmental information

Operating segments, which have not been aggregated, are reported in a manner that is consistent with the internal

reporting provided to the Board of Directors, regarded as the chief operating decision maker.

The Board of Directors considers the business primarily from a product or activity perspective. The reportable segments for the years ended 31 December 2012 and 31 December 2011 are therefore 'Broadcast & Online' and 'ITV Studios', the results of which are outlined in the following tables:

	Broadcast & Online 2012 £m	ITV Studios 2012 £m	Consolidated 2012 £m
Total segment revenue	1,834	712	2,546
Intersegment revenue	–	(350)	(350)
Revenue from external customers	1,834	362	2,196
EBITA before exceptional items	413	107	520
Share of losses of joint ventures and associated undertakings	(1)	–	(1)

	Broadcast & Online 2011 £m	ITV Studios 2011 £m	Consolidated 2011 £m
Total segment revenue	1,820	612	2,432
Intersegment revenue	–	(292)	(292)
Revenue from external customers	1,820	320	2,140
EBITA before exceptional items	379	83	462
Share of losses of joint ventures and associated undertakings	(2)	–	(2)

Intersegment revenue, which is carried out on arms' length terms, is generated from the supply of ITV Studios

Financial Statements

Section 2: Results for the Year *continued*

programmes to Broadcast & Online for transmission primarily on ITV. This revenue stream is a measure which forms part of the Group's strategic priority of building a strong international content business and is included as a KPI.

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

Broadcast & Online

This segment is responsible for commissioning and scheduling programmes on the ITV channels, marketing and programme publicity and online rights exploitation. Broadcast & Online derives its revenue primarily from the sale of advertising airtime and sponsorship. Other sources of revenue are from participation revenue, digital revenue, online advertising and the digital terrestrial multiplex SDN.

ITV Studios

ITV Studios is an international productions business. It comprises ITV Studios UK (a commercial programme production business), international production centres in the USA, Germany, Australia, Sweden, Norway, Finland and France and ITV Studios Global Entertainment, the distribution and exploitation business.

A significant portion of ITV Studios' revenue is generated when it creates ideas that are then produced and sold as programming to the 'Broadcast & Online' segment, primarily for ITV. This is shown in the intersegment revenue in the segmental analysis.

ITV Studios Global Entertainment sells programming, exploits merchandising and licensing worldwide, and is a distributor of DVD entertainment primarily in the United Kingdom, both for ITV Studios and third parties.

EBITA before exceptional items

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

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

	2012 £m	2011 £m
EBITA before exceptional items	520	462
Operating exceptional items	(7)	1
Amortisation and impairment of intangible assets	(60)	(59)
Net financing costs	(99)	(75)
Share of losses of joint ventures and associated undertakings	(1)	(2)
Loss on sale and impairment of non-current assets (exceptional items)	(6)	(3)
Gain on sale and impairment of subsidiaries and investments (exceptional items)	1	3
Profit before tax	348	327

Whilst becoming more international, the Group's principal operations are in the United Kingdom. Its revenue from external customers in the United Kingdom is £1,895 million (2011: £1,900 million), and total revenue from external customers in other countries is £301 million (2011: £240 million).

There are three media buying agencies acting on behalf of a number of customers that represent the Group's major customers. These agencies are the only customers which individually represent over 10% of the Group's revenues. Revenues of approximately £486 million (2011: £480 million), £239 million (2011: £221 million) and £233 million (2011: £239 million) were derived from these customers. These revenues are attributable to the 'Broadcast & Online' segment.

Operating costs

Staff costs

Staff costs before exceptional items can be analysed as follows:

	2012 £m	2011 £m
Wages and salaries	236	220
Social security and other costs	35	36
Share-based compensation (see note 4.7)	9	11
Pension costs	20	20
	300	287

There are £5 million of staff costs within exceptional items in 2012 (2011: nil) which principally relate to redundancy payments as reorganisation in various parts of the business have taken place to drive operational efficiency. Total staff costs including exceptional items for the year ended 31 December 2012 are £305 million (2011: £287 million).

The number of full-time equivalent employees (excluding short-term contractors and freelancers), calculated on a weighted average basis, during the year was:

	2012	2011
Broadcast & Online	2,102	2,271
ITV Studios	1,957	1,687
	4,059	3,958

The increase in full-time equivalent employees in ITV Studios is primarily driven by the transfer of Breakfast staff from Broadcast & Online to ITV Studios, as well as the increase in staff resulting from the four acquisitions in the year.

Details of Directors' emoluments, share options, pension entitlements and long-term incentive scheme interests are set out in the Remuneration Report.

Depreciation

Depreciation in the year was £27 million (2011: £26 million), of which £15 million (2011: £15 million) relates to 'Broadcast & Online' and £12 million (2011: £11 million) to 'ITV Studios'.

Operating leases

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

2012	Transponders	Property	Total
Within 1 year	29	12	41
Later than 1 year and not later than 5 years	137	29	166
Later than 5 years	220	91	311
	386	132	518

2011 (restated)	Transponders	Property	Total
Within 1 year	12	10	22
Later than 1 year and not later than 5 years	153	31	184
Later than 5 years	275	88	363
	440	129	569

The Group's operating leases relate to transponder assets and office and studio properties. The Group holds transmission supply agreements that require the use of specific transponder assets for a period of up to 12 years with payments increasing over time, limited by specific RPI caps. These supply agreements are classified as operating leases, in accordance with the Group's policy on leases detailed in Section 3.2. The transponder operating lease disclosures in 2011 have been restated principally to remove the impact of discounting from the minimum future payments.

Included in 2012 property commitments are future minimum lease payments of £82 million contracted on the London Television Centre, a property which the Group acquired subsequent to year end in January 2013 (see note 5.3).

Property leases typically run for a period of between 3 and 15 years and may have an option to renew after that date. Lease payments are generally subject to market review every 5 years to reflect market rentals, but because of the uncertainty over the amount of any future changes, such changes have not been reflected in the table above. None of the leases include contingent rentals.

The total future minimum sublease payments expected to be received under non-cancellable subleases at the year end is £4 million (2011: £4 million).

The total operating lease expenditure recognised during the year was £40 million (2011: £42 million) and total sublease payments received was £2 million (2011: £4 million).

Audit fees

The Group engages KPMG Audit Plc ('KPMG') on assignments additional to their statutory audit duties where their expertise and experience with the Group are important. The Group's policy on such assignments is set out in the Audit Committee Report.

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

	2012 £m	2011 £m
For the audit of the Group's annual accounts	0.8	0.7
For the audit of subsidiaries of the Group	0.1	0.1
Audit-related assurance services	0.1	0.1
Total Audit and Audit-Related assurance services	1.0	0.9
Taxation compliance services	0.1	0.1
Taxation advisory services	0.3	0.7
Non-Audit Services	0.4	0.8
	1.4	1.7

There were no fees payable in 2012 or 2011 to KPMG and associates for the auditing of accounts of any associate of the Group, internal audit services, services relating to corporate finance transactions entered into or proposed to be entered into, by or on behalf of the Group or any of its associates.

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

Financial Statements

Section 2: Results for the Year *continued*

2.2 Exceptional Items

Keeping it simple . . .

Exceptional items are material and non-recurring items excluded from management's assessment of profit because by their nature they could distort the Group's underlying quality of earnings. These are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis.

Accounting policies

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

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

Exceptional items

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

(Charge)/credit	Ref.	2012 £m	2011 £m
Operating exceptional items:			
Reorganisation and restructuring costs	A	(5)	–
Onerous property provision		–	1
Acquisition related expenses	B	(2)	–
Total net operating exceptional items		(7)	1
Non-operating exceptional items:			
Loss on sale and impairment of non-current assets	C	(6)	(3)
Gain on sale and impairment of subsidiaries and investments	D	1	3
Total non-operating exceptional items		(5)	–
Total exceptional items before tax		(12)	1

A – Reorganisation and restructuring costs

There were £5 million of exceptional restructuring costs in 2012 in relation to restructuring initiatives to drive cost efficiency in line with the strategy (2011: no exceptional reorganisation or restructuring costs).

B – Acquisition related expenses

Charges of £2 million principally relate to professional fees (mainly financial and legal due diligence) incurred on the four acquisitions completed during the period (see note 3.4), and expenses in the period with respect to post-combination remuneration costs accrued to former owners (2011: nil).

C – Loss on sale and impairment of non-current assets

In 2012 a £6 million (2011: £3 million) loss on sale and impairment of non-current assets was incurred primarily as a result of an impairment on the premises in Manchester of £5 million, arising from the decision to reclassify the properties to assets held for sale (see note 3.5).

D – Gain on sale and impairment of subsidiaries and investments

The £1 million credit relates to a £3 million gain on the sale of Screenvision US (Technicolor Cinema Advertisers LLC), offset by £2 million of impairment charges on investments in Freesat (UK) Limited and NoHo Film and Television Limited. In 2011 the £3 million gain principally related to the sale of Screenvision Holdings (Europe) Limited.

2.3 Taxation

Keeping it simple . . .

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

Accounting policies

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

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

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

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

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

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

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

Taxation – Income statement

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

	2012 £m	2011 £m
Current tax:		
Current tax charge before exceptional items	(63)	(60)
Current tax charge on exceptional items	(2)	–
	(65)	(60)
Adjustments for prior periods	10	19
	(55)	(41)
Deferred tax:		
Origination and reversal of temporary differences	(30)	(38)
Adjustments for prior periods	5	–
	(25)	(38)
Total taxation charge in the income statement	(80)	(79)

In order to understand how, in the income statement, a tax charge of £80 million (2011: £79 million) arises on a profit before tax of £348 million (2011: £327 million), the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2012 £m	2011 £m
Profit before tax	348	327
Taxation charge at UK corporation tax rate of 24.5% (2011: 26.5%)	(85)	(87)
Non-taxable income/non-deductible expenses	(4)	(7)
Recognition of previously unrecognised temporary differences	8	11
Adjustments for prior periods	7	8
Impact of changes in tax rate	(3)	(3)
Other	(3)	(1)
Total taxation charge in the income statement	(80)	(79)

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

Tax losses brought forward may be utilised against current year profits if the brought forward losses and the current year profits are of the same type. Use of tax losses in this way leads to a reduction of the tax charge.

Financial Statements

Section 2: Results for the Year *continued*

A deferred tax credit of £8 million is recognised on overseas temporary differences in the USA and Germany. The deferred tax credit of £11 million in 2011 was on financing losses linked to previous investments ('loan relationship deficits') following the successful conclusion of an enquiry with the tax authorities.

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

The effective tax rate is the tax charge on the face of the income statement expressed as a percentage of the

profit before tax. In the year ended 31 December 2012, the effective tax rate is lower than the standard rate of UK corporation tax primarily because of adjustments for prior periods and recognition of overseas deferred tax assets. In the year ended 31 December 2011, the effective tax rate was lower than the standard rate of UK corporation tax primarily due to the settlement of outstanding matters in the overseas business. As explained in the Financial and Performance Review, the Group uses an adjusted tax rate to show the cash tax impact on its adjusted earnings.

Taxation – Other comprehensive income

Within other comprehensive income a tax credit totalling £53 million (2011: credit of £30 million) has been recognised representing deferred tax. An analysis of this is included below in the deferred tax movement table.

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 2012 £m	Recognised in the income statement £m	Recognised in equity £m	31 December 2012 £m
Property, plant and equipment	1	(7)	–	(6)
Intangible assets	(49)	15	–	(34)
Programme rights	1	–	–	1
Pension scheme deficits	71	(27)	52	96
UK tax losses	32	(15)	–	17
Interest-bearing loans and borrowings, and derivatives	(1)	1	–	–
Share-based compensation	8	–	1	9
Overseas	–	9	–	9
Other	2	(1)	–	1
	65	(25)	53	93

	At 1 January 2011 £m	Recognised in the income statement £m	Recognised in equity £m	31 December 2011 £m
Property, plant and equipment	2	(1)	–	1
Intangible assets	(65)	16	–	(49)
Programme rights	2	(1)	–	1
Pension scheme deficits	76	(35)	30	71
UK tax losses	50	(18)	–	32
Interest-bearing loans and borrowings, and derivatives	(1)	–	–	(1)
Share-based compensation	7	1	–	8
Other	2	–	–	2
	73	(38)	30	65

At 31 December 2012, total deferred tax assets are £133 million (2011: £115 million) and total deferred tax liabilities are £40 million (2011: £50 million).

The deferred tax balance relates to:

- property, plant and equipment timing differences arising on assets qualifying for capital allowances;
- timing differences on intangible assets arising on business combinations;
- programme rights timing differences on intercompany profits on stock;
- pension scheme deficit timing differences on the IAS 19 pension deficit, additional contributions resulting from funding through the SDN pension partnership (not recognised as contributions under IAS 19) and the spreading of tax relief on one-off large pension funding payments;
- UK tax loss timing differences in receiving the benefit of the Group's tax losses;
- interest-bearing loans and borrowings and derivatives timing differences on hedging instruments;
- share-based compensation timing differences on share schemes;
- overseas timing differences on intangible assets and net operating losses arising in the US and Germany; and
- other timing differences on miscellaneous items including sale and leaseback arrangements and various provisions.

Due to the change in the statutory tax rate, deferred tax is provided at 23% (2011: 25%), which is the rate that has been substantively enacted to apply from 1 April 2013. The impact of the change in the tax rate is £7 million (2011: £6 million), of which £3 million was recognised in the deferred tax charge and the remainder recognised in equity to reflect the movements in the pension deficit taken to equity.

The deferred tax balance associated with the pension deficit has been adjusted to reflect the current tax benefit obtained in the current year following the employer contributions of £82 million to the Group's defined benefit pension scheme. The adjustment in equity to the deferred tax balance primarily relates to the actuarial losses recognised in the period.

A deferred tax asset of £513 million (2011: £558 million) in respect of capital losses of £2,230 million (2011: £2,230 million) has not been recognised due to uncertainties as to the amount and whether a capital gain will arise in the appropriate form and relevant territory against which such losses could be utilised. For the same reasons, deferred tax

assets in respect of overseas losses of £13 million (2011: £9 million) that time expire between 2017 and 2026 have not been recognised.

2.4 Earnings per share



Keeping it simple . . .

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

Basic EPS is calculated on the Group profit for the year attributable to equity shareholders of £267 million (2011: £247 million) divided by 3,888 million (2011: 3,883 million) being the weighted average number of shares in issue during the year.

Diluted EPS takes into account the dilutive effect of all share options being exercised and assumes that the £135 million convertible bond is converted to shares in its entirety.

Basic EPS is adjusted in order to more accurately show the business performance of the Group in a consistent manner and reflect how the business is managed and measured on a day-to-day basis. Adjusted EPS is adjusted for exceptional items, impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments and prior period and other tax adjustments.

The calculation of basic, diluted and adjusted EPS is set out below:

Earnings per share 2012

	Ref.	Basic £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc		267	275
Weighted average number of ordinary shares in issue – million		3,888	3,888
Dilution due to share options		–	43
Dilution due to convertible bond	A	–	192
Total weighted average number of ordinary shares in issue – million		3,888	4,123
Earnings per ordinary share		6.9p	6.7p

Financial Statements

Section 2: Results for the Year *continued*

Adjusted earnings per share 2012

	Ref.	Adjusted £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc	A	267	275
Exceptional items	B	10	10
Profit for the year before exceptional items		277	285
Amortisation and impairment of acquired intangible assets	C	37	37
Adjustments to net financing costs	D	42	42
Other tax adjustments	E	2	2
Adjusted profit	F	358	366
Total weighted average number of ordinary shares in issue – million		3,888	4,123
Adjusted earnings per ordinary share		9.2p	8.9p

Earnings per share 2011

	Ref.	Basic £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc		247	255
Weighted average number of ordinary shares in issue – million		3,883	3,883
Dilution due to share options		–	36
Dilution due to convertible bond	A	–	192
Total weighted average number of ordinary shares in issue – million		3,883	4,111
Earnings per ordinary share		6.4p	6.2p

Adjusted earnings per share 2011

	Ref.	Adjusted £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc		247	255
Exceptional items	B	(1)	(1)
Profit for the year before exceptional items		246	254
Amortisation and impairment of acquired intangible assets	C	35	35
Adjustments to net financing costs	D	18	18
Other tax adjustments	E	7	7
Adjusted profit	F	306	314
Total weighted average number of ordinary shares in issue – million		3,883	4,111
Adjusted earnings per ordinary share		7.9p	7.6p

The rationale for determining the adjustments to profit is provided in the Financial and Performance Review. Details of the adjustments to earnings are below:

- A.** Diluted earnings per share are impacted by the £135 million 2016 convertible Eurobond issued in November 2009. Diluted profit for the year attributable to equity shareholders of ITV plc includes an adjustment for interest and accretion on the convertible Eurobond which would not have been incurred if the bond had been converted to equity in the period.
- B.** The exceptional items detailed in Section 2.2 are adjusted to reflect profit for the year before exceptional items. A tax credit of £2 million (2011: nil) is recognised on the operating exceptional items of £7 million (2011: £1 million credit). There is no tax credit recognised on the non-operating exceptional items of £5 million.
- C.** Amortisation and impairment of acquired intangible assets of £37 million (2011: £35 million) is calculated as total amortisation and impairment of £60 million (2011: £59 million), less amortisation of software licences and development of £11 million (2011: £12 million). A related tax credit of £12 million (2011: £12 million) is then recognised on the net amount.
- D.** Adjustments to net financing costs of £42 million (2011: £18 million) is calculated as the gross adjustment of £55 million (2011: £25 million), reduced by a tax credit of £13 million (2011: £7 million). Adjustments primarily relate to mark-to-market movements on swaps and foreign exchange, losses on buybacks and imputed pension interest charges.
- E.** Other tax adjustments reflect the impact on the deferred tax charge of the decrease in the statutory tax rate from 24.5% to 23%. In 2011, the adjustment of £7 million was made to reflect the reversal of the credit arising from the recognition of the deferred tax asset on certain losses, which were partially offset by those losses utilised.
- F.** Adjusted profit is defined as profit for the year before exceptional items, amortisation and impairment of acquired intangible assets, net financing cost adjustments and other tax adjustments.

Section 3: Operating Assets and Liabilities

In this section . . .

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are addressed in Section 4. Deferred tax assets and liabilities are shown in Section 2.3.

On the following pages there are sections covering working capital, non-current assets, acquisitions and disposals, other payables due after more than one year, provisions and pensions.

3.1 Working capital

Keeping it simple . . .

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

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

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

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

3.1.1 Distribution rights

Accounting policies

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

Distribution rights are recognised initially at cost and charged through operating costs in the income statement over a maximum five-year period that is dependent on either cumulative sales and programme genre, or based on forecast future sales. Certain film rights are expensed over a period of up to ten years reflecting the estimated longer period over which these types of rights can be exploited. These estimates are based on historical experience with similar rights as well as anticipation of future events. 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.

Movements in distribution rights during the year are shown in the table below:

	2012 £m	2011 £m
Cost:		
At 1 January	125	111
Additions	15	14
At 31 December	140	125
Charged to income statement:		
At 1 January	114	99
Charge for the year	9	15
At 31 December	123	114
Net book value	17	11

3.1.2 Programme rights and other inventory

Accounting policies

Where programming, sports rights and film rights are acquired for the primary purpose of broadcasting, these are recognised within current assets.

Assets are recognised when the Group controls the respective assets and the risks and rewards associated with them.

For acquired programme rights, assets are recognised as payments are made and are recognised in full when the programme is available for transmission. Programmes produced internally, either for the purpose of broadcasting or to be sold in the normal course of the Group's operating cycle, are recognised within current assets at production cost.

Financial Statements

Section 3: Operating Assets and Liabilities *continued*

Programme costs and rights, including those acquired under sale and leaseback arrangements, are generally expensed to operating costs in full on first transmission. Film rights, sports rights and certain acquired programmes are expensed over a number of transmissions reflecting the pattern in which the right is consumed.

Programme costs and rights not yet written off 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. For programme stock, sports rights and film rights, the net realisable value assessment is based on estimated airtime value, with consideration given to whether the number of transmissions purchased can be efficiently played out over the licence period. Any reversals of write-downs for programme costs and rights are recognised as a reduction in operating costs.

Historically, ITV has entered into sale and leaseback agreements in relation to certain programme titles. Related outstanding sale and leaseback obligations, which comprise the principal and accrued interest, are included within borrowings. The finance related element of the agreement is charged to the income statement over the term of the lease on an effective interest basis. Sale and leaseback obligations are secured against an equivalent cash balance held within cash and cash equivalents.

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

	2012 £m	2011 £m
Acquired programming	102	122
Production	95	87
Commissions	24	36
Sports rights	28	36
Prepayments	–	2
Other	1	2
	250	285

Production inventory comprises the costs incurred by ITV Studios in producing a programme, where the programme is part way through the production process and not yet available for delivery to a broadcaster. Commissions primarily comprise programmes purchased based on editorial specification, over which the Group has some control.

Programme rights and other inventory written down in the year were £3 million (2011: £5 million). There have been no reversals relating to inventory previously written down to net realisable value (2011: £nil).

3.1.3 Programme commitments

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

	2012 £m	2011 £m
Within one year	439	396
Later than one year and not more than five years	474	599
More than five years	47	85
	960	1,080

3.1.4 Trade and other receivables

Accounting policies

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

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

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

Trade and other receivables can be analysed as follows:

	2012 £m	2011 £m
Due within one year:		
Trade receivables	264	271
Other receivables	43	22
Prepayments and accrued income	58	77
	365	370
Due after more than one year:		
Trade receivables	14	26
Total trade and other receivables	379	396

£278 million (2011: £297 million) of total trade receivables that are not impaired are aged as follows:

	2012 £m	2011 £m
Current	274	277
Up to 30 days overdue	2	4
Between 30 and 90 days overdue	2	5
Over 90 days overdue	-	11
	278	297

As at 31 December 2012, trade receivables of £7 million (2011: £11 million) were provided against. Movements in the Group's provision for impairment of trade receivables can be shown as follows:

	2012 £m	2011 £m
At 1 January	11	8
Charged during the year	3	8
Receivables written off during the year as uncollectable (utilisation of provision)	(4)	(1)
Unused amounts reversed	(3)	(4)
At 31 December	7	11

The £7 million provision for doubtful debts is aged as £4 million due in more than 90 days and £3 million due in up to 30 days from the reporting date.

The table below shows the Group's net receivables relating to non-consolidated licensees in the 'Broadcast & Online' segment, where the Group has both supplier and customer relationships.

	2012 £m	2011 £m
Trade receivables – current	6	9
Trade receivables – past due but not impaired	1	12
Other receivables	-	5
Trade and other payables	(1)	(4)
	6	22

3.1.5 Trade and other payables due within one year

Accounting policies

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

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

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

	2012 £m	2011 £m
Trade payables	34	69
Social security	7	16
Other payables	189	183
Accruals and deferred income	384	371
	614	639

3.1.6 Trade payables due after more than one year

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

	2012 £m	2011 £m
Trade payables	30	45

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

3.1.7 Working capital management

Cash and working capital management continues to be a key focus. During the year the cash inflow from working capital was £1 million (2011: £18 million) derived as follows:

	2012 £m	2011 £m
Decrease in programme rights and other inventory and distribution rights	29	-
Decrease in receivables	17	52
Decrease in payables	(45)	(34)
Working capital inflow	1	18

The decrease in programme rights and other inventory is largely driven by a reduction in acquired films and sports rights.

Financial Statements

Section 3: Operating Assets and Liabilities *continued*

Agreements with non-consolidated licensees resulted in a reduction in receivables. Changes to the timing of broadcast infrastructure payments drove a reduction in prepayments from the prior year.

The decrease in payables primarily relates to trade payables, and results from reductions in programme and sports rights creditors.

3.2 Property, plant and equipment

Keeping it simple . . .

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

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

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

Accounting policies

Property, plant and equipment

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

Leases

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

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

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

All other leases are operating leases, the rentals on which are charged to the income statement on a straight-line basis over the lease term.

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 properties	shorter of residual lease term or 60 years
Leasehold improvements	shorter of residual lease term or estimated useful life
Vehicles, equipment and fittings ¹	3 to 20 years

¹ Equipment includes studio production and technology assets.

Impairment of assets

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

Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	Freehold land and buildings	Improvements to leasehold land and buildings		Vehicles, equipment and fittings		Total
	£m	Long £m	Short £m	Owned £m	Finance leases £m	
Cost						
At 1 January 2011	52	52	20	225	15	364
Additions	-	5	-	39	-	44
Additions from acquisition	-	-	-	5	-	5
Disposals, retirements and reclassifications	(1)	2	(2)	(64)	(1)	(66)
At 31 December 2011	51	59	18	205	14	347
Additions	-	18	-	33	2	53
Reclassification to intangible assets	-	-	-	(6)	-	(6)
Reclassification to assets held for sale	(37)	(1)	-	(8)	-	(46)
Disposals and retirements	-	-	(2)	(21)	-	(23)
At 31 December 2012	14	76	16	203	16	325
Depreciation						
At 1 January 2011	8	12	16	168	9	213
Charge for the year	2	2	1	18	3	26
Accumulated depreciation from acquisition	-	-	-	5	-	5
Disposals, retirements and reclassifications	(1)	1	(2)	(61)	(1)	(64)
At 31 December 2011	9	15	15	130	11	180
Charge for the year	1	2	1	20	3	27
Impairment charge for the year (see note 2.2)	5	-	-	-	-	5
Reclassification to assets held for sale	(12)	(1)	-	(8)	-	(21)
Disposals and retirements	-	-	(1)	(21)	-	(22)
At 31 December 2012	3	16	15	121	14	169
Net book value						
At 31 December 2012	11	60	1	82	2	156
At 31 December 2011	42	44	3	75	3	167

Of total additions, £3 million relate to acquisitions made in the year (2011: nil).

Included within the book values above is expenditure of £38 million (2011: £27 million) on property, plant and equipment that are in the course of construction.

Included within disposals and retirements are net impairments of £nil (2011: £3 million) to net book value, resulting from a review of tangible assets for obsolescence in the period. The net impairment comprised £21 million of cost and £21 million of accumulated depreciation (2011: £67 million and £64 million respectively).

Capital commitments

There are £10 million of capital commitments at 31 December 2012 (2011: £10 million) which primarily relate to the development at MediaCity, including the new location for Coronation Street, in Manchester.

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 revenues and profits.

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

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

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

Accounting policies

Goodwill

Goodwill represents the future economic benefits that arise from assets that are not capable of being individually identified and separately recognised. The goodwill recognised by the Group has all arisen as a result of business combinations.

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 non-controlling interests of the business being bought), less the fair value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. Any contingent consideration to be transferred will be recognised at fair value at the acquisition date. 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 recognised in equity. A call option is recognised as a derivative financial instrument, carried at fair value. The put option is recognised as a liability within Other payables, carried at the present value of the put option exercise price, and a corresponding charge is included in Merger and Other Reserves. Any subsequent remeasurement of the call option and the put option liability is recognised within finance income or cost.

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

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

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

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

Other intangible assets

Other intangible assets are those which are identifiable and can be sold separately or which arise from legal rights.

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

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

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

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

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

* Internally generated software development costs in relation to itv.com are expensed as incurred.

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, expected changes to selling prices, operating costs and the expected useful lives of assets. Judgements are also made regarding whether and for how long licences will be renewed; this drives our amortisation policy for those assets.

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

Amortisation

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

Impairment

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

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

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

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

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

Growth assumptions derived from the Transformation Plan are not included in the estimated future cash flows used as the Group applies cautious assumptions for impairment testing.

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

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

Intangible assets

Intangible assets can be analysed as follows:

	Goodwill £m	Brands £m	Customer contracts and relationships £m	Contractual arrangements £m	Licences £m	Software licences and development £m	Film libraries and other £m	Total £m
Cost								
At 1 January 2011	3,365	173	328	–	121	54	79	4,120
Additions	14	–	–	–	–	10	–	24
Disposals	–	–	–	–	–	(2)	–	(2)
At 31 December 2011	3,379	173	328	–	121	62	79	4,142
Additions	26	2	4	10	–	10	–	52
Reclassification from tangible assets	–	–	–	–	–	6	–	6
At 31 December 2012	3,405	175	332	10	121	78	79	4,200
Amortisation and impairment								
At 1 January 2011	2,654	110	269	–	56	27	35	3,151
Charge for the year	–	17	18	–	9	12	3	59
Disposals	–	–	–	–	–	(2)	–	(2)
At 31 December 2011	2,654	127	287	–	65	37	38	3,208
Charge for the year	–	16	19	–	9	11	2	57
Impairments	–	–	–	–	–	–	3	3
At 31 December 2012	2,654	143	306	–	74	48	43	3,268
Net book value								
At 31 December 2012	751	32	26	10	47	30	36	932
At 31 December 2011	725	46	41	–	56	25	41	934

Goodwill, brands, customer contracts and contractual arrangements have increased by £26 million, £2 million, £4 million and £10 million respectively in 2012 following the acquisitions of four production companies, as detailed in note 3.4 (2011: £14 million increase due to the acquisition of Channel Television Holdings Limited, nil other intangibles).

Included within the book values above is expenditure of £6 million (2011: £10 million) on software that is in the course of development.

During the year, computer software with a value of £6 million was identified as being held within property, plant and equipment and was subsequently reclassified to intangible assets.

Goodwill impairment tests

The following CGUs represent the carrying amounts of goodwill.

	2012 £m	2011 £m
Broadcast & Online	342	342
SDN	76	76
ITV Studios	333	307
	751	725

There has been no impairment charge for the year (2011: 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.

Financial Statements

Section 3: Operating Assets and Liabilities *continued*

Cash flow projections are based on the Group's current five-year plan. Beyond the five-year plan these projections are extrapolated using an estimated long-term growth rate of 1%–2.5% (2011: 1%–2.5%) depending on the CGU. The growth rates used are consistent with the long-term average growth rates for the industry and are appropriate because these are long-term businesses.

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

Broadcast & Online

The goodwill in this CGU arose as a result of the acquisition of broadcasting businesses since 1999, the largest of which were the acquisition by Granada of United News and Media's broadcast businesses in 2000 and the merger of Carlton and Granada in 2004 to form ITV plc.

No impairment charge arose in the Broadcast & Online CGU during the course of 2012 (2011: nil).

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

The key assumption in assessing the recoverable amount of Broadcast & Online goodwill is the size of the television advertising market. In forming its assumptions about the television advertising market, the Group has used a combination of long-term trends, industry forecasts and in-house estimates, which place greater emphasis on recent experience. Industry consensus is flat for 2013 and 3.0% for 2014. The impairment test also assumed that ITV renews its broadcasting licences before 2014. No impairment was identified. Also as part of the review, cautious assumptions of -5% were applied for both years to the industry consensus for the purposes of the impairment test, again with no impairment identified.

A pre-tax market discount rate of 12.3% (2011: 11.6%) has been used in discounting the projected cash flows.

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

SDN

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

No impairment charge arose on the SDN goodwill during the course of 2012 (2011: nil).

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

A pre-tax market discount rate of 14.4% (2011: 12.7%) has been used in discounting the projected cash flows.

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

ITV Studios

The goodwill for ITV Studios arose as a result of the acquisition of production businesses since 1999, the largest of which were the acquisition by Granada of United News and Media's production businesses in 2000 and the merger of Carlton and Granada in 2004 to form ITV plc.

No impairment charge arose in the ITV Studios CGU during the course of 2012 (2011: nil).

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

A pre-tax market discount rate of 12.9% (2011: 12.4%) has been used in discounting the projected cash flows.

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

3.4 Acquisitions



Keeping it simple . . .

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

Acquisitions

During 2012 the Group completed four acquisitions of which Gurney Productions LLC ('Gurney') was the most significant. The following sections provide a summary of each acquisition.

Gurney Productions

On 31 December 2012, the Group acquired 61.5% of the membership interest in Gurney, a US productions company specialising in factual entertainment. A non-controlling interest was recognised over the remaining equity.

Consideration of £25 million (\$40 million) was satisfied in cash, and a call and put option granted over the remaining 38.5% equity. The Group's call option is exercisable after the finalisation of the 2015 accounts, with the vendor's put options exercisable following the close of the call period and in 2018. The call option has been recognised at £nil since the exercise price would result in the acquisition of the remaining 38.5% interest at fair value. The discounted put option liability ('options') at the acquisition date was £12 million.

The maximum consideration which the Group could pay for the remaining 38.5% equity interest is £44 million (\$71 million; undiscounted). Final payment will be entirely dependent on future performance of the business.

The addition of Gurney fits with the Group's strategy of building a strong international content business. It is the Group's view that the acquisition will strengthen and complement ITV's existing position as a producer for major US television networks. The acquisition will form part of the ITV Studios operating segment. Intangibles, being the value placed on brands, customer contracts and contractual arrangements, of £8 million were identified. Goodwill of £20 million represents the value placed on the opportunity to expand the Group's programme offering in the United States and the assembled workforce of creative talent who will develop that content. Goodwill is expected to be deductible for tax purposes.

The Group will consolidate all of Gurney's earnings and will reassess the fair value of the liability to the sellers at each reporting date, with changes in fair value reported within financing costs on the income statement, adjusted for in determining adjusted profit. The options give rise to a further £3 million has been treated as post-combination remuneration and will be accrued over the life of the option and reported within exceptional items relating to acquisitions in the income statement.

So Television

On 22 August 2012, the Group acquired 100% of the share capital of So Television Limited ('So TV'), an entertainment and comedy productions company based in the UK. Initial consideration of £10 million was paid. The Group also agreed to further performance-based consideration of up to a maximum of £7 million (undiscounted), which has been treated as post-combination remuneration and will be accrued over the earnout period and will be reported within exceptional items relating to acquisitions in the income statement.

So TV is another acquisition that fits with the Group's strategy to create world class content for multiple platforms, free and pay, both in the UK and internationally. The acquisition will form part of the ITV Studios operating segment. Intangibles, being the value placed on key contractual arrangements, of £8 million were identified. Goodwill of £3 million represents the value placed on the opportunity to diversify and grow the content and formats produced by the Group. The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Financial Statements

Section 3: Operating Assets and Liabilities *continued*

Mediacircus and Tarinatalo

On 31 July and 8 October 2012, the Group acquired 100% of the share capital of Norwegian company Mediacircus AS and Finnish company Tarinatalo OY respectively.

In total, consideration of £3 million was paid in cash, and a contingent consideration of £1 million will be payable based on the future performance of the businesses. The maximum undiscounted consideration, which is based on performance of the business, is £3 million. An estimate based on projected performance at the time of acquisition, along with the initial consideration paid, was included in the acquisition accounting and calculation of goodwill. Subsequent revisions to the contingent consideration will be reported within financing costs on the income statement, and adjusted for in determining adjusted profit.

Further performance-based consideration of up to a maximum of £4 million has been accounted for as post-combination remuneration as it is considered to be linked to employment conditions. Costs accrued in relation to this will be included in exceptional items relating to acquisitions in the income statement.

Both acquisitions will extend ITV Studios' production capacity in the Nordics. ITV Studios already has a presence in Sweden and both companies will form part of the ITV Studios operating segment. Intangibles, being the value placed on key contractual arrangements, were identified. The goodwill of £3 million arising from these acquisitions represents the operational benefits to the Group from expanding its operations in the Nordics, a key focus area for ITV Studios. The goodwill arising on the acquisitions is not expected to be deductible for tax purposes.

Acquisition costs largely comprise legal and financial diligence fees. In 2012, £2 million of costs relating to the acquisition were expensed as exceptional items relating to acquisitions in the income statement (see note 2.2). Of these costs, £1 million relates to the acquisition of Gurney.

Effect of acquisition

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

£m	Recognised values on acquisition		2012 Total	2011 Total
	Gurney	Other		
Consideration transferred:				
Initial consideration (net of cash acquired)	25	13	38	–
Contingent consideration	–	1	1	–
Total consideration	25	14	39	–
Fair value of net assets acquired (Note A):				
Property, plant and equipment	3	–	3	–
Intangible assets	8	8	16	–
Trade and other receivables	7	3	10	2
Borrowings	–	–	–	(14)
Trade and other payables	(1)	(3)	(4)	(1)
Current tax liabilities	–	–	–	(1)
Fair value of net assets	17	8	25	(14)
Non-controlling interest measured at fair value	12	–	12	–
Goodwill	20	6	26	14
Other information:				
Present value of the liability on options	12	–	12	–
Present value of the expected remuneration payment	3	6	9	–
Contributions to the Group's performance:				
Revenue - acquisition to date	–	6	6	–
Profit after tax - acquisition to date	–	–	–	–
Revenue - January to December	28	19	47	3
Profit after tax - January to December	4	2	6	(2)

Note A: Provisional details of fair value of net assets acquired are set out in the table above. The analysis is provisional and amendments may be made to these figures in the 12 months following the date of the acquisition.

Fair value of the consideration transferred comprises the initial cash paid to the sellers and an estimate for any future payments the Group may be liable to pay, based on future performance of the business. This latter amount is classified as contingent consideration.

The total expected remuneration payment reflects the present value of the future amount the Group estimates it will have to pay the sellers based on employment conditions set out in the purchase agreement (separate to any employment contract). This payment does not form part of the calculation of goodwill.

Acquisitions in 2011

On 22 November 2011, the Group acquired 100% of the ordinary shares in Channel Television Holdings Limited, holder of the Channel 3 licence in the Channel Islands, as part of the simplification of the Group's network arrangements. Consideration of £1 satisfied in cash was paid along with repayment of £14 million of loans to the vendor.

Goodwill arising on acquisition represents the operational benefits to the Group from simplifying its network arrangements.

3.5 Assets held for sale and disposals

Keeping it simple . . .

The following section outlines what the Group is either holding for sale or has disposed of in the year.

Accounting policies

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through sale, rather than continuing use; they are available for immediate sale; and the sale is highly probable. A disposal group consists of assets that are to be disposed of, by sale or otherwise, in a single transaction together with the directly associated liabilities. The Group includes goodwill acquired in a business combination if the disposal group is a cash-generating unit to which goodwill has been allocated.

On initial classification as held for sale, non-current assets or components of a disposal group are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment on a disposal group is first allocated to goodwill and then to remaining assets and liabilities on a pro rata basis, except to programming rights and other inventory, financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies. Impairment on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment.

No amortisation or depreciation is charged on non-current assets (including those in disposal groups) classified as held for sale. Assets classified as held for sale are disclosed separately on the face of the statement of financial position and classified as current assets or liabilities, with disposal groups being separated between assets held for sale and liabilities held for sale.

Disposals

There were no significant disposals during 2012.

On 25 March 2011 the Group disposed of its long leasehold interest in property at Bedford for a total consideration of £2 million resulting in an immaterial gain on sale. This property was included within assets held for sale in 2010 and 2011 up to the point of sale.

Assets held for sale

The movement in assets held for sale since 1 January 2012 is summarised in the table below:

	2012 £m
At 1 January 2012	-
Disposal of properties held for sale	-
Property reclassified to held for sale	25
At 31 December 2012	25

During the year the Group began actively marketing certain freehold properties in Manchester. The reclassification to held for sale follows the Group's decision to relocate to a new site at Media City. Disposal of the properties is expected within the next 12 months. The properties, and their related fittings, were transferred from property, plant and equipment at fair value of £25 million, resulting in an impairment of £5 million.

Financial Statements

Section 3: Operating Assets and Liabilities *continued*

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	Restructuring provisions £m	Property provisions £m	Other provisions £m	Total £m
At 1 January 2012	10	2	6	15	33
Addition	5	5	4	–	14
Utilised	(5)	(3)	(2)	–	(10)
At 31 December 2012	10	4	8	15	37

Provisions of £25 million are classified as current liabilities (2011: £24 million). Unwind of the discount is nil in 2012 and 2011.

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

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

Other provisions of £15 million primarily relate to potential liabilities that may arise as a result of Boxclever having been placed into administration, most of which relate to pension arrangements. On 21 December 2011, the Determinations Panel of The Pensions Regulator determined that Financial Support Directions ('FSD') should be issued against certain companies within the Group in relation to the Boxclever pension scheme. The Group immediately lodged an appeal against this decision with the Upper Tribunal. An FSD would require the Company to put in place financial support for the Boxclever scheme; however, it cannot be issued during the period of the appeal. In Spring 2012, the Boxclever Trustees joined the case as an interested party and submitted their statement of case. The Group submitted a reply in October 2012. The appeal process is ongoing. While there is a wide range of potential outcomes, the Directors obtained leading counsel's opinion and extensive legal advice and continue to believe that the provision held is adequate.

3.7 Pensions

Keeping it simple . . .

The Group has previously offered its employees the opportunity to participate in a number of defined benefit schemes; these are now closed to new members. The ITV Pension Scheme (the Scheme) consists of three sections, A, B and C. Section A of the Scheme is considerably larger than the other sections. The Group is required to disclose the net of its defined benefit pension assets and liabilities in the Statement of Financial Position. In the event of a net liability the Directors are obliged to determine how this deficit will be addressed.

The Group continues to offer employees defined contribution pension schemes and where taken up makes payments into this scheme on their behalf.

In this section we explain the accounting policies governing the Group's pension schemes, followed by analysis of the deficit on the defined benefit pension scheme and how this has been calculated. In addition, we have placed text boxes to explain some of the technical terms used in the disclosure.

Accounting policies

Defined contribution schemes

Obligations under the Group's defined contribution schemes are recognised as an operating cost in the income statement as incurred.

Defined benefit schemes

The Group's obligation in respect of defined benefit pension schemes are calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its

present value and the fair value of scheme assets is then deducted. The discount rate used is the yield at the valuation date on high quality corporate bonds, that exactly match the timing of the expected benefit payments over future years.

The Group takes advice from independent actuaries relating to the appropriateness of the assumptions which include life expectancy of members, expected salary and pension increases, inflation and the return on scheme assets. It is important to note that comparatively small changes in the assumptions used may have a significant effect on the income statement and statement of financial position.

The liabilities of the defined benefit schemes are measured by discounting the best estimate of future cash flows to be paid using the projected unit method. This method is an accrued benefits valuation method that makes allowance for projected earnings. These calculations are performed by a qualified actuary.

Actuarial gains and losses are recognised in full in the period in which they arise through the Statement of Comprehensive Income.

An unfunded scheme in relation to previous Directors is accounted for under IAS 19. This is securitised by assets held outside of the ITV Pension scheme in the form of gilts and included within cash and cash equivalents.

Financial Statements

Section 3: Operating Assets and Liabilities *continued*

The Group's pension schemes

Keeping it simple . . .

Under defined contribution schemes, the Group pays fixed contributions into a separate fund on behalf of the employee and has no further obligations to employees. The risks and rewards associated with this type of scheme are assumed by the members rather than the Group. It is the member's responsibility to make investment decisions relating to their retirement benefits.

In a defined benefit scheme, members receive cash payments at and in retirement, the value of which is dependent on factors such as salary and length of service. The Group underwrites investment, mortality and inflation risks necessary to meet these obligations. In the event of poor returns the Group needs to address this through a combination of increased levels of contribution or by making adjustments to the schemes. Schemes can be funded, where regular cash contributions are made by the employer into a fund which is invested, or unfunded, where no regular money or assets are required to be put aside to cover future payments.

The Group makes contributions to the ITV Pension 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 statement of financial position. It is the responsibility of the Trustee to manage and invest the assets of the schemes. The Trustee is required to act in the best interest of the members. The appointment of trustees is determined by the scheme's documentation.

In the unfunded scheme the Group is responsible for meeting pension obligations as they fall due.

The following section outlines the key elements of the Group's defined contribution and defined benefit schemes during the year and as at 31 December 2012.

Defined contribution schemes

Total contributions recognised as an expense in relation to defined contribution schemes during 2012 were £9 million (2011: £8 million). This is the default scheme for all new employees.

Defined benefit schemes

The Group's main scheme was formed from a merger of a number of schemes on 31 January 2006. The level of retirement benefit is principally based on pensionable salary at retirement. The Group's main scheme consists of three sections, A, B and C. The latest triennial valuations of sections A, B and C were undertaken as at 1 January 2011 by an independent actuary appointed by the Trustee of the ITV Pension Scheme and agreed in 2012. The next triennial valuation of sections A, B and C will be no later than as at 1 January 2014. The Group will monitor funding levels annually.

The defined benefit pension deficit

The defined benefit pension deficit at 31 December 2012 was £551 million (2011: £390 million).

The assets and liabilities of the schemes are recognised in the Consolidated Statement of Financial Position and shown within non-current liabilities. The totals recognised in the current and previous years are:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Total defined benefit scheme obligations	(3,244)	(3,036)	(2,746)	(2,687)	(2,339)
Total defined benefit scheme assets	2,693	2,646	2,433	2,251	2,161
Net amount recognised within the consolidated statement of financial position	(551)	(390)	(313)	(436)	(178)

Addressing the deficit

The statutory funding objective is that a funded scheme has sufficient and appropriate assets to pay its benefits as they fall due. This is a long-term target. Future contributions will always be set at least at the level required to satisfy the statutory funding objective. The general principles adopted by the Trustee are that the assumptions used, taken as a whole, will be sufficiently prudent for pensions and benefits already in payment to continue to be paid, and to reflect the commitments which will arise from members' accrued pension rights.

The levels of ongoing contributions to the defined benefit schemes are based on the current service costs (as assessed by the scheme Trustee) and the expected future cash flows of the schemes. Normal employer contributions in 2013 for current service are expected to be in the region of £9 million (2012: £10 million) assuming current contribution rates continue as agreed with the Trustee. Based on the

agreements currently in force, the following deficit funding payments are expected for forthcoming years.

In 2013 the Group expects to make deficit funding contributions of £79 million (£72 million was paid in 2012) comprised as follows:

- deficit funding contribution to Section A of £40 million;
- total annual deficit funding contributions to Sections B and C of £5.5 million;
- £22 million, being 10% of the Group's EBITA before exceptional items that exceeds the £300 million threshold;

- £11 million of annual deficit contributions as a result of the SDN pension partnership. Under the partnership arrangements, the Group has committed to making a payment to the main section of the Scheme of up to £200 million in 2022, if and to the extent that it remains in deficit at that time.

The Group estimates the average duration of its UK scheme's liabilities to be 15 years (2011: 15 years).

The remaining sections provide further detail of the value of scheme assets and liabilities, how these are accounted for and the impact on the income statement.

Total defined benefit scheme obligations

Keeping it simple . . .

The defined benefit obligation (the pension scheme liabilities) may change due to the following:

- Current service cost/(credit) – changes in the present value of the obligation attributable to the members' service in the current period. This is charged to operating costs in the income statement.
- Curtailment (losses)/gains – these occur when the Company is demonstrably committed to amend a scheme so that the benefits for future services are reduced or eliminated. A change in future benefits is treated as a curtailment and recognised in operating costs in the income statement rather than an actuarial gain or loss recognised in equity, if the effect of the remeasurement is significant.
- Past service costs/(credits) – these occur when there is a change in the present value of the obligation, in respect of a member's prior period of service. These can arise due to changes in the benefit entitlement of members and are recognised through operating costs.
- Settlement gains – these occur when the Company enters into a transaction to eliminate all further legal or constructive obligations for some or all of the benefits provided by the schemes. Settlement gains can arise from enhanced transfer values exercises, fully insuring benefits or on business disposals.
- Increase due to interest cost – this is the unwinding of the discount on the present value of the obligation. Broadly, it is determined by multiplying the discount rate at the beginning of the period by the present value of the obligation during the period. This is recognised through net financing costs in the income statement.
- Actuarial losses/(gains) – arise from differences between the actual and expected outcome in the valuation of the obligation. These can be experience adjustments, which are differences between the assumptions made and what actually occurred, or they can result from changes in assumptions. Actuarial gains and losses are recognised through retained losses within equity.
- Cash contributions/(benefits paid) – cash contributions by scheme participants will increase the obligations by the schemes whereas any benefits paid out by the schemes will lower the obligations of those schemes.

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

	2012 £m	2011 £m
Defined benefit obligation at 1 January	3,036	2,746
Current service cost	7	7
Interest cost	140	145
Net actuarial loss	200	268
Benefits paid	(139)	(130)
Defined benefit obligation at 31 December	3,244	3,036

The present value of the defined benefit obligation is analysed between wholly unfunded and funded defined benefit schemes in the table below:

	2012 £m	2011 £m
Defined benefit obligation in respect of funded schemes	3,203	2,997
Defined benefit obligation in respect of wholly unfunded schemes	41	39
Total defined benefit obligation	3,244	3,036

Financial Statements

Section 3: Operating Assets and Liabilities *continued*

Keeping it simple . . .

Assumptions used to calculate the best estimate of future cash flows to be paid out by the schemes include: future salary levels, future pensionable salary levels, the estimate of increases in pension payments, the life expectancy of members, the effect of inflation on all these factors and ultimately the discount rate used to estimate the present day fair value of these obligations.

When deciding on these assumptions the Group takes independent actuarial advice relating to the appropriateness of the assumptions.

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

	2012	2011
Discount rate for scheme liabilities	4.2%	4.7%
Inflation assumption	2.9%	3.0%
Rate of pensionable salary increases	0.9%	0.9%
Rate of increase in pension payment (LPI 5% pension increases)	2.8%	2.9%
Rate of increase to deferred pensions (CPI)	2.2%	2.3%

IAS 19 requires that the discount rate used is determined by reference to high quality fixed income investments in the UK that match the estimated term of the pension obligations. The basis of estimating the discount rate is by using the yields available on AA rated corporate bonds of a term similar to the liabilities.

The inflation assumption has been set by looking at the difference between the yields on fixed and index-linked Government bonds. The inflation assumption is used to calculate the remaining assumptions except where inflation caps have been implemented.

In estimating the life expectancy of pension scheme members, the Group has used PA92 year of birth tables with medium cohort improvements, with a 1% per annum underpin and a one year age rating (i.e. tables are adjusted so that a member is assumed to be one year older than actual age). Using these tables the assumed life expectations on retirement are:

	2012	2012	2011	2011
Retiring today at age	60	65	60	65
Males	26.8	21.9	26.7	21.8
Females	30.1	25.1	30.0	25.0
Retiring in 20 years at age	60	65	60	65
Males	28.8	23.7	28.7	23.6
Females	32.2	27.0	32.1	26.9

The tables above reflect published mortality investigation data in conjunction with the results of investigations into the mortality experience of scheme members.

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

Assumption	Change in assumption	Impact on scheme deficit
Discount rate	Increase by 0.5%	Decrease by £250 million
	Decrease by 0.5%	Increase by £290 million
Rate of inflation	Increase by 0.5%	Increase by £170 million
	Decrease by 0.5%	Decrease by £100 million
Life expectations	Increase by 1 year	Increase by £30 million

The sensitivities above consider the single change shown with the other assumptions assumed to be unchanged.

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

The Group's net pension deficit is the difference between the schemes' liabilities and the schemes' assets. Changes in the assumptions may occur at the same time as changes in the market value of scheme assets.

These may or may not offset the change in assumptions. For example, a fall in interest rates will increase the schemes' liabilities, but may also trigger an offsetting increase in the market value of certain assets so there is no net effect on the Group's liability.

Total defined benefit scheme assets

Keeping it simple . . .

The Pension scheme holds assets across a number of different classes, these being equities, bonds and other investments. These assets are managed by the Trustee, although the Trustee is required to consult with the Group on changes to their investment policy. Financial instruments are in place which provide protection against changes in market factors (interest rates and inflation) which could act to increase the pension deficit.

In 2011 the scheme obtained protection against the effect of increases in the life expectation of the majority of pensioner members by transacting a longevity swap. Under the swap, the trustees of the scheme 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 scheme assets and emerges as an actuarial loss on the assets.

The life expectancy assumptions which the Group makes for its IAS 19 calculations are its best estimate of the potential outcome. The pre-determined swap payments from the Trustee of the scheme are based on a cautious estimate of life expectancy as they are being guaranteed. This means that the asset adjustment in respect of the longevity swap increases when the discount rate decreases or when the inflation assumption increases and vice-versa.

Pension scheme assets are measured at their fair value and can change due to the following:

- The expected return on scheme assets is determined based on the market expectations at the beginning of the year and calculated as the expected percentage return multiplied by the fair value of the scheme assets. This expected return on scheme assets is recognised through net financing costs in the income statement.
- Actuarial gains and losses arise from differences between the actual and expected outcome in the valuation of the assets. These can be experience adjustments, which are differences between the assumptions made and what actually occurred, or they can result from changes in assumptions. For example, differences in the actual asset performance versus the expected performance would be an actuarial gain/(loss). Actuarial gains and losses are recognised through retained losses within equity.
- Employer's contributions and cash contributions by scheme participants are paid into the schemes to be managed and invested.

Financial Statements

Section 3: Operating Assets and Liabilities *continued*

The movement in the fair value of the defined benefit scheme's assets is analysed below:

	2012 £m	2011 £m
Fair value of scheme assets at 1 January	2,646	2,433
Expected return on assets	131	140
Net actuarial (loss)/gain	(27)	144
Employer contributions	82	59
Benefits and expenses paid	(139)	(130)
Fair value of scheme assets at 31 December	2,693	2,646

At 31 December 2012 the scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. The fair value of the scheme's assets are shown below by major category:

	Market value 2012 £m	Market value 2011 £m
Market value of assets – equity-type assets	768	745
Market value of assets – bonds	1,867	1,782
Market value of assets – other	176	195
Longevity swap fair value	(118)	(76)
Total scheme assets	2,693	2,646

The Trustee entered a longevity swap in 2011 to remove the risk of increases in pension liabilities that would arise if a significant portion of the scheme's defined benefit pensioner population were to enjoy a longer life than currently expected. The recognition of the swap results in a reduction to the scheme's assets due to its classification as a negative plan asset.

Exposure through the different asset classes is obtained through a combination of executing swaps and investing in assets.

The Trustee has a substantial holding of equity-type investments, mainly shares in listed and unlisted companies. The investment return related to these is variable, and they are generally considered 'riskier' investments. However, it is generally accepted that the yield on these investments will contain a premium to compensate investors for this additional risk. There is significant uncertainty about the likely size of this risk premium. In respect of overseas equity investments there is also a risk of unfavourable currency movements which the Trustee manage by hedging broadly 60% of the overseas investments against currency movements.

The Trustee also holds corporate bonds and other fixed interest securities. The risk of default on these is assessed by various rating agencies. Some of these bond investments are issued by the UK Government. The risk of default on these is lower compared to the risk of default on corporate bond investments, although some risk may remain. The expected yield on bond investments with fixed interest rates can be derived exactly from their market value.

The expected return for each asset class is weighted based on the target asset allocation for 2013 to develop the expected long-term rate of return on assets assumption for the portfolio. The benchmark for 2013 is to hold broadly 47% equities and 53% bonds. The majority of the equities held by the schemes are in international blue chip entities. The aim is to hold a globally diversified portfolio of equities, with a target of broadly 22% of equities being held in the UK and 78% of equities held overseas. Within the bond portfolio the aim is to hold 58% of the portfolio in government bonds (gilts) and 42% of the portfolio in corporate bonds and other fixed interest securities.

The expected rates of return on the scheme's assets by major category and target allocations are set out below:

	Expected long-term rate of return 2013 % p.a.	Planned asset allocation 2013 % of assets	Expected long-term rate of return 2012 % p.a.	Planned asset allocation 2012 % of assets
Equity and property	6.9	47	7.0	47
Bonds	2.8-3.9	53	2.8-4.5	53

The actual return on the scheme's assets for the year ended 31 December 2012 was an increase of £104 million (2011: £284 million).

The Trustee is responsible for deciding the investment strategy for the scheme's assets, although changes in investment policies require consultation with the Group. Varying returns from the different types of assets held by the scheme have resulted in Trustee investment decisions that have moved the asset allocation in the scheme's portfolio away from the target ratio of bonds and equities. A rebalancing of the portfolio only occurs if equity type assets exceed the target allocation by 3%, but is not necessary if equity asset types fall below the target allocation.

Amounts recognised through the income statement

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

	2012 £m	2011 £m
Amount charged to operating costs:		
Current service cost	(7)	(7)
Amount (charged)/credited to net financing costs:		
Expected return on pension scheme assets	131	140
Interest cost	(140)	(145)
	(9)	(5)
Total charged in the consolidated income statement	(16)	(12)

Amounts recognised through the consolidated statement of comprehensive income

The amounts recognised through the consolidated statement of comprehensive income are:

	2012 £m	2011 £m
Actuarial gains and (losses):		
Arising on scheme assets	(27)	144
Arising on scheme liabilities	(200)	(268)
	(227)	(124)

The £200 million actuarial loss on the scheme's liabilities was principally due to the fall in the discount rate partially offset by the reduction in the rate of market implied inflation.

The cumulative amount of actuarial gains and losses recognised through the consolidated statement of comprehensive income since 1 January 2004 is an actuarial loss of £603 million (2011: £376 million loss). Included within actuarial gains and losses are experience adjustments as follows:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Experience adjustments on scheme assets	(27)	144	147	48	(438)
Experience adjustments on scheme liabilities	(1)	95	(3)	-	-

Experience adjustments on the scheme's liabilities in 2011 arose primarily from the update of membership data as part of the 2011 triennial valuation process, for example, actual mortality experienced in the period since the last valuation compared to estimates.

Changes to the IAS19 accounting standard

Amendments to IAS 19 'Employee benefits' changes a number of disclosure requirements for post employment arrangements and restricts the options currently available on how to account for defined benefit pension plans. The most significant change that will impact the Group is that the amendment requires the expected returns on pension plan assets, currently calculated based on management's estimate of expected returns, to be replaced by a credit on pension plan assets calculated at the liability discount rate. The revised version of IAS 19 applies from 1 January 2013, and has retrospective application. The Group will be adopting the revised standard from this date. Had these amendments been adopted for the year ended 31 December 2012, they would have resulted in an additional charge of £14 million in the consolidated income statement. The change is not expected to impact the Group's net assets. For further details, see amendments to standards in Section 1.

Financial Statements

Section 4: Capital Structure and Financing Costs

In this section . . .

This section outlines how the Group manages its capital and related financing costs.

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.

The Directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results in the context of its ability to continue as a going concern and deliver its business plan. The Board's focus during the year was on improving the efficiency of the balance sheet through a bond tender, and improving the Group's credit rating.

In 2013 the Board will further review its policies on capital structure to support the Transformation Plan, 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 Board is mindful that equity capital cannot be easily flexed and in particular raising new equity would normally be likely only in the context of an acquisition. Debt can be issued and repurchased more easily but there are high transaction costs in frequent adjustment and debt holders are under no obligation to accept any offer to repurchase.

4.1 Net cash/(debt)

Keeping it simple . . .

Net cash/(debt) is the Group's key measure used to evaluate total outstanding debt net of the current cash resources. In defining total outstanding debt the Directors consider it appropriate to include the following:

- the currency impact of swaps held against those debt instruments;
- equity components of debt instruments; and
- the amortised cost adjustment which reflects the increase in coupon rates for specific bonds caused by the downgrade of ITV's credit status to sub-investment grade in August 2008.

Analysis of net cash

The table below analyses movements in the components of net cash during the year:

	1 January 2012 £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	31 December 2012 £m
Cash	705	(103)	–	602
Cash equivalents	96	(8)	–	88
Total cash and cash equivalents	801	(111)	–	690
Held to maturity investments	147	–	(2)	145
Loans and loan notes due within one year	–	–	–	–
Finance leases due within one year	(9)	8	(6)	(7)
Loans and loan notes due after one year	(868)	275	(1)	(594)
Finance leases due after one year	(44)	–	6	(38)
Total debt	(921)	283	(1)	(639)
Currency component of swaps held against euro denominated bonds	31	–	(6)	25
Convertible bond equity component	(27)	–	5	(22)
Amortised cost adjustment	14	–	(7)	7
Net cash/(debt)	45	172	(11)	206

	1 January 2011 £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	31 December 2011 £m
Cash	761	(52)	(4)	705
Cash equivalents	99	(6)	3	96
Total cash and cash equivalents	860	(58)	(1)	801
Held to maturity investments	148	–	(1)	147
Loans and loan notes due within one year	(47)	47	–	–
Finance leases due within one year	(8)	8	(9)	(9)
Loans and loan notes due after one year	(1,170)	308	(6)	(868)
Finance leases due after one year	(53)	–	9	(44)
Total debt	(1,278)	363	(6)	(921)
Currency component of swaps held against euro denominated bonds	98	(63)	(4)	31
Convertible bond equity component	(31)	–	4	(27)
Amortised cost adjustment	15	–	(1)	14
Net cash/(debt)	(188)	242	(9)	45

Cash and cash equivalents

Included within cash equivalents is £43 million (2011: £48 million), the use of which is restricted to meeting finance lease commitments under programme sale and leaseback commitments, and gilts of £37 million (2011: £37 million) over which the unfunded pension commitments have a charge.

Held to maturity investments

In February 2009 a net £50 million was raised through a £200 million covenant free loan with a maturity of March 2019, secured against the purchase of 4.5% March 2019 gilts with a nominal value of £138 million (for a cost of £150 million). The £200 million loan carries an interest cost of 13.55%. As at December 2012 this gilt has a carrying value of £145 million (2011: £147 million).

Loans and loan notes due within one year

There were no repayments of loans and loan notes due within one year (2011: the €54 million (£47 million) Eurobond was repaid).

Loans and loan notes due after one year

In June 2012 €138 million of the June 2014 bonds, £75 million of the October 2015 bonds and £89 million of the January 2017 bonds were repurchased (2011: all of the £110 million March 2013 bonds and £229 million of the 2015 bonds were repurchased).

Currency components of swaps held against euro denominated bonds

As at 31 December 2012 the currency element of the cross currency interest rate swaps is a £25 million asset (2011: £31 million asset) and this offsets the exchange rate movement

of the 2014 euro denominated bonds.

Convertible bond

In November 2009 ITV issued a £135 million convertible Eurobond with a maturity date of November 2016 and a coupon of 4%. As the bond contains an option for the issuer to convert a portion of the debt into ITV's equity (from November 2013), the components are treated as separate instruments. The accounting policy for this compound instrument is detailed in note 4.2 (i.e. partly debt and partly equity).

The debt portion is £110 million (2011: £105 million) and is included within loans and loan notes due after one year. The effective interest rate on the carrying value of the debt component is 9.4%. The equity component of £22 million (2011: £27 million) is shown separately.

Amortised cost adjustment

The purpose of the amortised cost adjustment is to exclude the impact of the coupon step-up on net debt. ITV's Standard & Poor's credit rating was lowered to BB+ in August 2008, resulting in a coupon step-up in the 2014 and 2017 bonds. The recalculation of the amortised cost carrying values as required by IAS 39 resulted in a non-cash increase in net debt of £30 million as at 31 December 2008. The accounting treatment unwinds this increase in future years as a reduction in interest expense, resulting in a balance of £7 million (2011: £14 million) at year end. As this adjustment has no impact on the cash interest paid, the interest charged to unwind the adjustment is excluded from adjusted net financing costs as described in the Financial and Performance Review.

Financial Statements

Section 4: Capital Structure and Financing Costs *continued*

4.2 Borrowings and held to maturity investments

Keeping it simple . . .

The Group borrows money from financial institutions in the form of bonds and other financial instruments. These generally have fixed interest rates and are for a fixed term.

Some financial instruments are complex in that they have variable rates of interest that are driven by the performance of an index, with fixed upper and lower limits on the cost to the Group. Some instruments require the Group to hold an investment of a lesser value with a fixed interest rate and a fixed maturity date.

The interest payable and receivable on these instruments is shown in the net financing costs note in Section 4.4.

Accounting policies

Borrowings

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

The mechanism used to determine variable interest rates on a loan is analysed when the loan is initially taken out to determine if it is closely related to the loan. If the variable rate mechanism is closely related to the loan it is not valued separately but cash flow estimates are included in the effective interest rate on the loan. This assessment is not revisited unless the terms of the loan are changed significantly.

Compound financial instruments

Compound financial instruments are instruments that are classified as partly debt and partly equity due to the terms of the instrument.

The Group has one compound financial instrument which is the 2016 convertible note that can be converted to share capital at the option of the holder at maturity or earlier, at the option of the issuer subject to satisfying certain conditions.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition but is transferred to retained earnings over the term of the instrument on an effective interest rate basis.

Held to maturity assets

Where the Group has the positive intent and ability to hold financial assets to maturity, they are classified as held to maturity. Held to maturity financial assets are recognised initially at fair value including any directly attributable transaction costs. Subsequent to initial recognition, held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment.

Borrowings and held to maturity investments

The table below analyses the Group's borrowings by when they fall due for payment:

	Loans and loan notes £m	Finance leases £m	2012 £m
Current			
In 1 year or less, or on demand	–	7	7
Non-current			
In more than 1 year but not more than 2 years	39	23	62
In more than 2 years but not more than 5 years	355	15	370
In more than 5 years	200	–	200
	594	38	632
Total	594	45	639

	Loans and loan notes £m	Finance leases £m	2011 £m
Current			
In 1 year or less, or on demand	-	9	9
Non-current			
In more than 1 year but not more than 2 years	-	8	8
In more than 2 years but not more than 5 years	407	34	441
In more than 5 years	461	2	463
	868	44	912
Total	868	53	921

Loans and loan notes repayable between one and two years

Loans repayable between one and two years as at 31 December 2012 include an unsecured €50 million Eurobond (£15 million net of cross currency swaps) which has a coupon of 10.0% maturing in June 2014.

Fair value versus book value

The tables below provide fair value information for the Group's borrowings and held to maturing investments:

Assets	Maturity	Book value		Fair value	
		2012 £m	2011 £m	2012 £m	2011 £m
Held to maturity investments	Mar 2019	145	147	166	166

The fair value of held to maturity investments is based on quoted market bid prices at the year end.

Liabilities	Maturity	Book value		Fair value	
		2012 £m	2011 £m	2012 £m	2011 £m
€50 million Eurobond (previously €188 million Eurobond)	June 2014	39	149	48	171
£78 million Eurobond (previously £154 million Eurobond)	Oct 2015	78	153	84	150
£135 million Convertible bond	Nov 2016	110	105	223	167
£161 million Eurobond (previously £250 million Eurobond)	Jan 2017	167	261	178	253
£200 million loan	Mar 2019	200	200	309	290
		594	868	842	1,030

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Movements in book values of the 2014, 2015 and 2017 bonds are the result of buybacks in the period.

The fair value of the £135 million convertible bond is based

Loans and loan notes repayable between two and five years

Loans repayable between two and five years as at 31 December 2012 include an unsecured £78 million Eurobond which has a coupon of 5.375% maturing in October 2015, an unsecured £135 million convertible Eurobond which has a coupon of 4.0% maturing in November 2016, and an unsecured £161 million Eurobond which has a coupon of 7.375% maturing in January 2017.

Loans and loan notes repayable after five years

Loans repayable after five years include the £200 million covenant free loan raised in February 2009 with a maturity of March 2019. This loan is secured against the 4.5% March 2019 gilts with a nominal value of £138 million (for a cost of £150 million) described in section 4.1. Interest on the loan is 13.55%. Interest on the loan is offset by 3.5% of income in respect of the £138 million gilts. The lender has the option to issue a further £150 million loan that would carry an interest rate of 7.34%.

upon the par value, whereas the bonds are accounted for partly as debt and partly as equity, net of issue costs, as described in note 4.1. The increase is primarily due to the increase in the Company's share price.

The fair value of the £200 million loan increased during the year as a result of lower interest rates and lower credit costs.

Financial Statements

Section 4: Capital Structure and Financing Costs *continued*

Finance leases

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

	Minimum lease payments £m	Interest £m	2012 Principal £m	Minimum lease payments £m	Interest £m	2011 Principal £m
In 1 year or less	9	2	7	12	3	9
In more than 1 year but not more than 5 years	39	1	38	47	5	42
In more than 5 years	–	–	–	2	–	2
	48	3	45	61	8	53

Finance leases principally comprise programmes under sale and leaseback arrangements and a contractual arrangement relating to the provision of news accounted for as a lease. The net book value of tangible assets held under finance leases at 31 December 2012 was £2 million (2011: £3 million).

4.3 Derivative financial instruments

Keeping it simple . . .

A derivative is a financial instrument used to manage risk. Its value changes over time in response to underlying variables such as exchange rates or interest rates and is for a fixed period. In accordance with Board approved policies, the Group uses derivatives to manage its exposure to fluctuations in interest on its borrowings and foreign exchange rates. These policies are included within Section 4.5.

Derivative financial instruments are initially recognised as either assets or liabilities at fair value and are subsequently remeasured at fair value at each reporting date. Movements in instruments measured at fair value are recorded in the income statement in net financing costs.

Analysis of these derivatives and the various methods used to calculate their respective fair values is detailed in this section.

Accounting policies

The Group uses a limited number of derivative financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates. The Group does not hold or issue derivative instruments for speculative purposes and does not engage in hedge accounting as defined under IFRS.

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the income statement within net financing costs. 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 reporting date. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of swap counterparties.

Third party valuations are used to fair value the Group'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.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. Any ineffective portion of the hedge is recognised immediately in the income statement.

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

Derivative financial instruments

The following table shows the fair value of derivative financial instruments analysed by type of contract. Interest rate swap fair values exclude accrued interest.

	Assets £m	2012 Liabilities £m
Current		
Interest rate swaps – fair value through profit or loss	–	(1)
Non-current		
Interest rate swaps – fair value through profit or loss	99	(48)
	99	(49)
	Assets £m	2011 Liabilities £m
Current		
Interest rate swaps – fair value through profit or loss	–	(1)
Non-current		
Interest rate swaps – fair value through profit or loss	110	(44)
	110	(45)

Interest rate swap assets

The swap assets in relation to the €50 million 2014 Eurobond (see section 4.2) are as follows:

- Cross currency and interest swaps with a fair value of £29 million. The swaps receive a coupon of 10% and €50 million at maturity (to match the bond coupon and principal repayment due to bond holders) and pay 13.2% on a notional amount of £15.2 million and pays £15.2 million at maturity.

The remaining £70 million of Interest rate swap assets relate to a number of floating rate swaps matched against the 2015 and 2017 Eurobonds. The following swap assets are matched against the 2015 Eurobond:

- £162.5 million swap with a fair value of £18 million (“Swap Asset A”). This swap receives 5.375% (to match the bond coupon) and pays six-month sterling LIBOR plus 0.3%.
- A portfolio of swaps totalling £162.5 million fair valued at £15 million (“Swap Asset B”). These swaps receive 5.375% (to match the bond coupon) and pay a weighted average of three-month sterling LIBOR plus 1.45%.
- A further £120.5 million swap with a fair value at £4 million (“Swap Asset C”). This swap receives 5.375% (to match the bond coupon) and pays the higher of six-month sterling LIBOR plus 2.905% or six-month US\$ LIBOR plus 2.105%, set in arrears with a cap on payment of 8%.

The swap assets matched against the 2017 Eurobond are as follows:

- £125 million swap with a fair value of £24 million (“Swap Asset D”). This swap receives 6.125% (to match the original bond coupon) and pays three-month sterling LIBOR plus 0.51% with the three-month sterling LIBOR capped at 5.25% for rates between 5.25% and 8.0%.
- A further £125 million swap with a fair value at £9 million (“Swap Asset E”). This swap receives 7.375% (to match the bond coupon) and pays the higher of six-month sterling LIBOR plus 4.52% or six-month US\$ LIBOR plus 3.72%, set in arrears with a cap on payment of 10%.

Interest rate swap liabilities

Interest rate swap liabilities of £49 million as at 31 December 2012 relate to various fixed and floating rate swaps matched against the 2015 and 2017 Eurobonds. The following swap liabilities are matched against the 2015 Eurobond and mature in October 2015:

- A further £162.5 million swap fair valued at £nil. The swap receives six-month sterling LIBOR plus 0.3%, and pays the higher of six-month sterling LIBOR minus 0.2% or six-month US\$ LIBOR minus 1.0%, set in arrears or in advance. This swap matches against Swap Asset A.
- A portfolio of swaps totalling £162.5 million fair valued at £5 million. The swaps pay 5.375% and receive a weighted average of six-month sterling LIBOR plus 3.49% set in arrears. This swap matches against Swap Asset A.
- £162.5 million swap fair valued at £17 million. The swap receives three-month sterling LIBOR and pays 4.35%. The bank has the right to cancel the swap. This swap matches against Swap Asset B.
- £120.5 million swap fair valued at £3 million, under which it receives six-month LIBOR plus 3.605% and pays 5.375% set in arrears. This swap matches against Swap Asset C.

The following swap liabilities are matched against the 2017 Eurobond and mature in January 2017:

- £125 million swap valued at £18 million, under which it receives three-month sterling LIBOR and pays 4.31%. The bank has the right to cancel the swap. This swap matches against Swap Asset D.
- £125 million swap valued at £6 million, under which it receives six-month sterling LIBOR plus 5.257% set in arrears and pays 7.375%. This swap matches against Swap Asset E.

Financial Statements

Section 4: Capital Structure and Financing Costs *continued*

4.4 Net financing costs

Keeping it simple . . .

This section details the interest income generated on the Group's financial assets and the interest expense incurred on borrowings and other financial assets and liabilities. In reporting 'adjusted profit', the Group adjusts net financing costs to exclude mark-to-market movements on swaps and foreign exchange, gains/losses on bond buybacks, imputed pension interest and other financing costs. Mark-to-market movements reflect the value of these instruments at a point in time; it is variable and assumes cash is received at that date. The rationale for adjustments made to financing costs is provided in the Financial and Performance Review.

The presentation of net financing costs in this note reflects the income and expenses according to the classification of financial instruments, whereas the focus in the Financial and Performance Review is to present adjusted financing costs.

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 and liabilities to non-controlling interest, foreign exchange gains/losses, and implied 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:

	2012 £m	2011 £m
Financing income:		
Interest income	16	22
Expected return on defined benefit pension scheme assets	131	140
Change in fair value of instruments classified at fair value through profit or loss	–	30
Foreign exchange gain	4	4
	151	196
Financing costs:		
Change in fair value of instruments classified at fair value through profit or loss	(5)	–
Interest expense on financial liabilities measured at amortised cost	(60)	(82)
Interest on defined benefit pension scheme obligations	(140)	(145)
Losses on early settlement	(36)	(39)
Other interest expense	(9)	(5)
	(250)	(271)
Net financing costs	(99)	(75)

Losses relating to changes in fair value of instruments of £5 million (2011: gains of £30 million) relate principally to the unwinding of the interest rate swaps assets as they near maturity.

As detailed in the Financial and Performance Review, losses on early settlement of £36 million (2011: £39 million) were incurred as a result of the bond tender in June. Bonds were repurchased at prices in excess of par value primarily reflecting lower credit spreads and lower interest rates. The loss is primarily due to the repayment on the 2014 €50 million Eurobond, where a repurchase of €138 million in nominal debt resulted in a loss of £25 million.

4.5 Financial risk factors

Keeping it simple . . .

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments within its policies described below to minimise certain risk exposures.

Treasury policies have been approved by the Board for managing each of these risks including levels of authority on the type and use of financial instruments. Transactions are only undertaken if they relate to underlying exposures. The treasury function reports regularly to the Audit Committee and treasury operations are subject to periodic reviews.

Market risk

Currency risk

The Group operates internationally and is therefore exposed to currency risk arising from movements in foreign exchange rates, primarily with respect to the US dollar and the euro. Foreign exchange risk arises from: differences in the dates commercial transactions are entered into and the date they are settled; recognised assets and liabilities; and net investments in foreign operations.

The Group's foreign exchange policy is to hedge material foreign currency denominated costs at the time of commitment and to hedge a proportion of foreign currency denominated revenues on a rolling 12-month basis unless a natural hedge exists. The Group seeks to match contractual and forecast foreign currency costs and revenues. For any material unmatched portion, the Group hedges using forward foreign exchange contracts for up to two years. The Group also utilises foreign exchange swaps to match foreign currency cash flow timing differences.

The Group ensures that its net exposure to foreign denominated cash balances is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The euro denominated interest and principal payments under the €50 million bonds have been fully hedged by cross currency interest rate swaps.

The Group's investments in subsidiaries are not hedged as those currency positions are considered to be long-term in nature.

At 31 December 2012, if sterling had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been £6 million (2011: £3 million) higher/lower. Equity would have been £13 million (2011: £8 million) higher/lower.

At 31 December 2012, if sterling had weakened/strengthened by 10% against the euro with all other variables held constant, post-tax profit for the year would have been £6 million (2011: £4 million) higher/lower. Equity would have been £2 million (2011: £2 million) higher/lower.

Interest rate risk

Interest rate risk is the risk that the Group is impacted by significant changes in interest rates. Borrowings issued at or swapped to floating rates expose the Group to interest rate risk.

The Group's interest rate policy was changed in 2011 to having 100% of its borrowings at fixed rates in order to lock in low interest rates. This policy has been maintained throughout 2012. The Group utilises fixed and floating rate interest swaps and options in order to achieve the desired policy mix. As illustrated in note 4.3, these contracts match against underlying bonds or other interest-bearing instruments and swaps.

All of the Group's interest rate swaps are classified as fair value through profit or loss so any movement in the fair value goes through the income statement rather than equity.

At 31 December 2012, if interest rates had increased/decreased by 0.1%, post-tax profit for the year would have been unchanged (2011: unchanged).

Price risk

Price risk is the risk that the Group's financial instruments change in value due to movements in market prices. This excludes movements in interest rate or foreign exchange. The Group is not exposed to any material price risk.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's receivables from customers, cash and held to maturity investments. There is also credit risk relating to the Group's own credit rating as this impacts the availability and cost of future finance.

Financial Statements

Section 4: Capital Structure and Financing Costs *continued*

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The majority of trade receivables relate to airtime sales contracts with advertising agencies and advertisers. Credit insurance has been taken out against these companies to minimise the impact on the Group in the event of a possible default.

Cash and held to maturity investments

The Group operates strict investment guidelines with respect to surplus cash and the emphasis is on preservation of capital. Counterparty limits for cash deposits are largely based upon long-term ratings published by the major credit rating agencies and perceived state support. Deposits longer than 12 months require the approval of the Audit Committee.

Borrowings

ITV's credit ratings with Standard & Poor's and Moody's Investor Service are BB+/Ba1 respectively have improved significantly since 2009 but they are still 'sub-investment grade' with both agencies. ITV's credit ratings, the cost of credit default swap hedging and the absolute level of interest rates are key determinants in the cost of new borrowings for ITV. The cost of existing borrowing remains subject to the terms of the instrument.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's financing policy is to fund itself for the long term by using debt instruments with a range of maturities. It is substantially funded from the UK and European capital markets, supplemented with bank facilities (see below). Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn bank facilities and cash and cash equivalents) on the basis of expected cash flows. This monitoring includes financial ratios to assess possible future credit ratings and headroom and takes into account the accessibility of cash and cash equivalents.

At 31 December 2012 the Group has available £375 million (2011: £125 million) of undrawn committed facilities. The Group has a £125 million facility which is provided by one bank and which is secured on advertising receivables. This facility has no financial covenants and matures in September 2015. The Group also has a £250 million Revolving Credit Facility which is provided by a handful of relationship banks and which matures in July 2015. This facility, which is unsecured, can be extended by up to a further two years subject to agreement by the banks. The facility has leverage and interest cover financial covenants normal for such a facility.

Keeping it simple . . .

The table below analyses the Group's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the period remaining until the contractual maturity date. 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 2012	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-derivative financial liabilities					
Borrowings	(909)	(57)	(112)	(507)	(233)
Held to maturity investments	178	6	6	19	147
Trade and other payables	(623)	(593)	(20)	(9)	(1)
Other payables – non-current	(22)	–	–	(8)	(14)
Derivative financial instruments					
Interest rate swaps	62	7	37	18	–
	(1,314)	(637)	(89)	(487)	(101)

At 31 December 2011	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-derivative financial liabilities					
Borrowings	(1,371)	(79)	(85)	(668)	(539)
Held to maturity investments	220	11	11	33	165
Trade and other payables	(684)	(639)	(28)	(16)	(1)
Other payables – non-current	(3)	–	(2)	(1)	–
Derivative financial instruments					
Interest rate swaps	89	12	11	59	7
	(1,749)	(695)	(93)	(593)	(368)

Held to maturity investments are included within the table above as the £138 million March 2019 gilts are used as security against the £200 million 2019 loan, and the net repayment in 2019 is £62 million.

4.6 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) and does not calculate its own fair values. The different valuation methods are called 'hierarchies' and are described below.

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

	Fair value 31 December 2012 £m	Level 1 31 December 2012 £m	Level 2 31 December 2012 £m	Level 3 31 December 2012 £m
Assets measured at fair value				
Available for sale financial instruments				
STV shares	3	3	–	–
Available for sale gilts	37	37	–	–
Financial assets at fair value through profit or loss				
Interest rate swaps	99	–	99	–
	139	40	99	–

Financial Statements

Section 4: Capital Structure and Financing Costs *continued*

	Fair value 31 December 2012 £m	Level 1 31 December 2012 £m	Level 2 31 December 2012 £m	Level 3 31 December 2012 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Interest rate swaps	(49)	–	(49)	–
	(49)	–	(49)	–

	Fair value 31 December 2011 £m	Level 1 31 December 2011 £m	Level 2 31 December 2011 £m	Level 3 31 December 2011 £m
Assets measured at fair value				
Available for sale financial instruments				
STV shares	2	2	–	–
Available for sale gilts	37	37	–	–
Financial assets at fair value through profit or loss				
Interest rate swaps	110	–	110	–
	149	39	110	–

	Fair value 31 December 2011 £m	Level 1 31 December 2011 £m	Level 2 31 December 2011 £m	Level 3 31 December 2011 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Interest rate swaps	(45)	–	(45)	–
	(45)	–	(45)	–

Level 1
Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2
Fair values measured using inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly.

Interest rate swaps and options are accounted for at their fair value based upon termination prices. Forward foreign exchange contracts are accounted for at the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date.

Level 3
Fair values measured using inputs for the asset or liability that are not based on observable market data.

4.7 Equity

Keeping it simple . . .

This section explains material movements recorded in shareholders' equity that are not explained elsewhere in the financial statements. The movements in equity and the balance at 31 December 2012 are presented in the consolidated statement of changes in equity.

The Group utilises share award schemes as part of its employee remuneration packages. The various ITV Share-based compensation schemes are explained in this section as they are accounted for through retained losses.

Accounting policies

Available for sale reserve

Available for sale assets are stated at fair value, with any gain or loss recognised directly in the available for sale reserve in equity, unless the loss is a permanent impairment, when it is then recorded in the income statement.

Dividends

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

Share-based compensation

The Group operates a number of 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 a Monte Carlo or Black–Scholes model, as appropriate, taking into account the terms and conditions of the individual scheme. Under these valuation methods, the share price for ITV plc is projected to the end of the performance period as is the Total Shareholder Return for ITV plc and the companies in the comparator groups. Based on these projections, the number of awards that will vest and their present value is determined.

The valuation of these share-based payments also requires estimates to be made in respect of the number of options that are expected to be exercised.

Vesting conditions are limited to service conditions and performance conditions. Conditions other than service or performance conditions are considered non-vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each reporting date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

4.7.1 Share capital and share premium

The Group's share capital at 31 December 2012 of £391 million (2011: £389 million) and share premium of £122 million (2011: £120 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.

4.7.2 Merger and other reserves

Merger and other reserves at 31 December 2012 include the following reserves which have not moved from the prior year:

- merger reserves arising on the Granada/Carlton merger and previous mergers of £119 million;
- capital reserves of £112 million;

- capital redemption reserves of £36 million;
- revaluation reserves of £6 million.

The balances on the following reserves moved in the year:

- £22 million (2011: £27 million) in respect of the equity element of the 2016 convertible bond;
- £12 million debit (2011: £nil) in respect of the liability on the options for the acquisition of Gurney.

4.7.3 Translation reserve

The translation reserve comprises all foreign exchange differences arising on the translation of the accounts of, and investments in, foreign operations.

4.7.4 Available for sale reserve

The available for sale reserve comprises all movements arising on the revaluation and disposal of assets accounted for as available for sale.

4.7.5 Retained earnings

The retained earnings reserve comprises profit for the year attributable to owners of the Company of £267 million (2011: £247 million) and other items recognised directly through equity as presented on the consolidated statement of changes in equity.

The Directors of ITV plc propose a final dividend of 1.8p per share and a special dividend of 4.0p per share.

4.7.6 Non-controlling interests

In 2012 £1 million (2011: £1 million) of profit was attributable to non-controlling interests.

4.7.7 Share-based compensation

A transaction will be classed as a share-based transaction where the Group receives services from employees and pays for these in shares or similar equity instruments. If the Group incurs a liability whose amount is based on the price or value of the Group's shares then this will also fall under a share-based transaction.

The Group operates a number of share-based compensation schemes. A description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (e.g. whether in cash or equity) are set out in the Remuneration Report.

Exercises of share options granted to employees can be

Financial Statements

Section 4: Capital Structure and Financing Costs *continued*

satisfied by market purchase or issue of new shares. No new shares may be issued to satisfy exercises under the terms of the Deferred Share Award Plan. During the year all exercises were satisfied either by using shares purchased in the market and held in the ITV Employees' Benefit Trust or by issuing new shares.

Share-based compensation charges totalled £9 million in 2012 (2011: £11 million).

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)	2012 Weighted average exercise price (pence)	Number of options ('000)	2011 Weighted average exercise price (pence)
Outstanding at 1 January	81,479	12.74	77,302	22.32
Granted during the year – nil priced	19,184	–	16,333	–
Granted during the year – other	6,218	66.79	2,370	73.58
Forfeited during the year	(16,948)	3.80	(3,069)	60.25
Exercised during the year	(18,052)	14.52	(3,951)	27.02
Expired during the year	(3,494)	106.17	(7,506)	75.86
Outstanding at 31 December	68,387	11.06	81,479	12.74
Exercisable at 31 December	6,407	2.30	21,115	19.13

For those options exercised in the year, the average share price during 2012 was 84.03 pence (2011: 69.35 pence).

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

Range of exercise prices (pence)	Weighted average exercise price (pence)	Number of options ('000)	2012 Weighted average remaining contractual life (years)	Weighted average exercise price (pence)	Number of options ('000)	2011 Weighted average remaining contractual life (years)
Nil	–	54,618	1.97	–	61,347	1.90
20.00 – 49.99	35.00	5,324	1.68	31.50	13,265	1.86
50.00 – 69.99	65.76	6,598	2.87	58.46	1,487	1.05
70.00 – 99.99	73.69	1,847	2.27	74.67	2,582	3.00
100.00 – 109.99	–	–	–	106.25	1,620	0.53
110.00 – 119.99	–	–	–	–	–	–
120.00 – 149.99	–	–	–	143.27	1,178	0.03

Share schemes

Further details of the ITV share plans and awards can be found in the Remuneration Report.

Awards made under the Granada Executive Share Option scheme have reached the end of their performance periods, and have vested or lapsed accordingly. Details of the performance criteria that applied to these awards are set out in the notes to previous financial statements, and in previous remuneration reports and have not been repeated in these financial statements on the grounds of relevance. Although awards remain vested but unexercised under these schemes, they are not considered material for the purposes of disclosure in this note.

The awards made under the ITV Performance Share Plan grants prior to 2011 include awards that have market based performance conditions that are taken into account in the fair value calculation using a Monte Carlo pricing model. The Black–Scholes model is used to value the SAYE Schemes as these do not have any market performance conditions. The ITV SAYE scheme is an Inland Revenue Approved SAYE scheme.

Assumptions made relating to grants of share options during 2012 and 2011 are as follows:

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)
Save As You Earn								
ITV – three year	07 Apr 11	75.85	73.58	57.00%	3.25	–	2.02%	20.88
ITV – five year	07 Apr 11	75.85	73.58	47.00%	5.25	–	2.81%	22.95
ITV – three year	04 Apr 12	85.25	68.81	43.00%	3.25	2.82%	0.65%	17.97
ITV – five year	04 Apr 12	85.25	68.81	50.00%	5.25	2.82%	1.18%	22.36
ITV – three year	13 Sept 12	86.70	66.60	38.00%	3.25	2.82%	0.38%	17.46
ITV – five year	13 Sept 12	86.70	66.60	50.00%	5.25	2.82%	0.81%	23.32
Performance Share Plan								
ITV – three year	08 Mar 11	90.05	–	*	3.00	*	*	90.05
ITV – three year	11 Oct 11	62.65	–	*	3.00	*	*	62.65
ITV – three year	01 Mar 12	88.00	–	*	3.00	*	*	88.00
ITV – three year	10 Sept 12	88.70	–	*	3.00	*	*	88.70

* Awards do not include market based performance conditions; therefore, Monte Carlo or Black–Scholes model not required to calculate fair value.

The expected volatility for awards made under the SAYE scheme reflects the historic volatility of ITV plc's share price and equity markets as a whole over the preceding three or five years, and depending on the expected life of the award, prior to the grant date of the share options awarded.

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. In particular, the EBT's purchases of shares in ITV plc are debited directly to equity.

The table below shows the number of ITV plc shares held in the trust at 31 December 2012 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 2012	7,354,694	735,469
ITV Deferred Share Award Plan		(509,402)	
ITV Performance Share Plan		(6,607,050)	
ITV Turnaround Plan		(2,665,582)	
Restricted Share Awards		(139,190)	
Executive Share Option Scheme		(220,354)	
ITV SAYE Scheme		(185,343)	
Subscription for new issue shares		15,098,585	
Shares purchased		2,723,057	
	31 December 2012	14,849,415	1,484,942

The total number of shares held by the EBT at 31 December 2012 represents 0.38% (2011: 0.19%) of ITV's issued share capital. The market value of own shares held at 31 December 2012 is £16 million (2011: £5 million).

The shares will be held in the EBT until such time as they may be transferred to participants of the various Group share schemes. Rights to dividends have been waived by the EBT in respect of shares held which do not relate to restricted shares under the Deferred Share Award Plan. 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.

Financial Statements

Section 5: Other Notes

5.1 Related party transactions

Keeping it simple . . .

The related parties identified by the Directors include joint ventures, associated undertakings, 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 related party relationship when control exists, irrespective of whether there have been transactions between the related parties.

Related party transactions

Transactions with joint ventures and associated undertakings

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

	2012 £m	2011 £m
Sales to joint ventures	11	10
Sales to associated undertakings	9	1
Purchases from joint ventures	24	26
Purchases from associated undertakings	52	44

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

The purchases from associated undertakings relate to the purchase of news services from ITN. All transactions with associated undertakings and joint ventures arise in the normal course of business on an arm's length basis. None of the balances are secured.

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

	2012 £m	2011 £m
Amounts owed by joint ventures	1	–
Amounts owed by associated undertakings	6	7
Amounts owed by pension scheme	2	1
Amounts owed to associated undertakings	2	1

Amounts paid to the Group's retirement benefit plans are set out in section 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:

	2012 £m	2011 £m
Short-term employee benefits	8	6
Share-based compensation	6	6
	14	12

Principal joint ventures, associated undertakings and investments

The Company indirectly held at 31 December 2012 the following holdings in significant joint ventures, associated undertakings and investments:

Name	Note	Interest in ordinary share capital 2012 %	Interest in ordinary share capital 2011 %	Principal activity
Freesat (UK) Limited	a	50.00	50.00	Provision of a standard and high definition enabled digital satellite proposition
Digital 3&4 Limited	a	50.00	50.00	Operates the Channel 3 and 4 digital terrestrial multiplex
YouView TV Limited	a	14.30	14.30	Internet connected television platform
Noho Film and Television Limited	a	50.00	–	Television drama and film production company
Independent Television News Limited	b	40.00	40.00	Supply of news services to broadcasters in the UK and elsewhere
Mammoth Screen Limited	b	25.00	25.00	Production of television programmes
ISAN UK Limited	b	25.00	25.00	Operates voluntary numbering system for the identification of audiovisual works
STV Group plc ¹	c	6.79	6.79	Television broadcasting in central and north Scotland

¹ Incorporated and registered in Scotland.

- a Joint venture.
- b Associated undertaking.
- c Available for sale financial asset.

5.2 Contingent liabilities

Keeping it simple ...

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty may exist regarding the outcome of future events.

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

5.3 Subsequent events

Keeping it simple ...

Where the Group receives information in the period between 31 December 2012 and the date of this report about conditions related to certain events that existed at the year end, we update our disclosures that relate to those conditions in light of the new information. Such events can be categorised as adjusting or non-adjusting depending on whether the condition existed in 2012. If non-adjusting events after the year end are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements.

Accordingly, for each material category of non-adjusting event after the reporting period we disclose in this section the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

On 25 January 2013, the Group acquired the freehold and leasehold at the London Television Centre, the site which is currently the headquarters for the Group. Total consideration of £56 million was settled in cash. It is the Group's intention to capitalise the acquisition as part of non-current assets on the Group's balance sheet in 2013.

Financial Statements

ITV plc Company Financial Statements

Company Balance Sheet

As at 31 December	Note	2012 £m	2012 £m	2011 £m	2011 £m
Fixed assets:					
Investments in subsidiary undertakings	iii		1,646		1,646
Held to maturity investments			145		147
Derivative financial instruments			99		110
			1,890		1,903
Current assets:					
Amounts owed by subsidiary undertakings		3,424		1,610	
Other debtors		4		4	
Cash at bank and in hand and short-term deposits		515		620	
		3,943		2,234	
Creditors – amounts falling due within one year:					
Amounts owed to subsidiary undertakings		(4,285)		(2,143)	
Accruals and deferred income		(8)		(13)	
Derivative financial instruments		(1)		–	
		(4,294)		(2,156)	
Net current assets/(liabilities)			(351)		78
Total assets less current liabilities			1,539		1,981
Creditors – amounts falling due after more than one year:					
Borrowings	v		(594)		(868)
Derivative financial instruments			(48)		(44)
			(642)		(912)
Net assets			897		1,069
Capital and reserves:					
Called up share capital	vi		391		389
Share premium	vii		122		120
Other reserves	vii		58		63
Profit and loss account	vii		326		497
Shareholders' funds – equity			897		1,069

The accounts were approved by the Board of Directors on 27 February 2013 and were signed on its behalf by:

Ian Griffiths

Director

Notes to the ITV plc Company Financial Statements

i Accounting policies

Basis of preparation

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

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

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

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

Subsidiaries

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

Foreign currency transactions

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

Borrowings

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

Derivatives and other financial instruments

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

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

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. Any ineffective portion of the hedge is recognised immediately in the profit and loss account.

For financial assets and liabilities classified at fair value through profit or loss the fair value change and interest income/expense are not separated.

Dividends

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

ii Employees

Two (2011: two) Directors of ITV plc were employees of the Company during the year, both of whom remain at the year end. The costs relating to these Directors are disclosed in the Remuneration Report.

Financial Statements

Notes to the ITV plc Company Financial Statements *continued*

iii Investments in subsidiary undertakings

The principal subsidiary undertakings are listed in note xi. There was no movement on the balance of £1,646 million in 2012.

iv Amounts owed (to)/from subsidiary undertakings

The Company operates an inter-group banking policy with certain 100% owned UK subsidiaries. The policy involves the daily closing cash position for participating subsidiaries whether positive or negative, being cleared to £nil via daily bank transfers to ITV plc. These daily transactions create a corresponding intercompany creditor or debtor which can result in significant movements in amounts owed to and from subsidiary undertakings in the Company balance sheet.

v Borrowings

Loans repayable after more than one year

Loans repayable after more than one year as at 31 December 2012 include:

- an unsecured €50 million Eurobond (£15 million net of cross currency swaps) which has a coupon of 10.0% maturing in June 2014;
- an unsecured £78 million Eurobond which has a coupon of 5.375% maturing in October 2015;
- an unsecured £135 million convertible Eurobond which has a coupon of 4.0% maturing in November 2016;
- an unsecured £161 million Eurobond which has a coupon of 7.375% maturing in January 2017; and
- a £200 million covenant free loan raised in February 2009 with a maturity of March 2019. Interest on the loan is at a variable rate, likely to be 13.55%, depending in part on the performance of an interest rate algorithm.

vi Called up share capital

	2012 £m	Authorised 2011 £m	2012 £m	Allotted, issued and fully paid 2011 £m
Ordinary shares of 10 pence each				
Authorised:				
8,000,000,000 (2011: 8,000,000,000)	800	800		
Allotted, issued and fully paid:				
3,912,026,854 (2011: 3,889,129,751)			391	389
Total	800	800	391	389

The Company's ordinary shares give shareholders equal rights to vote, receive dividends and to the repayment of capital. The Company issued 22.9 million new ordinary shares during the period, for total consideration of £4 million.

vii Reconciliation of movements in shareholders' funds

	Share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 January 2011	389	120	67	32	608
Movement for year	–	–	(4)	465	461
At 31 December 2011	389	120	63	497	1,069
Retained profit for year for equity shareholders	–	–	–	(107)	(107)
Share-based compensation	–	–	–	9	9
External dividend paid	–	–	–	(78)	(78)
Equity portion of the convertible bond	–	–	(5)	5	–
Issue of shares	2	2	–	–	4
At 31 December 2012	391	122	58	326	897

The loss after tax for the year dealt with in the accounts of ITV plc is £107 million (2011: profit of £466 million).

The profit and loss account reserves of £326 million at 31 December 2012 are all distributable.

The Company received no dividends in 2012.

The Directors of the Company propose a final dividend of 1.8p per share and a special dividend of 4.0p per share.

viii Contingent liabilities

Under a group registration, the Company is jointly and severally liable for VAT at 31 December 2012 of £33 million (31 December 2011: £35 million). The Company has guaranteed certain finance and operating lease obligations of subsidiary undertakings.

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

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

ix Capital and other commitments

There are no capital commitments at 31 December 2012 (2011: none).

x Related party transactions

Transactions with key management personnel

Key management consists of ITV plc Executive Directors.

Key management personnel compensation is as follows:

	2012 £m	2011 £m
Short-term employee benefits	3	2
Share-based compensation	4	2
	7	4

xi Principal subsidiary undertakings and investments

Principal subsidiary undertakings

The principal subsidiary undertakings of the Company at 31 December 2012, all of which are wholly owned (directly or indirectly) and incorporated and registered in England and Wales except where stated, are:

Name	Principal activity
ITV Broadcasting Limited	Broadcast of television programmes
ITV Network Limited	Scheduling and commissioning television programmes
ITV2 Limited	Operation of digital television channels
ITV Digital Channels Limited	Operation of digital television channels
ITV Breakfast Limited	Production and broadcast of breakfast time television under national Channel 3 licence
ITV Consumer Limited	Development of platforms, broadband, transactional and mobile services
SDN Limited	Operation of Freeview Multiplex A
ITV Studios Limited	Production of television programmes
ITV Studios, Inc. ¹	Production of television programmes
ITV Studios Germany GmbH ² (formerly Granada Produktion für Film und Fernsehen GmbH)	Production of television programmes
ITV Studios Australia Pty Limited (formerly Granada Media Australia Pty Limited) ³	Production of television programmes
12 Yard Productions (Investments) Limited	Production of television programmes
Imago TV Film und Fernsehproduktion GmbH ^{2,4}	Production of television programmes
3sixtymedia Limited ⁴	Supplier of facilities for television productions
ITV Global Entertainment Limited	Rights ownership and distribution of television programmes and films
ITV Ventures Limited (formerly Granada Ventures Limited)	Production and distribution of video and DVD products
ITV Global Entertainment, Inc ¹	Distribution of television programmes
ITV Services Limited	Provision of services for other companies within the Group
Carlton Communications Limited	Holding company
Granada Limited	Holding company
ITV Scottish Limited Partnership ⁵	Holding company
ITV Breakfast Broadcasting Limited	Broadcast of television programmes
Gurney Productions LLC ^{1,6}	Production of television programmes

¹ Incorporated and registered in the USA.

² Incorporated and registered in Germany.

³ Incorporated and registered in Australia.

⁴ 80% owned

⁵ 99.9% owned SPE partnership with the remaining interest held by the ITV pension scheme. Fully consolidated in the Group accounts. Incorporated and registered in Scotland holding the ownership interest in SDN. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnership (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these accounts. Separate accounts for the partnership are not required to be, and have not been, filed at Companies House.

⁶ 61.5% owned

Financial Statements

Notes to the ITV plc Company Financial Statements *continued*

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

Principal joint ventures, associated undertakings and investments

The Company indirectly held at 31 December 2012 the following interests in significant joint ventures, associated undertakings and investments:

Name	Note	Interest in ordinary share capital 2012 %	Interest in ordinary share capital 2011 %	Principal activity
Freesat (UK) Limited	a	50.00	50.00	Provision of a standard and high definition enabled digital satellite proposition
Digital 3&4 Limited	a	50.00	50.00	Operates the Channel 3 and 4 digital terrestrial multiplex
YouView TV Limited	a	14.30	14.30	Internet connected television platform
Noho Film and Television Limited	a	50.00	–	Television drama and film production company
Independent Television News Limited	b	40.00	40.00	Supply of news services to broadcasters in the UK and elsewhere
Mammoth Screen Limited	b	25.00	25.00	Production of television programmes
ISAN UK Limited	b	25.00	25.00	Operates voluntary numbering system for the identification of audiovisual works
STV Group plc ¹	c	6.79	6.79	Television broadcasting in Scotland

¹ Incorporated and registered in Scotland.

a Joint venture.
b Associated undertaking.
c Available for sale financial asset.

Shareholder Information

Shareholder profile

	Holders Number	%	Shares held Millions	%
Type of holder:				
Insurance companies	8	0.01	0	0
Banks and nominee companies	2,239	3.56	3,744	95.71
Individuals	60,253	95.87	128	3.27
Others	352	0.56	40	1.02
Totals		100.00		100.00
Size of holding:				
1 – 100	9,804	15.60	354,179	0.01
101 – 200	8,552	13.61	1,282,312	0.03
201 – 500	16,563	26.35	5,342,690	0.14
501 – 1,000	10,455	16.63	7,662,671	0.20
1,001 – 2,000	8,056	12.82	11,556,272	0.30
2,001 – 5,000	5,443	8.66	16,790,265	0.43
5,001 – 10,000	1,786	2.84	12,759,878	0.33
10,001 – 50,000	1,307	2.08	26,257,282	0.67
50,001 – 100,000	172	0.27	12,163,481	0.31
100,001 – 500,000	301	0.48	74,706,235	1.91
500,001 – 1,000,000	118	0.19	85,152,790	2.18
1,000,001 – 5,000,000	197	0.31	447,954,072	11.44
5,000,001 – 10,000,000	34	0.05	227,725,241	5.82
10,000,001 – 50,000,000	48	0.08	964,033,478	24.64
50,000,001 and above	16	0.03	2,018,286,008	51.59
Totals		100.00		100.00

Information as at 31 December 2012.

Financial Statements

Shareholder Information *continued*

Registrars and transfer office

All administrative enquiries relating to shareholdings and requests to receive corporate documents should, in the first instance, be directed to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, BR3 4TU.

They can be contacted by telephone on **0871 664 0300** (calls cost 10 pence per minute plus network charges) from the UK and **+44 20 8639 3399** from outside the UK. Lines are open Monday to Friday 8.30 a.m. to 5.30 p.m.

Alternatively you could email them at:
ssd@capitaregistrars.com

Shareholders who receive duplicate sets of Company mailings because they have multiple accounts should write to Capita to have the accounts amalgamated.

By logging on to **www.capitashareportal.com** shareholders can benefit from a number of online services as follows:

- Cast your proxy vote online;
- Elect to receive shareholder communication electronically;
- View your holding balance, indicative share price and valuation;
- View transactions on your holding and dividend payments you have received;
- Update your address or register a bank mandate instruction to have dividends paid directly to your bank account; and
- Access a wide range of shareholder information including downloadable forms.

You will need your investor code (IVC) which can be found on your share certificate(s) to register to use the Shareholder Portal.

Share dealing services

The Company's shares can be traded through most banks, building societies and stockbrokers. Additionally, the Company's Registrars offer online and telephone dealing for UK resident shareholders through Capita IRG Trustees Limited. To use this service shareholders should contact Capita:

Telephone: 0871 664 0364 from the UK (calls cost 10 pence per minute plus network charges) or **1 890 946 375** for Ireland lo-call and **+44(0) 203 367 2686** from outside the UK. Lines are open Monday to Friday 8.00 a.m. to 4.30 p.m.

 www.capitadeal.com

ShareGift

ShareGift is a charity share donation scheme for shareholders who may wish to dispose of a small quantity of shares where the market value makes it uneconomic to sell on a commission basis. The scheme is administered by the Orr Mackintosh Foundation and further information can be obtained by contacting them:

 [020 7930 3737](tel:02079303737)

 www.sharegift.org

Share price information


The current price of ITV plc ordinary shares is available on the Company website at **www.itvplc.com**.

Unsolicited mail

The Company is legally obliged to make its register of members available to the public. As a consequence of this some shareholders might receive unsolicited mail. Shareholders wishing to limit the amount of such mail should write to the Mailing Preference Service (MPS):

FREEPOST 29 LON20771
London
W1E 0ZT

Alternatively you can register online or request an application form by telephone or by email. MPS will then notify the bodies that support its service that you do not wish to receive unsolicited mail.

 [0845 703 4599](tel:08457034599)

 mps@dma.org.uk

 www.mpsonline.org.uk

Registered office

The London Television Centre
Upper Ground
London
SE1 9LT

 [020 7157 3000](tel:02071573000)

Company registration number 4967001

Company website

Investor and shareholder related information can be found on the Company website at:

 www.itvplc.com

Financial calendar

Annual General Meeting	15 May 2013
Interim Management Statement	May 2013
Half year results announcement	July 2013

Unauthorised brokers (Boiler Room Scams)

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. These are typically from overseas based brokers who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as boiler rooms.

If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation.
- Check that they are properly authorised by the FSA before getting involved by visiting:

 www.fsa.gov.uk/pages/register

- Report the matter to the FSA either by calling their Consumer Helpline 0845 606 1234 or by completing an online form at:

 www.fsa.gov.uk/pages/doing/regulated/law/alerts/form.shtml

- If the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme.

Details of any sharedealing facilities that the Company endorses will only be included in Company mailings.

Keep in mind that it is very unlikely that an authorised firm that you have no relationship with would contact you out of the blue offering to buy or sell shares or offer other investment opportunities.

More detailed information can be found on the FSA website:

 www.fsa.gov.uk/fsaregister/use

 www.fsa.gov.uk/pages/register/use/protect_yourself

Identity theft

Tips for protecting your ITV plc shares:

- Ensure all your certificates are kept in a safe place or hold your shares electronically in CREST via a nominee.
- Keep all correspondence from Capita in a safe place, or destroy correspondence by shredding.
- If you change address inform Capita in writing or via the Shareholder Portal. If you receive a letter from Capita regarding a change of address but have not recently moved please contact them immediately.
- Consider having your dividend paid directly into your bank. This will reduce the risk of the cheque being intercepted or lost in the post.
- If you change your bank account, inform Capita of the details of your new account. You can do this via post or online using the Shareholder Portal. Respond to any letters Capita sends you about this.
- If you are buying or selling shares only deal with brokers registered in your country of residence or the UK.

Financial Statements

Financial Record

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Results					
Revenue	2,196	2,140	2,064	1,879	2,029
Earnings before interest, tax and amortisation (EBITA) before exceptional items	520	462	408	202	211
Amortisation of intangible assets	(57)	(59)	(63)	(59)	(66)
Impairment of intangible assets	(3)	–	–	–	(2,695)
Share of losses of joint ventures and associated undertakings	(1)	(2)	(3)	(7)	(15)
Investment income	–	–	–	–	1
Exceptional items	(12)	1	19	(20)	(108)
Profit/(loss) before interest and tax	447	402	361	116	(2,672)
Net financing costs	(99)	(75)	(75)	(91)	(60)
Profit/(loss) before tax	348	327	286	25	(2,732)
Taxation (charge)/credit	(80)	(79)	(16)	69	178
Profit/(loss) after tax	268	248	270	94	(2,554)
Non-controlling interests	(1)	(1)	(1)	(3)	(2)
Profit/(loss) for the financial year	267	247	269	91	(2,556)
Basic earnings/(loss) per share	6.9p	6.4p	6.9p	2.3p	(65.9)p
Adjusted earnings per share	9.2p	7.9p	6.4p	1.8p	1.8p
Dividend per share	2.6p	1.6p	–	–	0.675p
Special dividend per share	4.0p	–	–	–	–
Consolidated statement of financial position					
Share capital	391	389	389	389	389
Reserves	426	417	272	(44)	137
Total equity attributable to equity shareholders of the parent company	817	806	661	345	526
Non-controlling interests	15	3	2	1	8
Net assets	832	809	663	346	534
Represented by:					
Property, plant and equipment and intangible assets	1,088	1,101	1,120	1,191	1,360
Investments	9	5	5	6	71
Distribution rights	17	11	12	16	13
Inventory	250	285	284	388	516
Trade and other receivables (including assets held for sale and derivative financial instruments)	478	475	511	565	528
Deferred tax asset	93	65	73	50	–
Total assets	1,935	1,942	2,005	2,216	2,488
Net cash/(debt)	206	45	(188)	(612)	(730)
Deferred tax liability	–	–	–	–	(55)
Other liabilities	(1,272)	(1,145)	(1,105)	(1,182)	(1,085)
Provisions	(37)	(33)	(49)	(76)	(84)
	832	809	663	346	534

Glossary

Analogue switch off – termination in 2012 of the analogue terrestrial television signal in the regions in which it is still broadcast. BBC1, BBC2, ITV, Channel 4 and Channel 5 were broadcast in analogue

Broadcasters' Audience Research Board (BARB) – organisation owned by broadcasters and advertisers providing data on television viewing statistics in UK households

Catch up viewing – non-live viewing of recently broadcast television programmes, either via a recording device (often called a PVR or DTR) such as Sky+ or through a Video on Demand service such as ITV Player, BBC iPlayer, 4oD or Demand 5

Channel 3 licences – the 15 regional licences and one national licence awarded to transmit Channel 3 across the UK. All are owned by ITV with the exception of three of the regional licences, two of which are owned by STV and one by UTV

Contract Rights Renewal (CRR) – the remedy agreed by Carlton and Granada in 2003 as a pre-condition of the merger, which governs the way in which ITV airtime is sold by ITV to its advertising customers

Free-to-Air (FTA) television – viewing of television through devices not requiring monthly subscriptions such as the Freeview or Freesat services

High Definition (HD) – channels or services broadcast in substantially higher resolution than standard, providing improved picture quality

Impact or Commercial Impact – one Commercial Impact is defined as one viewer watching one 30-second television commercial

ITV Family – the ITV Family of channels which includes ITV, ITV2, ITV3, ITV4, CITV, ITV Breakfast, CITV Breakfast and all associated +1 and HD equivalents. Viewing figures include the whole of the ITV network. Revenue figures include only ITV plc operated regions

Long form video views – video views are a measure of the total number of videos viewed across all platforms (such as itv.com, Virgin and mobile devices). A long form video is a programme that has been broadcast on television and is available to watch online and on demand in its entirety

Media sales – commission earned by ITV plc on sales of airtime on behalf of the non-consolidated licensees

Net Advertising Revenues (NAR) – the amount of money received by a broadcaster as payment for television spot advertising net of any commission paid to agencies

Network Programme Budget (NPB) – the budget spent on programming broadcast on the ITV channel, excluding spend on regional programming and ITV Breakfast

Non-consolidated licensees – the three regional channel 3 licences which ITV does not own. These licences are owned by STV and UTV and revenues received from these licences for ITV programming content are referred to as minority revenues

Non-NAR revenues – non-NAR revenues includes all ITV revenues, both internal and external, except net advertising revenues (NAR). This includes inter-segment revenues from the sale of ITV Studios shows to the ITV Network

Non-spot advertising revenues – advertising revenues received for services other than traditional television commercials. Includes sponsorship and product placement revenues

Ofcom – the regulator established to govern UK broadcasting as well as other areas of the media and telephony industry

Premium Rate Services (PRS) – revenue generated from votes and competitions run on broadcast content

Product placement – the inclusion of, or reference to, a product or service within a programme in return for payment or other valuable consideration to the programme maker or broadcaster

SDN – multiplex operator owned by ITV which operates one of the six digital terrestrial multiplex licences in the UK that make up Freeview

Share of Broadcast (SOB) – ITV's share of UK television advertising revenues (NAR), a measure of market share

Share of Commercial Impacts (SOCI) – the term used to define the share of total UK television commercial impacts which is delivered by one channel or group of channels. This measure excludes viewing of BBC channels as they do not generate commercial impacts. Unless stated otherwise, SOCI figures cited throughout this report are based on BARB data and are based on the universe of Adults (16+)

Share of Viewing (SOV) – the share of the total viewing audience during a defined period gained by a programme or channel. This measure includes viewing of BBC channels. Unless stated otherwise, SOV figures cited throughout this report are based on BARB data and are based on the universe of Individuals

Sub-demographics – subsets of individuals used for measuring particular audience types. For example, men, women, 16 to 34 year olds and housewives

Total Value exploitation – approach to commissioning and brand exploitation adopted by ITV which intends to maximise the lifetime revenues from our strongest brands

Video on Demand (VOD) – the ability to deliver video content to a customer's television set, computer or device when the customer requests it

YouView – a joint venture (with the BBC, Channel 4, Channel 5, British Telecom, TalkTalk, and Arqiva) to operate and promote a hybrid TV platform combining Freeview channels with catch up and on demand services.





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www.itv.com

Investors:
www.itvplc.com